



The
Nottingham

**2017 MEMBERS'
NEWSLETTER
INCLUDING OUR
SUMMARY FINANCIAL STATEMENT**



The
Nottingham

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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 2017:

- Strong retail franchise – total branch balances of £2.1 billion and more than doubled in the last five years;
- The Society welcomed over 25,500 new customers and opened seven new branch locations;
- Member Reward scheme launched rewarding over £250,000 to members;
- Net promoter score of 79%;
- Record gross mortgage lending of over £1 billion resulting in mortgage book growth of over 11.6%;
- Total assets of £3.9 billion;
- Group pre-tax profit of £14.5m;
- Strong capital ratios with Tier 1 ratio at 15.4% and leverage ratio of 4.9%; and
- Arrears levels remain very low at less than a quarter of industry average.

We are pleased to present our summary financial statement for the year ended 31 December 2017

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 16 March 2018.

Summary directors' report

Market and economic background

In my statement last year, I highlighted a number of domestic and global events that were set to bring uncertainty to the economic environment in which your Society operates. As we progressed through 2017 that uncertainty remained a constant.

Brexit dominated our news in 2017, with the second week of December demonstrating how uncertain the Exit process has been, and will continue to be, for some considerable time yet. The week began with the embarrassment of the Prime Minister having to leave Brussels, not only without an expected agreement but with the complex issue of the Irish border and Government Coalition partners to satisfy. What looked, at first glance, to be a situation that could take weeks, or even months to sort out, was resolved four days later, following a middle of the night dash to Brussels. Accommodations had been made and all parties were now ready to move to the next, far more complex, stage with much higher stakes. This small example provides evidence of the uncertainty that will hang over the UK economy during the next two years or so – something markets dislike and thus provides the environment for volatility.

Against that backdrop the UK economy fared reasonably well but did begin to lag behind the growth achieved in a number of other key global economies.

Inflation, driven predominantly by sterling's weakness relative to the dollar and euro, rose throughout the year peaking at 3.1% in November. The path for inflation remains uncertain in 2018, although the UK economy should benefit from weaker currency values falling out of the comparative figures. The continued low level of wage increases also helped inflation, but at the cost of a squeeze on real household incomes.

However, with the economy approaching full employment and the uncertainty facing European nationals working in the UK, who may decide to return to their home countries as their economies continue to improve, there is a strong threat that wage rises above inflation could replace currency weakness as a driver of price increases.

In response to the inflationary pressure, the Bank of England decided in November to reverse its 2016 0.25% reduction in bank base rate and increased it to 0.50%. As I stated last year, we did not believe it was necessary to reduce the bank base rate in 2016 and welcomed this reversal of that decision; albeit rates remain at record low levels. Ultimately it makes sense to return rates closer to the long term average and certainly to a more appropriate level for an economy growing at 1% - 2% per annum and inflation at 2.5% - 3%.

The housing market reflected the rather muted economic environment, with housing transactions remaining at around 1.1 million in the year, broadly in line with 2016. As expected, this was reflected in house prices, with the Nationwide House Price Index reporting a year-on-year increase of 2.6%, resulting in the average value of a house in the UK rising to £211,156. However, what was worthy of note was that within that increase we saw some diversity in regional values – whilst central London prices fell by almost 3% (driven mainly by significant increases in stamp duty payable for houses worth £1m plus), there was growth of more than 4.0% reported in some regions across the country such as the East Midlands, South West and West Midlands. We do expect to see further regional differences throughout 2018.

With rates now expected to steadily rise, one area of lending which was very active in 2017 was remortgaging as consumers sought to secure current low rates. In fact 37% of all UK mortgage lending in 2017 was for remortgages and we expect this to continue in 2018. During the year, the Government continued to highlight the need to increase annual house building starts to 300,000 plus – something which the Society continues to support.

As we enter 2018, we expect the uncertainty in the market to continue and, although the UK economy remains reasonably resilient and continues to grow, albeit at a lower rate than other major economies, its productivity remains a concern because it is low relative to other major economies and could hold back future growth prospects.

Against this backdrop, the Society remains confident in its strategy, recognising that it is as important now as it ever has been for our members to plan for and protect their financial futures, something which our unique strategy is strongly focussed on providing.

Your Society

At the beginning of 2017 we set a number of objectives seeking to continue to grow the membership of the Society and its franchise, look at ways in which we could reward membership through the delivery of our unique advice and service proposition, continue to invest in the infrastructure and capability of the Society, maintain our world class level of service and continue to support our communities under our Doing Good Together initiative.

I am pleased to report that we have made excellent progress against all of these key objectives during the year.

One area that has clearly set us apart is the role of the branch network in delivering our strategy. We are committed to branches as they are the ideal place to most effectively deliver our 'all under one roof' advice and service proposition. The continuing popularity of our branches is supported by the fact that our branch savings balances continued to grow, increasing by a further 8% in 2017.

I am pleased therefore that at the end of the year, we added a further seven new locations to our branch network in 2017 in Bourne, Dereham, Fakenham, Huntingdon, Spalding, Stamford and Thetford; this takes our branch network to 67 branches spanning 11 counties. We are now trading on the high street in Norfolk for the first time in the Society's history. The majority of these locations have been on our target list for a number of years and we were happy to adopt an approach successfully used at a number of our new locations in recent years by replacing a strong incumbent in these towns. In this instance it was the Norwich & Peterborough Building Society (N&P) who announced the closure of their branch network early in 2017. I am grateful to the directors at the Yorkshire Building Society (of which N&P is a part) who agreed to work closely with us to ensure a smooth transition to the new Nottingham branches, which all opened in late November/December. We were also delighted to be able to offer employment opportunities to 21 ex members of the N&P teams, who are now serving Nottingham customers. We have been universally welcomed to all our new locations and I hope that the residents of these towns will enjoy and support our unique proposition for many years to come.

Whilst branches are vital to our strategy, increasing and improving our digital offering to existing and prospective new members will also be important in the years ahead. As technology improves, we believe that we can develop our unique proposition to work seamlessly between the world of face-to-face and digital service. 2017 saw us commit a multi-million pound investment to develop our digital capability to complement our growing physical presence. Working with world class customer relationship management experts at Salesforce, we are planning to create a unique and seamless savings, mortgage and advice proposition which will combine the best of face-to-face and digital service. Customers and members will see the first step in this journey in 2018 as we replace our current web portals for intermediary mortgage business and online savings with significantly improved functionality.

Our performance

As a consequence of a wide range of activity, we have produced a strong set of financial results in 2017 of which the highlights are:

In mortgage lending it has been a record year. We have processed mortgage applications of £1.4 billion, an increase of 29% over the previous record achieved in 2016, and this has enabled us to achieve gross lending of £1.021bn, a 28% increase on performance in 2016, the first time in the history of the Society we have achieved annual gross lending of £1 billion. Customers choosing to remain with the Society at the end of their mortgage deal is still at high levels with more than almost two out of every three choosing to do so, representing £601m, an 8% increase on 2016. Overall this enabled us to increase our mortgage assets by 11.6% - a strong performance.

Whilst it is important to grow the Society and its balance sheet, this must be achieved whilst balancing the conflicting needs of both our mortgage and savings members. We have therefore ensured that the mortgage yield we accrue is sufficient to pay our savings members a competitive return, cover the costs of running the organisation, make sufficient profit to enable us to cover our regulatory capital requirements and continue to invest in the Society for the future. This has been challenging at times when assessed against the high number of sub 1% mortgage rates that were available on the market throughout the year and our average savings rate of 1.0% over the period. We chose to avoid this aggressive level of mortgage pricing and managed to achieve record lending whilst not compromising on our credit quality. We believe the fact that we achieved this, whilst increasing our branch savings balances and delivering an average interest margin of 1.29%, only 3bps lower than in 2016, strongly demonstrates our mutual credentials of striking the right balance for members.

A crucial element in our financial performance is to execute our spending plans carefully ensuring that costs are at an appropriate level whilst having the capability to deliver our proposition and invest effectively for the future. It is also important that with a higher than average cost model we see continued cost efficiencies being achieved. Again, in 2017 we have made good progress with our management expense ratio dropping by 2 basis points to 1.10% for the year. Good evidence that we are targeting our expenditure effectively.

Overall this enabled us to report a profit before tax of £14.5m up 2% on 2016, equating to a profit after tax ratio of 0.31% per £100 of assets – in line with our plan.

Quality and strength

The Society continues to maintain its very high level of financial strength, whether viewed from a capital, liquidity or credit risk perspective.

Our capital levels remain significantly ahead of our regulatory requirements and our leverage ratio at 4.9% demonstrates the strength of our balance sheet for what is a relatively low risk model. Our liquidity position also remains strong and well controlled; backed up by rising branch retail savings balances and an increasing number of options available to our Treasury team, including Bank of England market facilities and secured bilateral wholesale lending.

We continue to maintain the highest standards of credit assessment and quality – despite increasing the mortgage book to almost 26,000 accounts we only have 40 accounts three months or more in arrears and have taken a total of eight properties into possession during the entire year.

Serving and rewarding membership

In a crowded marketplace, not only is it vital to have a differentiated proposition but as a mutual to clearly demonstrate the benefits and value of membership.

We were delighted therefore to launch our member rewards scheme in 2017. As we laid out last year we want to be able to highlight the benefits of membership through our unique advice and service proposition. 'Member Rewards' achieves this by offering a range of discounts on our services to members who have saved more than £500 with us and have been a member for longer than 12 months (mortgage customers saving more than £500 qualify immediately).

These exclusive offers are designed to reward our loyal members for doing the right thing to plan for and protect their financial futures and includes £500 off estate agency fees, £25 cashback on home insurance, £120 cashback on funeral plans, free whole-of-market mortgage advice (£249 otherwise) and access to exclusive savings offers during the year. These represent genuine savings on a number of important services designed to reward members for planning ahead and for their loyalty to the Society.

Whilst the scheme was only launched in May, we have returned over £250,000 of rewards to members in the first few months of operating the scheme, an encouraging start. Members are clearly attracted to the concept as the numbers of eligible members has increased by approximately 10% over the period. We expect 'Member Rewards' to be a consistent and enduring feature of membership of the Society in the future constantly reflecting its benefit and value.

Another key initiative undertaken in 2017 is how we organise ourselves to deliver our unique proposition in branch to enable more customers access to our entire range of services in a consistent manner. Whilst this will take some time to complete we have made significant progress in the last year which has included reorganising every job in our branch network, affecting 300+ team members, with roles that are now appropriately aligned to delivering our broad range of services consistently. We have reviewed opening hours, which means some branches will open earlier and close later in line with customer demand and in 2018 we will begin adding estate agency and building society services to some branches that currently do not offer these services.

Another commitment we made at the beginning of this year was to maintain our world class level of service. Despite the extensive and rapid rate of change across the Society's operations, we are pleased to have achieved this with a Net Promoter Score of 79% for the year, which places us amongst the best organisations in the world.

We have also continued to run member events, which we have aimed to make more interactive and to engage more directly with members around how they would like us to develop our advice and service proposition. One example of this was a request to enable members to 'donate' their member rewards to close family members – a great idea which we have put in place and now enables long standing loyal members to give their children and close relatives access to valuable services, such as free whole-of-market mortgage advice.

Board

After an active period of changes during 2016 and early 2017, the Board has had a relative period of stability.

Following Ashraf Piranie's resignation in February we were delighted to appoint Daniel Mundy as Finance Director. Daniel joined us from the Co-operative Bank where he was Director of Finance. Prior to that role, he had an impressive track record at Santander, the Financial Services Authority and fellow mutuals Nationwide and Yorkshire Building Society. He has already made a telling contribution in support of the development of our strategy and I welcome him to The Nottingham and the Board for what I trust will be a long and successful career with the Society.

We were disappointed to receive the resignation of Guy Thomas as non-executive director of the Society during the year. Guy was in his first term as a director with the Society, but chose to leave us to pursue other career opportunities. We wish him well for the future.

The Board continues to regularly review its membership to ensure that collectively it has the most appropriate balance of skills and experience to ensure it continues to operate effectively in a changing environment. Following Guy's resignation, the Board is currently in active recruitment of an additional nonexecutive director.

Supporting the communities

Our Doing Good Together initiative continued to go from strength to strength in 2017.

Staff have continued to generously give their time volunteering to support a whole range of worthy causes from financial education workshops to gardening projects – in fact we saw a 30% increase in staff volunteering during the year – demonstrating how important our team members view supporting their local communities.

Our Grants for Good programme saw 14 charities receiving valuable financial support to fund work in the areas of financial education, tackling homelessness and improving employability – our key themes for community support.

We have also continued to work with our key partners throughout the year. With Young Enterprise, we supported 24 schools across the East Midlands in running their Company Programmes, providing invaluable experience in commerce and entrepreneurship to young people. We extended our programme with SportsAid, supporting 50 budding local athletes in their quest to achieve Olympic stardom – in fact four athletes from our programme represented Great Britain at the World Athletics Championship in London in August.

We also passed a milestone with our charity partner Framework – with £50,000 of fundraising raised to tackle homelessness across the East Midlands since our partnership began. With some of the money raised we have provided 5,000 hours of tuition for the charity's Skills Plus programme to help build skills such as budgeting and tenancy management to help avoid homelessness in the future.

In recognition of our efforts to support our communities, the Society was delighted to be invited to an event at 10 Downing Street, organised to recognise contributions to civil society in the Midlands. This gave us an excellent opportunity to show case our work to government officials and ministers.

Summary and outlook

After a year of strong progress and despite the continuing uncertainty in the economic and political environment, we can be confident that we can move forward on our firm foundations. In 2018 we will be focusing on four key pillars of growing and rewarding membership; people, culture and community; operational excellence and strong financial adequacy. This will involve continuing the work of recent years; developing our nascent member reward programme, bedding in our enlarged and reorganised branch network, rolling out our plans to fuse digital and physical to create a strong platform for our unique proposition and building on our progress in mortgage lending.

As always, we will strive to deliver first class service across all of our customer facing operations, maintain our strength in financial adequacy and continue to support our communities through our Doing Good Together initiative.

I would like to thank all our team members and colleagues on the Board for their unwavering enthusiasm and commitment to develop our strategy and deliver our unique advice and service propositions.

Finally, I would like to thank our members who continue to loyally support the Society and who in growing numbers can look forward to an increasingly valued and rewarding relationship with us.

John Edwards
Chairman

21 February 2018

SUMMARY FINANCIAL STATEMENT

Results for the year	2017 £m	2016 £m
Net interest receivable	48.3	45.6
Other income and charges	7.0	7.8
Administrative expenses	(41.3)	(38.7)
Impairment losses	1.3	-
Provisions	(0.8)	(0.4)
(Loss)/profit on disposal of fixed assets	-	(0.1)
Profit for the year before taxation	14.5	14.2
Taxation	(3.0)	(3.2)
PROFIT FOR THE YEAR	11.5	11.0

Financial position at end of year	2017 £m	2016 £m
ASSETS		
Liquid assets	494.9	527.0
Mortgages	3,368.8	3,032.6
Derivative financial instruments	7.3	4.7
Fixed and other assets	29.4	27.1
TOTAL ASSETS	3,900.4	3,591.4

LIABILITIES		
Shares	2,595.4	2,457.4
Borrowings	1,042.3	872.0
Derivative financial instruments	9.9	19.7
Other liabilities	14.5	16.3
Subscribed capital	25.6	26.2
Reserves	212.7	199.8
TOTAL LIABILITIES & EQUITY	3,900.4	3,591.4

Summary of key financial ratios	2017 %	2016 %
Gross capital as a percentage of shares & borrowings ^(Note 2)	6.55	6.79
Liquid assets as a percentage of shares & borrowings ^(Note 3)	13.60	15.83
Profit for the year as a percentage of mean total assets ^(Note 4)	0.31	0.32
Management expenses as a percentage of mean total assets ^(Note 5)	1.10	1.12
Management expenses as a percentage of mean total assets (Society only) ^(Note 5)	0.92	0.91

NOTES

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

Approved by the Board of directors on 21 February 2018 and signed on its behalf by:

John Edwards
Chairman

David Marlow
Chief Executive

Daniel Mundy
Finance Director

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 2017 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 2017.

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 2017 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

21 February 2018

SUMMARY DIRECTORS' REMUNERATION REPORT

For the year ended 31 December 2017

Statement by the Chairman of the Remuneration Committee

On behalf of the Committee, I am pleased to present the annual directors' remuneration report, which sets out the remuneration policy, and details of the directors' remuneration in the year to 31 December 2017.

Nottingham Building Society is committed to best practice in its remuneration of directors. This report explains how The Nottingham applies the relevant principles and requirements of the remuneration regulations and Codes. The report has two sections:

- The Remuneration Policy which sets out the Society's remuneration policy for directors; and
- The Annual Remuneration Report which outlines how the policy was implemented in 2017.

The Remuneration Committee has undergone a period of change in 2017. During the year I took over as Chairman of the Committee from Jane Kibbey, who stepped down as Chairman in June 2017. I would like to thank Jane personally for her significant contribution to the development and implementation of Remuneration Policy within the Society during her time as a member and the last two years as Chairman of the Committee. Also during the year, Guy Thomas stepped down from the Board and was replaced on the Remuneration Committee by Andrew Neden. The members of the Remuneration Committee during the period were:

Kerry Spooner	Non-Executive Director and Chairman of the Committee from 21 June 2017
Jane Kibbey	Non-Executive Director and Chairman of the Committee until 21 June 2017
John Edwards	Chairman of the Board
Guy Thomas	Non-Executive Director (resigned 21 June 2017)
Andrew Neden	Non-Executive Director (appointed 17 October 2017)

2017 performance and awards

The summary financial statement on pages 2 to 6 describes 2017 as a year of excellent strategic progress with the footprint of the Society extended further with seven new locations opened; the launch of 'Member Rewards' to encourage increased membership; strong trading performance with regard to mortgage lending and increased assets in the year.

There has also been continued growth in the area of branch savings balances. During the year, we have also ensured that sufficient profit has been generated to cover our regulatory capital requirements and continue to invest in the Society whilst maintaining competitive levels of return for our savers.

In the 2017 performance year there has been continued focus on sustainability for The Nottingham and its members. The asset size has grown by 8.6%, savings balances by 5.6% and the additional new locations were opened bringing the total number of branches in the network to 67.

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 2017 following the end of the performance year with 60% being deferred for 3 years and subject to malus¹ and clawback rules in line with Regulatory best practice.

The 2014 -2016 LTI payments made to directors during 2017 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. During 2017, David Marlow accepted a role as member of the FCA Small Business Practitioners Panel. He received a fee of £1,000 for his services, which he has elected to donate to charity.

Executive Director's total remuneration

The total remuneration received by Executive Directors is detailed on pages 10 and 11. The information has been audited and shows remuneration for the years ending 31 December 2016 and 31 December 2017 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 scheme, linked to the delivery of Society and personal objectives, is payable in 2018. On target rewards of 16% of basic salary up to a maximum of 30%.

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 DIRECTOR'S REMUNERATION REPORT

Annual report on remuneration

Executive Director remuneration

Audited Society	2017 David Marlow £000	2017 Daniel Mundy £000	2017 Ashraf Piranie £000	2017 Simon Taylor £000	2017 Total £000	2016 David Marlow £000	2016 Daniel Mundy £000	2016 Ashraf Piranie £000	2016 Simon Taylor £000	2016 Total £000
Fixed remuneration										
Salary ¹	296	161	96	223	776	290	-	239	218	747
Benefits ²	10	55	2	9	76	10	-	10	9	29
Variable remuneration										
Annual bonus ³	43	21	-	31	95	31	-	-	22	53
Long term incentive plans	60	-	-	47	107	71	-	65	56	192
	409	237	98	310	1,054	402	-	314	305	1,021
Pension contribution	44	24	5	33	106	43	-	36	33	112
	453	261	103	343	1,160	445	-	350	338	1,133

Ashraf Piranie resigned from the Board as Deputy CEO and Finance Director on 23 February 2017. As a consequence he forfeited rights to any entitlements under the 2016 Executive Annual Bonus Scheme, rights to previously deferred elements of the annual bonus scheme and entitlements under the legacy 2014-16 and 2015-17 Long Term Incentive Schemes.

Daniel Mundy joined the Society and was appointed to the Board as Finance Director on 19 April 2017 receiving a standard Executive Director remuneration package which included an element for relocation. As an Executive Director, he participated in the 2017 Executive Bonus Plan and received a pro rata payment for his service during the year but does not participate in the Legacy Long Term Incentive (LTI) scheme.

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 salary of Ashraf Piranie includes £60,000 for an ex-gratia payment made in lieu of notice, holiday pay and in recognition of his commitment and service to the Society.

² The benefits of Daniel Mundy include £48,000 for payments agreed under his contract of employment to enable his relocation to the East Midlands area.

³ 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	Due 2021 £000	Total Deferred £000
David Marlow	2015	53	-	-	53
	2016	-	47	-	47
	2017	-	-	64	64
		53	47	64	164
Daniel Mundy	2017	-	-	32	32
		-	-	32	32
Simon Taylor	2015	38	-	-	38
	2016	-	33	-	33
	2017	-	-	47	47
		38	33	47	118
	91	80	143	314	

Non-executive director remuneration

Audited Society		2017 £000	2016 £000
John Edwards (Chairman)		68	67
Jane Kibbey (Vice-Chairman from 29 March 2017)		44	42
Andrew Neden		47	46
Kavita Patel	(appointed 1 January 2017)	37	-
Mary Phibbs		-	9
Kerry Spooner		40	12
Guy Thomas	(resigned 21 June 2017)	23	46
Keith Whitesides (Vice-Chairman)	(retired 28 March 2017)	10	41
Total emoluments for services as directors		269	263

On behalf of the Board of directors,

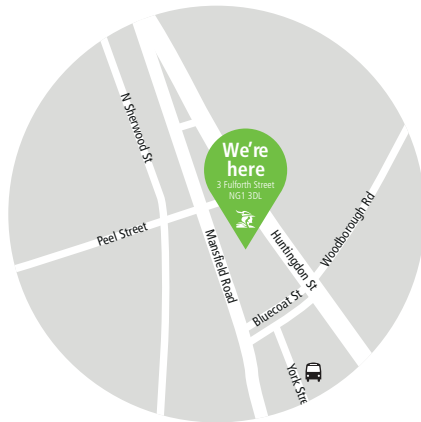
Kerry Spooner

Chairman of the Remuneration Committee

21 February 2018

NOTICE OF ANNUAL GENERAL MEETING 2018

The annual general meeting of Nottingham Building Society will be held at Nottingham House, 3 Fulforth Street, Nottingham, NG1 3DL on Tuesday, 17 April 2018 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 2017.
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 re-elect Andrew Frederick John Neden
 - e. to elect Daniel William Mundy

as directors of the Society.

By order of the Board

Susan Bolton, Secretary
21 February 2018

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 (Vice-Chairman and Senior Independent Director) has completed more than nine years as a non-executive director and in line with corporate governance practice now seeks annual re-election. The Board considers that her experience and contribution continues to be extremely valuable and recommends her re-election to members. Andrew Neden, having being elected in 2015, retires by rotation and seeks re-election. Daniel Mundy, having joined the Board in 2017, seeks election.

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.

The Board continues to regularly review its membership to ensure that collectively it has the most appropriate balance of skills and experience to ensure it continues to operate effectively in a changing environment. Following Guy Thomas' resignation from the Board in 2017, the Board is currently in active recruitment of a further non-executive director.

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 ERS no later than midnight on 13 April 2018.

5. Voting qualifications

You can vote if you:

- a) are at least 18 years old on 17 April 2018; and
- b) (i) held shares to the value of not less than £100 in the Society on 31 December 2017 and have continued to hold shares at all times between 31 December 2017 and the voting date; or
(ii) owed the Society not less than £100 in respect of a mortgage debt on 31 December 2017 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) 13 April 2018 if you are voting by proxy (whether using the enclosed form or completing it online); or
- b) 17 April 2018 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 2017



Kavita Patel

Age 41 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.



Kerry Spooner LLB (Hons)

Age 56 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 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.



Simon Taylor* ACIB, MBA

Chief Operating Officer

Age 47 Date of appointment 01.02.11

Simon joined the Board in 2011 and is responsible for Customer Service, Operations, Distribution, the Branch Network, Estate Agency, Marketing and IT. 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.

*Executive Director

DIRECTORS UP FOR ELECTION/RE-ELECTION

John Edwards

Chairman

Age 62 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. 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 and GreyCastle Life Reinsurance (SAC) Ltd.



"2017 was a very busy and successful year for the Society. During a year when the major banks, and some building societies, were again closing branches, we opened seven new branches across Lincolnshire, Norfolk and Cambridgeshire. We also launched our membership rewards programme and have already returned £250,000 to eligible members. Finally, by the end of this year we will have grown to almost £4bn, attracting more savers and borrowers to the Society than ever before.

If re-elected, it would be a privilege to continue to serve as your Chairman, ensuring that the Society continues to develop in a prudent manner, whilst delivering value and rewards to its growing membership."

David Marlow* ACIB

Chief Executive

Age 52 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 30 years' experience drawn from a number of senior 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 currently a member of the Building Societies Association Council representing the Midlands and West Regional Association, which he chairs and also represents building societies on the FCA's Small Business Practitioners Panel. 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 members across our heartland. Last year we committed to make membership more rewarding and take our unique offering to more high streets across our heartland. We are proud to have delivered on both of these objectives in 2017. If re-elected, I undertake to continue to strive to deliver our unique proposition, excellent customer service and to seek to grow and reward loyal membership of The Nottingham further."

*Executive Director

DIRECTORS UP FOR ELECTION/RE-ELECTION

Jane Kibbey BSc, MCIPD



Age 67 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.

"It continues to be 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, my commitment to continuing this focus and ensuring our members' interests are at the heart of everything we do, will be as strong and consistent as before."

Daniel Mundy* BA (Hons)

Finance Director



Age 41 Date of appointment 19.04.17

Daniel joined the Board in April 2017 as Finance Director. He has over 20 years' experience in the finance services industry and prior to joining The Nottingham, held a number of senior roles in retail banking organisations, which include Co-operative Bank, Nationwide, Santander, Yorkshire Building Society and the Financial Services Authority. Daniel is responsible for Finance, Treasury, and Credit Risk along with delivery of the Group strategy and business planning activities. He is a director of Nottingham Property Services Ltd, Nottingham Mortgage Services Ltd, Harrison Murray Ltd and HM Lettings Ltd.

"I was delighted to be asked to join The Nottingham as the Finance Director and an Executive Director. If elected, I look forward to continuing to contribute to the delivery of our unique proposition in the interests of all members."

Andrew Neden MA, FCA



Age 55 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. He is chair of Aetna Insurance Company Ltd. Other directorships include the Wesleyan Assurance Society and ABC International Bank Plc; he chairs the Audit Committee for both organisations.

"It has been my pleasure to serve as a director of the Society as we have focused on our members' wider financial needs and implemented a strategy that makes our unique offering more accessible to more members, whether that is by opening branches as others close theirs, or developing our digital capability to engage a whole new segment of potential members. If re-elected I will be delighted to continue to press forward this strategy."

*Executive Director

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