INTERIM FINANCIAL REPORT
30 JUNE 2022

The Nottingham

Contents

IFRS results

This Interim Financial Report for the six months ended 30 June 2022 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with UK adopted International Accounting Standard (IAS) 34 Interim Financial Reporting. The Interim Financial Report should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2021, which have been prepared in accordance with UK adopted international accounting standards (IAS).

Forward looking statements

Certain statements in this Interim Financial Report are forward-looking, based on current expectations, assumptions and forecasts made relating to the future financial position. All forward-looking statements involve risk and uncertainty as they relate to future events and circumstances that are out of the control of the Society, including, but not limited to, UK domestic and global economic and business conditions; market-related risks such as changes in interest rates or inflation; risks concerning borrower credit quality; delays in implementing proposals; the policies and actions of regulatory authorities and the impact of tax or other legislation in the UK, where the Society operates. 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.

The Society undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Chief Executive introduction

This marks my first set of results as Chief Executive since joining the Society earlier in the year and, as I settle into my new role, the warm welcome I have received from everyone highlights the strength of the team at The Nottingham.

As outlined in the 2021 Annual Report & Accounts, we entered 2022 financially strong. However extreme uncertainty remains in the economy, and it is against this backdrop that these results are reported.

Since joining The Nottingham, I have focused on three key areas:

- **People** – ensuring the focus is on supporting and developing our colleagues to have the right skillsets to deliver our strategy in light of the challenging employment market.
- **Strategy** – undertaking a strategic review to ensure we are reflecting the continuing changing member needs and have a strategy that positions us as a stronger part of a more relevant mutual sector in the future.
- **Short-term priorities** – enabling the achievement of our 2022 plans; namely delivering mortgage lending and strengthening our technology and capability platforms, on which to build the plan for the next five years.

Good progress is being made in these priority areas to evolve the Society alongside continuing to manage our balance sheet carefully and maintain capital strength.

External economic environment

The first half of 2022 has been dominated by the challenging external economic picture. The conflict in Ukraine, supply chain issues and soaring energy costs have led to an extreme inflationary environment. We are very mindful of the impact that the cost of living crisis will have on our members and our colleagues.

Whilst 90% of our borrowers are on fixed rate products, and therefore protected against immediate rising interest costs, rising inflation may create affordability pressures for our borrowers in the short- to medium-term. Our level of arrears has remained very low across 2022 but we continue to monitor this closely and will continue to support members experiencing difficulties.

As the bank base rate has increased over recent months, we have started to pass these rate rises on to our variable rate savings products. We expect this to continue as we balance the interest rates we pay our savers against the interest we earn from our borrowers.

A responsible society

From a colleague perspective, our focus during 2022 remains on ensuring a supportive culture, providing opportunities for growth and development, and providing a modern working environment. We have successfully operated a hybrid working pattern over a number of months, which has given team members the opportunity to balance their best ways of working to the task in hand. Continuing to develop our culture under the banner 'Life at the Nottingham' has been welcomed by colleagues and will remain a focus alongside reviewing our Employee Value Proposition throughout the year.

Enhancing this has never been more important, considering the strong employment market and 'great resignation' being experienced across the UK, in order to attract and retain talent.

Our recent Your Voice Matters employee survey resulted in a pleasing 81% engagement score, which is up four points from the prior year and remains above the financial services benchmark.

We continue to ensure our local communities and charities close to our regional heartland are supported, with our Samuel Fox Foundation providing grants to a range of Nottinghamshire-based charities during the period. This included The Wolfpack Project, who support young people locally, in addition to Operation Orphan, supporting the crisis in Ukraine. Our team members also play a further part in supporting their communities with the use of their volunteering days to support local charities and organisations.

Our focus on the important area of climate change and sustainability also continues. The Society has established shorter-term targets with regards its emissions and is now targeting to be carbon neutral as an organisation for our scope 1 and 2 emissions, through offsetting, in 2022.

Our performance

Following the successful relaunch of the Beehive Money savings platform last year we have put a significant focus onto our lending propositions and products, as well as enhancing the Executive team and supporting resource responsible for this area. This will allow us to enter new segments in the market, which, in turn, will support our savings members.

During the first half of 2022, we helped nearly 2,000 borrowers purchase a property and over 1,000 remortgage their properties. We achieved gross lending of over £250m and have a strong pipeline of mortgage offers standing at £189m as at 30 June 2022. We have streamlined a number of our application requirements to make us easier to deal with, as well as recently launching a holiday let proposition.

Our traditional mortgage markets remain extremely competitive, and we have started to evaluate other more niche areas of lending where we believe better risk adjusted returns exist.

Recognising the changes in demographic behaviours more generally, we have continued to broaden our digital savings offering through our Beehive Money platform. We successfully launched both fixed and regular saving products through the digital platform during the period and are proud to reach a milestone of 60,000 Lifetime ISA customers now saving with us. This is helping more young people save for a first home deposit in a time when it is becoming even more difficult to get on the property ladder.

We were also pleased for our branches to return to pre-pandemic opening hours. This in the context of some larger banks reducing theirs. We are, however, continuing to see decreases in the volume of visits to branches when compared to pre-pandemic levels, and it does appear that behaviours have now changed forever.

Chief Executive introduction

We are pleased to see an improving picture on our customer satisfaction scores, with highly satisfied customers standing at 83% and a Net Promotor Score of 71%. Supporting our members with quality advice and service remains a key priority for the Society.

The first half of 2022 has delivered a positive financial performance, which enables the Society to invest and grow in line with longer-term strategic priorities. This has resulted in an overall statutory profit before tax of £11.3m, a profit after tax ratio of 0.52% and a steady balance sheet. We have continued to see fair value gains in derivative movements arise outside of underlying performance, which contribute to the overall financial result. These gains, however, will unwind in future periods. We will continue to evolve our proposition and channels to respond to market conditions and contribute positively to performance.

Strategic priorities & outlook

As I outlined at the start, my key areas of focus for the remainder of the year ahead are to conclude on a longer-term strategic review and deliver shorter-term actions in the areas of mortgages and technology to enable us to achieve our 2022 plan.

Our strategic review is now well advanced as we focus on our plan for the next three to five years and beyond in a post-pandemic society. This includes the role and purpose of branches; how we can use data and technology to be more relevant in the future; how do we help more people to buy their own homes; and continued investment in our people and our capability. This work will continue during the second half of the year, and I look forward to sharing the strategy in our annual report.

The remainder of 2022 is expected to be dominated by the challenging external economic environment. Whilst the risks from the pandemic seem to be abating, the uncertainty from the conflict in Ukraine and pressures on individuals and businesses of high inflation and energy costs will persist. Further bank rate rises are expected to counteract inflation, and this will put further pressure on our borrowers. The Society remains well placed to support its members and we continue to move forward with our strategy with a strong sense of confidence and sound financial base.

Susan Hayes
Chief Executive
28 July 2022

Interim business and financial review

Key highlights

- Group pre-tax profit of £11.3m; £7.3m on an underlying basis;
- Strong capital position with CET 1 ratio at 16.2% and leverage ratio of 5.9%;
- Arrears levels remain very low with arrears ratio of 0.21%;
- Improving net interest margin of 1.52%; up from 1.24% in 2021;
- Strong liquidity and funding position with liquidity coverage ratio of 238%;
- Strong customer advocacy with a Net Promoter Score of 71%;
- Strong retail franchise with over 60,000 digital Lifetime ISA customers, alongside stable branch savings balances.

Basis of preparation

The Board monitors both reported and underlying profit before tax. Reported profit includes items that the Board does not believe fully reflect underlying business performance and therefore underlying profit is also used to measure performance.

The Group continues to exclude gains/ losses from derivative financial instruments from its underlying performance as well as net strategic investment costs, when applicable, supporting the reinvention of the Society and those which are not ongoing in nature, such as asset disposals.

The results of the performance reported at 30 June 2022 relate fully to continuing operations.

In the prior year comparatives, whilst the income statements on page 8 have been presented on a continuing basis following the sale of its mortgage broking business during 2021, as a mutual, the Board manages the overall performance in totality including both continuing and discontinued operations.

The following financial performance review therefore considers the Group in totality. The segmental analysis presented in note 3 of this report presents the financial results for continuing and discontinued operations.

Income statement

On a statutory basis, the Group reports a profit before tax of £11.3m compared to a profit before tax of £5.7m in the six month period to June 2021. The Group generated an underlying profit before tax of £7.3m in the first six months of 2022, this compares to an underlying profit before tax of £3.7m in the same period in 2021.

The Group's net interest income increased to £28.2m for the six months to June 2022 from £22.2m in the comparative period. Net interest margin also increased to 1.52% for the six months to June 2022 from 1.20% for the first half of 2021 and 1.24% for 2021 as a whole.

This is primarily driven by a reduction in the associated interest costs of hedging the Society's mortgage portfolio, which have fallen as interest rates have increased. The yield generated by the Society on mortgage lending has remained broadly flat with a slight reduction in the average rate paid to savers, driven by the lower rates on fixed rate savings that were offered by the Society, and across the market, during 2021 in the low rate environment.

Society net fee income, including branch commissions on third party products and services and mortgage related product fees, totalled £1.1m for the first six months of 2022 compared to £1.0m in the comparative period. There is no further Group net fee income in 2022 to date, following the sale of the mortgage broking advice business during the prior year (June 2021: £0.8m).

There has been an increase in management expenses relating to third party support costs and fees associated with the recruitment of new colleagues. These increases have been almost completely offset by a reduction in expenditure on other investment activity as the Society focuses on a broader strategic review, and the removal of the costs associated with the mortgage broking advice business that was sold in the second half of 2021.

The Group's underlying cost income ratio is defined as total administrative expenses as a percentage of total income (excluding the impact of fair value gains or losses on derivatives and net strategic investment costs). The underlying cost income ratio improved to 75.4% for the period to the 30 June 2022 compared to 87.1% for the comparative period and 87.8% for 2021 overall, reflecting the increase in income.

Income statements **Total Group basis**	**June** **2022** **£m**	**June** **2021** **£m**	**December** **2021** **£m**
Net interest income	28.2	22.2	45.9
Net fees & commissions receivable	1.1	1.8	3.1
Net underlying income	**29.3**	**24.0**	**49.0**
Management expenses	(22.1)	(20.9)	(43.0)
Impairment release – loans & advances	0.1	0.6	1.4
Underlying profit before tax	**7.3**	**3.7**	**7.4**
Gains from derivative financial instruments	4.0	2.6	7.9
Net strategic investment costs	-	(0.6)	(0.2)
Profit before tax	**11.3**	**5.7**	**15.1**
Tax expense	(1.6)	(0.8)	(2.5)
Profit after tax	**9.7**	**4.9**	**12.6**
Represents:			
Profit after tax – continuing operations	**9.7**	**4.7**	**12.4**
Profit after tax – discontinued operations	**-**	**0.2**	**0.2**

Interim business and financial review

The Group's underlying management expense ratio at 1.19% for the period to the 30 June 2022 has increased slightly against the prior full year comparator of 1.13% as a result of a reduction in the average asset balance, with administrative expenses remaining flat and depreciation increasing.

There remains significant uncertainty in the UK economy, not least driven by increasing costs of living, future base rate rises and the potential impact on borrower affordability. Whilst a significant proportion of the Society's borrowers are on fixed rate mortgages, the Society continues to have a cautious view of the potential impact on arrears and losses on mortgage assets that could arise in the future. As a result, it remains prudent in its overall Expected Credit Loss (ECL) provision and continues to hold a post model adjustment to reflect that its ECL model has been developed based on historic data during a benign economic environment, which may not fully reflect the future economic outlook. There has been a narrowing in the economic projections across the various scenarios that the Society uses to model its ECL provision, which alongside a small reduction in the portfolio balance, has resulted in a small £0.1m release of its impairment provision in the first six months of 2022.

The Society has also recorded fair value gains of £4.0m in the period across its derivatives portfolio, mainly driven by changes in value between the timing of the transaction of the derivatives and when they are subsequently matched against their corresponding assets.

Balance sheet

The Group's total assets have increased by 3.6% from the position at the end of 2021.

Gross lending in the period totalled £253m (30 June 2021: £267m). The Society entered the period with a smaller pipeline than prior periods, in particular lending in the first half of 2021 being aided by the stamp duty holiday. These combined factors have resulted in a slight decrease in gross lending compared to the prior period. However, the Society has a stronger pipeline of new mortgage assets at 30 June 2022 than a year prior.

Mortgage lending remains concentrated in prime high-quality mortgage assets with residential mortgages accounting for 69% of the total mortgage book. The current average LTV of the book is 49% (31 December 2021: 50%).

Retail savings continue to be the cornerstone of the Society's funding strategy. Total savings balances increased by 4% in the first six months of 2022, standing at £3.0 billion and the Society's strong branch franchise continues to attract and retain customers and support the Society's funding strategy. Branch balances stand consistently at £2.5 billion at 30 June 2022 and 31 December 2021. Following the base rate rises during the period, the Society has increased the rates on all of its variable rate savings. The Society's Lifetime ISA product has continued to attract savers, with over 60,000 accounts now open and the Beehive Money digital platform holding almost £450m of saving funds; up from just below £350m at 31 December 2021.

The remainder of the Society's funding requirements are obtained from the wholesale secured and unsecured funding markets. Overall, the wholesale funding ratio at 14.6% has decreased marginally against the December 2021 position of 14.7%.

The Bank of England's Term Funding Schemes (TFS and TFSME) have continued to provide the Group with access to secured funding at low rates of interest, with £315m (31 December 2021: £343m) drawn down under the schemes as at 30 June 2022. The Society repaid the final £28m of TFS in the period.

The Society also has £109m outstanding borrowed through a secured bilateral facility (31 December 2021: £127m).

The Group has continued to manage its liquidity position effectively with a liquidity coverage ratio (LCR) at 238% (31 December 2021: 216%). The Society is well 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 pre-approved mortgage portfolios, which can be exchanged for cash as required.

Despite the continued economic uncertainty at play, the Society's arrears performance remains at very low levels with an arrears ratio of 0.21% (31 December 2021: 0.21%) and a minimal number of accounts with some sort of contractual forbearance arrangement in place. The Society always seeks to support its customers who encounter financial difficulties, taking individual circumstances into account and agreeing tailored actions, even more so given the current economic environment and inflationary pressures on customers.

Regulatory capital

The Society continues to focus on maintaining strong capital ratios to protect members' interests, with the key measure being Common Equity Tier 1 (CET 1) ratio.

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.

The Society has a CET1 capital ratio[1] as at 30 June 2022 of 16.2% (31 December 2021: 16.5%) on a transitional basis. On a final rules basis, the CET1 ratio at 30 June 2022 is 16.1% (31 December 2021: 16.4%). Whilst no profit has been verified for inclusion in the half year reported position, there has been a reduction in the overall level of regulatory deductions for intangible and deferred tax assets and IFRS 9 transitional relief. Risk weighted assets remaining broadly flat in the period has kept the key capital ratio stable.

The leverage ratio, excluding central bank deposits, is 5.9% at 30 June 2022 on a transitional basis (31 December 2021: 6.1%). On a fully phased in basis, it is 5.8% at 30 June 2022 (31 December 2021: 6.0%).

The Regulator requires that the Society holds a certain amount of capital against the assets it holds. This is referred to as its Total Capital Requirement. As at 30 June 2022, the Society's Total Capital Requirement was set at 8.81% of risk weighted assets or £108.9m.

[1]In accordance with the definitions of the Capital Requirements Directive (CRD) V.

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 Society captures the most material risks to which it is exposed within nine principal risks. These risk categories remain unchanged from those described on page 16 of the 2021 Annual Report and Accounts.

The Society continues to identify new or evolving risks through its risk management framework. The emerging risks remain broadly consistent with those identified at the last financial year end, with the latest position on those risks which have changed since the year end noted as follows:

Economic and trading environment

Much uncertainty remains within the economic environment. Whilst the effects of the Covid-19 pandemic recede, with isolated cases being managed in a localised manner, the impacts and extent of the 'cost of living crisis' resulting from very high inflation have not been fully realised. Whilst The Nottingham has maintained a good quality lending book with historically low arrears rates, the impacts of escalating costs for homeowners could result in borrowers being unable to pay and the likelihood of losses increasing.

Trading conditions continue to be challenging, as margins are compressed and the mortgages and savings markets remain highly competitive. The Society is taking positive steps to reassess its business model in light of the ongoing trading pressures and any additional risks arising from a change of approach or direction will need to be fully considered and managed once plans are finalised.

People risk

The highly competitive recruitment market continues, and colleague turnover levels experienced during the first half of 2022 remain elevated. People remain a priority of The Nottingham and enhancements to retention programmes are underway, to ensure that the Society remains an attractive place to work. The attraction of new talent is a focus and the Society remains committed to offering a modern and flexible way of working, with a definitive hybrid approach scheduled for implementation later in 2022 following a successful pilot phase during the first six months of the year.

The transition of Chief Executive leadership from David Marlow to Susan Hayes was smoothly executed throughout the first quarter, with attention turning to assessing the strategy of the Society so that it continues to meet member needs and deliver great customer outcomes in a sustainable and relevant manner, as noted above.

Cyber and technology

In tandem with the Society's increasing digital presence, cyber security risk continues to rank highly on The Nottingham's agenda. Work is constantly undertaken to enhance and monitor the effectiveness of risk management. The investment of resources in the first half will continue through the remainder of the financial year, with the support of third parties who are working closely with the Society to ensure information security controls remain robust against the fluid external threat environment.

Following the outbreak of war in Ukraine, The Nottingham implemented additional cyber security controls so that vigilance was increased in light of the heightened threat of cyber-attack from pro-Russian actors. These measures remain in place despite there being no detection of specific threats for The Nottingham to date. Similarly, additional checks and monitoring for sanctions were also implemented as a result of the conflict between Russia and Ukraine and will remain operational during this period of elevated risk.

The maintenance of the existing technology estate and upgrading of systems, software and infrastructure to ensure high levels of resiliency and to support an increasingly digitalised member offering remain priorities for The Nottingham.

Regulatory change

A number of regulatory requirements have been delivered in accordance with regulator-prescribed timeframes, such as Operational Resilience, updated Capital Requirements Regulations (CRR2) and related regulatory reporting. Many activities for areas like climate change and resiliency are enduring and require additional resources to facilitate effective embedding, evolution of approaches and ongoing monitoring and management.

The volume of new regulatory initiatives shows no sign of abating, with significant resources required to support delivery. Initiatives such as Consumer Duty, Strong and Simple and updated Basel requirements will need thorough consideration and appropriate action in the near term.

Climate change

Enhancement of the Society's approach to climate-related risks occurred in the first six months of 2022 with additional modelling of climate risks and greater definition around the Society's targets for carbon neutrality and net zero. Risks remain however around interpreting the impact of climate on the Society's assets and members, particularly in light of the volume of information sources being published, the challenges around obtaining and modelling reliable data sources over extended time horizons and the uncertainty over how stakeholders will respond to the evolving climate crisis.

Condensed consolidated income statement

for the period ended 30 June 2022

	Notes	Period to 30 June 2022 Unaudited £m	Period to 30 June 2021 Unaudited £m	Year ended 31 December 2021 Audited £m
Continuing operations				
Interest receivable and similar income				
Calculated using the effective interest rate method		39.3	32.1	65.4
Other		-	(0.3)	(1.0)
Interest receivable and similar income	4	39.3	31.8	64.4
Interest payable and similar charges	5	(11.1)	(9.6)	(18.5)
Net interest income		**28.2**	**22.2**	**45.9**
Fees and commissions receivable		1.8	1.6	3.0
Fees and commissions payable		(0.7)	(0.6)	(0.9)
Net gains from derivative financial instruments		4.0	2.6	7.9
Total net income		**33.3**	**25.8**	**55.9**
Administrative expenses	6	(18.2)	(18.0)	(36.5)
Depreciation and amortisation		(3.9)	(2.9)	(6.8)
Operating profit before impairment		11.2	4.9	12.6
Impairment release - loans and advances	11	0.1	0.6	1.4
Profit on disposal of subsidiary undertaking		-	-	0.5
Profit on disposal of property, plant & equipment		-	-	0.4
Profit before tax		**11.3**	**5.5**	**14.9**
Tax expense		(1.6)	(0.8)	(2.5)
Profit after tax for financial period from continuing operations		**9.7**	**4.7**	**12.4**
Discontinued operations				
Profit after tax for the financial period from discontinued operations		**-**	**0.2**	**0.2**
Profit after tax for the financial period		**9.7**	**4.9**	**12.6**

A reconciliation from profit before tax for the financial period to underlying profit used by management can be found on page 5.

Condensed consolidated statement of comprehensive income

for the period ended 30 June 2022

	Period to 30 June 2022 Unaudited £m	Period to 30 June 2021 Unaudited £m	Year ended 31 December 2021 Audited £m
Profit for the financial period	9.7	4.9	12.6
Items that will not be re-classified to the income statement			
Remeasurement of defined benefit obligation	-	-	-
Tax on items that will not be re-classified	(0.1)	(0.1)	0.3
Items that may subsequently be re-classified to the income statement			
FVOCI reserve			
Valuation (losses)/gains taken to reserves	(2.6)	0.7	(0.3)
Tax on items that may subsequently be reclassified	-	-	0.2
Other comprehensive (expense)/income for the period net of income tax	**(2.7)**	**0.6**	**0.2**
Total comprehensive income for the period	**7.0**	**5.5**	**12.8**

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 financial position

as at 30 June 2022

	Notes	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Assets				
Cash in hand and balances with the Bank of England		387.7	289.6	286.1
Loans and advances to credit institutions	7	15.5	51.5	16.1
Debt securities	9	369.8	220.6	260.3
Derivative financial instruments		83.6	4.5	26.1
Loans and advances to customers	10	2,876.1	3,045.9	3,010.9
Other assets		5.4	10.3	3.9
Property, plant and equipment		9.4	10.5	10.0
Right-of-use assets		2.7	3.2	2.9
Intangible assets		14.1	10.7	16.8
Current tax asset		-	2.0	-
Deferred tax assets		1.3	1.8	1.7
Total assets		**3,765.6**	**3,650.6**	**3,634.8**
Liabilities				
Shares		2,984.6	2,891.0	2,874.6
Amounts owed to credit institutions		390.7	333.6	346.1
Amounts owed to other customers		11.0	0.9	22.9
Debt securities in issue		109.4	156.5	127.1
Derivative financial instruments		6.4	17.8	6.5
Other liabilities and accruals		5.6	6.1	6.3
Lease liabilities		2.9	3.8	3.2
Current tax liabilities		1.3	-	0.6
Retirement benefit obligations		3.6	5.1	4.4
Subscribed capital	12	24.0	24.0	24.0
Total liabilities		**3,539.5**	**3,438.8**	**3,415.7**
Reserves				
General reserves		228.8	211.1	219.2
Fair value reserves	13	(2.7)	0.7	(0.1)
Total reserves attributable to members of the Society		**226.1**	**211.8**	**219.1**
Total reserves and liabilities		**3,765.6**	**3,650.6**	**3,634.8**

Condensed consolidated statement of changes in members' interests

for the period ended 30 June 2022

	General reserve £m	FVOCI reserve £m	Total £m
Balance as at 1 January 2022 (Audited)	219.2	(0.1)	219.1
Profit for the period	9.7	-	9.7
Other comprehensive expense for the period (net of tax)			
Net losses from changes in fair value	-	(2.6)	(2.6)
Remeasurement of defined benefit obligation	(0.1)	-	(0.1)
Total other comprehensive expense	(0.1)	(2.6)	(2.7)
Total comprehensive income/(expense) for the period	9.6	(2.6)	7.0
Balance as at 30 June 2022 (Unaudited)	**228.8**	**(2.7)**	**226.1**
Balance as at 1 January 2021 (Audited)	206.3	-	206.3
Profit for the period	4.9	-	4.9
Other comprehensive (expense)/income for the period (net of tax)			
Net gains from changes in fair value	-	0.7	0.7
Remeasurement of defined benefit obligation	(0.1)	-	(0.1)
Total other comprehensive (expense)/income	(0.1)	0.7	0.6
Total comprehensive income for the period	4.8	0.7	5.5
Balance as at 30 June 2021 (Unaudited)	**211.1**	**0.7**	**211.8**
Balance as at 1 January 2021 (Audited)	206.3	-	206.3
Profit for the year	12.6	-	12.6
Other comprehensive income/(expense) for the period (net of tax)			
Net gains/(losses) from changes in fair value	0.3	(0.1)	0.2
Total other comprehensive income/(expense)	0.3	(0.1)	0.2
Total comprehensive income/(expense) for the period	12.9	(0.1)	12.8
Balance as at 31 December 2021 (Audited)	**219.2**	**(0.1)**	**219.1**

Condensed consolidated cash flow statement

for the period ended 30 June 2022

	Notes	Period to 30 June 2022 Unaudited £m	Period to 30 June 2021 Unaudited £m	Year ended 31 December 2021 Audited £m
Cash flows from operating activities				
Profit before tax from continuing operations		11.3	5.5	14.9
Profit from discontinued operations		-	0.2	0.2
Depreciation and amortisation		3.9	2.9	6.8
Profit on disposal of property, plant and equipment		-	-	(0.4)
Profit on disposal of subsidiary undertaking		-	-	(0.5)
Interest on subscribed capital		1.0	1.0	2.0
Interest on lease payments		-	-	0.1
Net gains on disposal and amortisation of debt securities		0.3	0.1	0.3
Decrease in impairment		(0.1)	(0.6)	(1.4)
Total		16.4	9.1	22.0
Changes in operating assets and liabilities				
Increase in prepayments, accrued income and other assets		(59.1)	(8.3)	(23.0)
Decrease in accruals, deferred income and other liabilities		(0.7)	(14.5)	(25.9)
Decrease in loans and advances to customers		134.9	82.7	118.5
Increase in shares		110.0	96.8	80.4
Increase/(decrease) in amounts owed to other credit institutions and other customers		32.7	(157.0)	(122.5)
Increase in loans and advances to credit institutions		2.6	12.5	42.4
Decrease in debt securities in issue		(17.7)	(37.2)	(66.6)
Decrease in retirement benefit obligation		(0.8)	(0.8)	(1.5)
Taxation (paid)/received		(0.7)	-	1.4
Net cash generated by/(used in) operating activities		217.6	(16.7)	25.2
Cash flows from investing activities				
Purchase of debt securities		(136.6)	(96.0)	(168.5)
Disposal of debt securities		24.3	28.9	60.4
Purchase of property, plant and equipment		(0.1)	(0.6)	(1.4)
Disposal of property, plant and equipment		-	-	0.6
Consideration on disposal of subsidiary undertaking		-	-	0.3
Purchase of intangible assets		(0.2)	(0.1)	(8.6)
Net cash used in investing activities		**(112.6)**	**(67.8)**	**(117.2)**
Cash flows from financing activities				
Interest paid on subscribed capital		(1.0)	(1.0)	(1.9)
Principal element of lease payments		(0.4)	(0.3)	(0.9)
Net increase/(decrease) in cash and cash equivalents		**103.6**	**(85.8)**	**(94.8)**
Cash and cash equivalents at start of period		287.2	382.0	382.0
Cash and cash equivalents at end of period	8	**390.8**	**296.2**	**287.2**

Notes to the interim financial report

1 Reporting period

These results have been prepared as at 30 June 2022 and show the financial performance for the period from, and including, 1 January 2022 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 2022 has been prepared in accordance with the UK adopted International Accounting Standard 34 and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority (FCA). 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 2021, which have been prepared in accordance with UK adopted international accounting standards (IAS).

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 2022 Interim Financial Report are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 December 2021.

Going concern

Details of the Group's objectives, policies and processes for managing its exposure to liquidity, credit, market, operational, climate change and business risks are contained in the Risk Management Report of the 2021 Annual Report and Accounts. The Directors are required to make an assessment of the Society's ability to adopt the going concern basis of accounting in the future and the information should cover a period of at least 12 months from the date of signing the financial statement but not be limited to that period. Therefore the Directors' assessment period over the use of the going concern basis of accounting is for the period to the end of July 2023.

The Society continues to review and update its objectives, policies, processes and risks to ensure they remain relevant and include appropriate downside scenarios in the context of the continued economic uncertainty following the global pandemic, the war in Ukraine and inflationary pressures. The key risks associated with the delivery of the Society's strategic plans are outlined on page 7 of this Interim Financial Report.

The Society is forecast to remain compliant with all binding regulatory, liquidity and capital requirements throughout the going concern assessment period, including under stress scenarios. The Society has a surplus to regulatory capital requirements and is forecasting this to remain across the going concern assessment period. Taking this, along with the updated objectives, policies and processes into account, alongside the current economic and regulatory environment, the Directors confirm they are satisfied the Society 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 Report.

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 2021. Details as at 31 December 2021 are provided on page 65 of the 2021 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 the following operating segments, consistent with the internal reporting provided to the Board.

During the prior years, the Group has exited the Estate Agency market and sold both its Lettings portfolio of managed properties and its mortgage broking services entity. Therefore, the only remaining segment in the Group is the Retail Financial services. Therefore there are no other reportable segments in the results for the six months to 30 June 2022 and all remaining performance relates to continuing operations.

Continuing operations

- **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.

Discontinued operations

- **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 2022 Unaudited	Retail financial services £m	Consolidation adjustments £m	Group continuing operations £m	Discontinued operations: Mortgage Broking £m	Total Group £m
Net interest income	28.2	-	28.2	-	28.2
Total net income	33.3	-	33.3	-	33.3
Profit before tax	11.3	-	11.3	-	11.3

Six months to 30 June 2021 Unaudited	Retail financial services £m	Consolidation adjustments £m	Group continuing operations £m	Discontinued operations: Mortgage Broking £m	Total Group £m
Net interest income	22.2	-	22.2	-	22.2
Total net income	25.8	-	25.8	0.8	26.6
Profit before tax	5.5	-	5.5	0.2	5.7

Year ended 31 December 2021 Audited	Retail financial services £m	Consolidation adjustments £m	Group continuing operations £m	Discontinued operations: Mortgage Broking £m	Total Group £m
Net interest income	45.9	-	45.9	-	45.9
Total net income	55.9	-	55.9	1.0	56.9
Profit/(loss) before tax	16.2	(1.3)	14.9	0.2	15.1

Notes to the interim financial report

4 Interest receivable and similar income

	Period to 30 June 2022 Unaudited £m	Period to 30 June 2021 Unaudited £m	Year ended 31 December 2021 Audited £m
On loans fully secured on residential property	31.5	33.8	67.3
On other loans	4.7	3.3	7.3
On liquid assets	1.3	0.2	0.4
On instruments held at amortised cost	37.5	37.3	75.0
On debt securities	1.1	0.3	0.7
On derivatives hedging of financial assets	0.7	(5.5)	(10.3)
On instruments calculated on an EIR basis	39.3	32.1	65.4
On derivatives not in a hedge accounting relationship	-	(0.3)	(1.0)
	39.3	**31.8**	**64.4**

5 Interest payable and similar charges

	Period to 30 June 2022 Unaudited £m	Period to 30 June 2021 Unaudited £m	Year ended 31 December 2021 Audited £m
On shares held by individuals	7.5	7.9	14.8
On deposits and other borrowings	2.3	1.1	2.1
On subscribed capital	1.0	1.0	2.0
On leases	-	-	0.1
On derivatives hedging of financial liabilities	0.3	(0.4)	(0.5)
	11.1	**9.6**	**18.5**

6 Administrative expenses

	Period to 30 June 2022 Unaudited £m	Period to 30 June 2021 Unaudited £m	Year ended 31 December 2021 Audited £m
Continuing operations			
Wages and salaries	9.0	8.8	18.3
Social security costs	0.9	0.9	1.7
Other pension costs	0.9	0.8	1.0
Total employee costs	**10.8**	**10.5**	**21.0**
Premises and facilities	1.2	1.2	2.1
IT	2.6	2.8	6.0
Marketing and advertising	0.4	0.5	1.0
Lease costs	0.2	0.2	0.3
Other administrative costs	3.0	2.8	6.1
	18.2	**18.0**	**36.5**

There are no strategic investment costs included in other continuing administrative costs (30 June 2021: £0.6 million; 31 December 2021: £1.1 million).

In the prior periods, further administrative expenses of £0.6 million (30 June 2021) and £0.8 million (31 December 2021) in relation to the Group's discontinued operations were incurred.

Notes to the interim financial report

7 Loans and advances to credit institutions

	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Repayable on call and short notice	10.4	13.4	8.0
Other loans and advances to credit institutions	5.1	38.1	8.1
	15.5	**51.5**	**16.1**

At 30 June 2022, £5.1 million (30 June 2021: £38.1 million; 31 December 2021: £8.1 million) of cash has been deposited by the Group as collateral against derivative contracts.

8 Cash and cash equivalents

	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Cash in hand and balances with the Bank of England	380.4	282.8	279.2
Loans and advances to credit institutions	10.4	13.4	8.0
	390.8	**296.2**	**287.2**

9 Debt securities

	Note	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Movement on debt securities during the period may be analysed as follows:				
At 1 January		260.3	152.8	152.8
Additions		136.4	96.0	168.2
Disposals and maturities		(24.3)	(28.9)	(60.4)
Net gains from changes in fair value recognised in other comprehensive income	13	(2.6)	0.7	(0.3)
		369.8	**220.6**	**260.3**

10 Loans and advances to customers

	Note	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Loans fully secured on residential property (FSRP)		2,678.6	2,840.8	2,800.2
Other loans fully secured on land (FSOL)		269.6	199.3	232.6
		2,948.2	3,040.1	3,032.8
Provision for impairment losses on loans and advances	11	(3.0)	(3.9)	(3.1)
		2,945.2	3,036.2	3,029.7
Fair value adjustment for hedged risk		(69.1)	9.7	(18.8)
		2,876.1	**3,045.9**	**3,010.9**

Other loans fully secured on land represents Secured Business Lending (SBL) assets.

Notes to the interim financial report

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 Expected Credit Loss allowances are presented in detail below.

			30 June 2022 Unaudited			30 June 2021 Unaudited			31 December 2021 Audited
	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m	FSRP £m	FSOL £m	Total £m
Gross carrying amount									
Stage 1	2,441.6	234.5	2,676.1	1,454.8	142.0	1,596.8	2,666.7	215.1	2,881.8
Stage 2	222.1	34.2	256.3	1,380.4	56.0	1,436.4	117.3	16.5	133.8
Stage 3	14.9	0.9	15.8	5.6	1.3	6.9	16.2	1.0	17.2
	2,678.6	**269.6**	**2,948.2**	**2,840.8**	**199.3**	**3,040.1**	**2,800.2**	**232.6**	**3,032.8**

			30 June 2022 Unaudited			30 June 2021 Unaudited			31 December 2021 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	1.3	0.8	2.1	0.4	2.0	2.4	1.4	0.8	2.2
Stage 2	0.3	0.4	0.7	0.5	0.6	1.1	0.2	0.5	0.7
Stage 3	0.1	0.1	0.2	0.1	0.3	0.4	0.1	0.1	0.2
	1.7	**1.3**	**3.0**	**1.0**	**2.9**	**3.9**	**1.7**	**1.4**	**3.1**

The underlying credit risk in the mortgage portfolio remains largely consistent against the prior year with some marginal improvements seen in forecasts impacting the significant economic assumptions of HPI and unemployment. However, this is offset by the risk of affordability driven by inflationary pressures in the wider economy, which remain heightened. The overall level of ECL allowance has fallen marginally since December 2021, reflecting the slight fall in portfolio size and settlement of some specific cases.

At 30 June 2022, 9% (30 June 2021: 47%; 31 December 2021: 4%) of the gross carrying amounts are included within the stage 2 category of the ECL models. The Society only participates in the prime mortgage lending market, and within the residential loan category in particular, this results in very low Probability of Default (PD) at origination. Any slight deterioration in a customer's PD can impact the move in staging of the loan, but has a limited impact on the level of ECL due to the high collateral value of the portfolio.

The Society's ECL coverage ratio, as a percentage of gross loans is 0.10% at 30 June 2022 for the total book and 0.26% for those balances in stage 2. The equivalent ECL coverage ratios at 31 December 2021 were 0.10% across the total portfolio and 0.52% for stage 2 assets.

At 30 June 2022, £3.7m of balances were over 3 months in arrears (31 December 2021: £4.4m), representing 0.2% (31 December 2021: 0.2%) of the total mortgage book. As at 30 June 2022, 0.3% (31 December 2021: 0.4%) of mortgage customers have some sort of contractual forbearance arrangement in place. Further details of the Society's arrears and forbearance cases are disclosed in note 14 to this Interim Financial Report on page 28.

Post model adjustment

Due to the ongoing level of uncertainty in the economy, at 30 June 2022, the Society has applied a stress of PD to its core ECL models to reflect management's view that there will be an impact on affordability as a result of global inflationary pressures, soaring energy prices and rising interest rates to manage inflation. As a result of this PD stress, an overlay ECL allowance of £2.1m (31 December 2021: £2.0m) has been recognised. This is calculated within the core underlying models with an absolute 7% (31 December 2021: 6%) stressed PD uplift applied to the modelled retail PD assumptions and 4% (31 December 2021: 4%) to the SBL PD assumptions. The stress scenario recognises £1.9m (31 December 2021: £1.8m) of ECL in stage 1 and £0.2m (31 December 2021: £0.2m) in stage 2 of the portfolio. A further 1% shift in PD assumptions adjusts the ECL position by £0.3m.

Notes to the interim financial report

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

Post model adjustment (continued)

Since December 2021, there has been an improvement in the forward-looking economic variables of HPI and unemployment, which are provided by a reputable third party and are the significant assumptions in the ECL model calculation. Inflation is not a predominant input to the model but actual to date and forecast inflation are now higher than expected, resulting in a greater and more sustained risk to affordability. As a result, management have applied judgement and adjusted the level of PD stress for residential borrowers to reflect this in the post model adjustment.

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

	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
(Release)/charge of provision for impairment			
Loans fully secured on residential property	-	(0.7)	(0.1)
Other loans fully secured on land	(0.1)	0.1	(1.3)
	(0.1)	**(0.6)**	**(1.4)**

The tables below reconcile the movement in both gross balances and expected credit losses in the period.

Gross balances	Non-credit impaired		Credit impaired	
	Subject to 12 month ECL Stage 1 £m	Subject to lifetime ECL Stage 2 £m	Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2022	2,881.8	133.8	17.2	3,032.8
Stage transfers:				
Transfers from stage 1 to stage 2	(137.3)	137.3	-	-
Transfers to stage 3	(1.1)	(1.0)	2.1	-
Transfers from stage 2 to stage 1	47.8	(47.8)	-	-
Transfers from stage 3	0.8	1.0	(1.8)	-
Net movement arising from transfer of stage	(89.8)	89.5	0.3	-
New assets originated[1]	196.7	47.3	0.1	244.1
Further lending/repayments and redemptions	(312.6)	(14.3)	(1.8)	(328.7)
At 30 June 2022	**2,676.1**	**256.3**	**15.8**	**2,948.2**

Expected Credit Loss allowance	Non-credit impaired		Credit impaired	
	Subject to 12 month ECL Stage 1 £m	Subject to lifetime ECL Stage 2 £m	Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2022	2.2	0.7	0.2	3.1
Stage transfers:				
Transfers from stage 1 to stage 2	(0.1)	0.1	-	-
Transfers from stage 2 to stage 1	0.1	(0.1)	-	-
Net movement arising from transfer of stage	-	-	-	-
New assets originated[1]	0.3	-	-	0.3
Further lending/repayments and redemptions	(0.4)	-	-	(0.4)
Changes in risk parameters in relation to credit quality	-	-	-	-
At 30 June 2022	**2.1**	**0.7**	**0.2**	**3.0**

[1] New assets originated enter at stage 1. The balances presented are the final position as at 30 June 2022.

Notes to the interim financial report

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

Gross balances	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	1,913.4	1,183.9	8.9	3,106.2
Stage transfers:				
Transfers from stage 1 to stage 2	(541.7)	541.7	-	-
Transfers to stage 3	(0.1)	(2.1)	2.2	-
Transfers from stage 2 to stage 1[1]	169.2	(169.2)	-	-
Transfers from stage 3	0.1	3.4	(3.5)	-
Net movement arising from transfer of stage	(372.5)	373.8	(1.3)	-
New assets originated[2]	256.2	1.9	-	258.1
Further lending/repayments and redemptions	(200.3)	(123.2)	(0.7)	(324.2)
At 30 June 2021	**1,596.8**	**1,436.4**	**6.9**	**3,040.1**

Expected Credit Loss allowance	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	2.0	1.8	0.7	4.5
Stage transfers:				
Transfers from stage 1 to stage 2	(0.2)	0.2	-	-
Transfers to stage 3	-	-	-	-
Transfers from stage 2 to stage 1[1]	0.2	(0.2)	-	-
Transfers from stage 3	-	0.1	(0.1)	-
Net movement arising from transfer of stage	-	0.1	(0.1)	-
New assets originated[2]	0.9	-	-	0.9
Further lending/repayments and redemptions	-	(0.1)	-	(0.1)
Changes in risk parameters in relation to credit quality	(0.5)	(0.7)	(0.2)	(1.4)
At 30 June 2021	**2.4**	**1.1**	**0.4**	**3.9**

Gross balances	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	1,913.4	1,183.9	8.9	3,106.2
Stage transfers:				
Transfers from stage 1 to stage 2	(44.7)	44.7	-	-
Transfers to stage 3	(3.9)	(8.1)	12.0	-
Transfers from stage 2 to stage 1[1]	923.1	(923.1)	-	-
Transfers from stage 3	2.1	0.8	(2.9)	-
Net movement arising from transfer of stage	876.6	(885.7)	9.1	-
New assets originated[2]	494.6	34.0	1.1	529.7
Further lending/repayments and redemptions	(402.8)	(198.4)	(1.9)	(603.1)
At 31 December 2021	**2,881.8**	**133.8**	**17.2**	**3,032.8**

Notes to the interim financial report

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

Expected Credit Loss allowance	Non-credit impaired Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	2.0	1.8	0.7	4.5
Stage transfers:				
Transfers from stage 2 to stage 1[1]	1.1	(1.1)	-	-
Transfers from stage 3	0.1	0.1	(0.2)	-
Net movement arising from transfer of stage	1.2	(1.0)	(0.2)	-
New assets originated[2]	0.5	0.1	-	0.6
Further lending/repayments and redemptions	(0.8)	(0.1)	-	(0.9)
Changes in risk parameters in relation to credit quality	(0.7)	(0.1)	(0.3)	(1.1)
At 31 December 2021	**2.2**	**0.7**	**0.2**	**3.1**

[1] Transfers from stage 2 to stage 1 in the period is impacted by the refinement of SICR criteria completed during the prior year.

[2] New assets originated enter at stage 1. The balances presented are the final position as at the end of the period reported.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information, which takes into account key economic impacts such as the Covid-19 pandemic, the war in Ukraine and inflationary pressures. 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 four scenarios in the model calculations. During the prior year the Society moved from a three scenario approach to four, which was in place at 31 December 2021. The weightings, which are provided by the third party supplier of economic forecasts, are consistent at both 31 December 2021 and the current period.

	Weighting
Base The base economic scenario assumes that cases of Covid-19 remain steady with no further lockdown and that the Ukraine conflict does not escalate beyond Ukraine. The scenario assumes inflation continues to rise and remains above the Bank of England's target in 2022, with the Bank increasing the base rate to 1.5% in 2022. It assumes that there will be a deceleration in house price growth due as a result.	40%
Upside The upside scenario assumes that the Ukraine conflict ends earlier than the base case. It assumes that both energy prices and inflation reduce faster than the base case. Whilst the Bank of England base rate increases, it is at a slower rate than the base case and it assumes that the unemployment rate remains below 4% for several years.	30%
Downside The downside scenario assumes that the Ukraine conflict lasts longer with long-term sanctions in place. A new variant of Covid-19 arrives in winter with some mild restrictions. The Bank of England increases interest rates but has to reverse in 2023 due to a recession. Unemployment peaks in Q4 2024 which causes a 14% peak to trough reduction in house prices.	23%
Severe downside The severe downside scenario assumes that the Ukraine conflict escalates with concern that the conflict may expand outside of Ukraine. There are significant limits to the supply of oil and natural gas from Russia which increases global energy prices. This causes the Bank of England to increase interest rates but then has to reverse back in 2023 due to a recession. The unemployment peak is higher than the downside and house prices drop by 22% peak to trough due to credit restrictions.	7%

Notes to the interim financial report

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

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

The summary below outlines the most significant forward-looking assumptions under IFRS 9, over the five year planning period across the optimistic, base and pessimistic scenarios.

As at 30 June 2022		2022 %	2023 %	2024 %	2025 %	2026 %
Unemployment rate	Upside	3.5	3.7	3.8	4.0	4.3
	Base	3.9	4.4	4.6	4.7	4.8
	Downside	4.9	7.1	7.4	7.3	6.6
	Severe downside	5.1	8.4	8.2	8.2	7.7
House price index	Upside	10.7	13.1	4.6	(1.8)	(2.5)
	Base	4.1	2.9	4.8	2.2	0.9
	Downside	(0.7)	(8.8)	0.3	3.7	4.4
	Severe downside	(2.6)	(15.6)	(0.5)	3.3	3.0
BoE interest rate	Upside	1.3	1.7	2.3	2.5	2.5
	Base	1.4	1.8	2.4	2.5	2.5
	Downside	2.0	0.1	0.1	0.7	1.7
	Severe downside	2.2	0.1	0.1	0.1	0.6

A significant degree of estimation relates to the relative weightings of the economic scenarios. In order to demonstrate this sensitivity, the impact of applying 100% of a particular scenario on the 30 June 2022 reported ECL position output is shown below.

30 June 2022	ECL provision £m	(Decrease)/ increase £m	(Decrease)/ increase %
IFRS 9 weighted average	3.0	-	-
Base	2.8	(0.2)	(6.7)%
Downside	3.8	0.8	26.7%
Severe Downside	4.6	1.6	53.3%
Upside	2.2	(0.8)	(26.7)%

12 Subscribed capital

	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
7.875% sterling Permanent Interest Bearing Shares	23.9	23.9	23.9
Fair value adjustment for hedged risk	0.1	0.1	0.1
	24.0	**24.0**	**24.0**

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.

Notes to the interim financial report

13 Fair value reserves

	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
FVOCI reserve			
At 1 January	(0.1)	-	-
Net (charge)/gain from changes in fair value	(2.6)	0.7	(0.1)
	(2.7)	**0.7**	**(0.1)**

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 2022 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	387.7	-	-	-	387.7
Loans and advances to credit institutions	15.5	-	-	-	15.5
Debt securities	-	369.8	-	-	369.8
Derivative financial instruments	-	-	78.3	5.3	83.6
Loans and advances to customers	2,876.1	-	-	-	2,876.1
Financial assets	**3,279.3**	**369.8**	**78.3**	**5.3**	**3,732.7**
Other assets	-	-	-	-	32.9
	3,279.3	**369.8**	**78.3**	**5.3**	**3,765.6**
Financial liabilities					
Shares	2,984.6	-	-	-	2,984.6
Amounts owed to credit institutions	390.7	-	-	-	390.7
Amounts owed to other customers	11.0	-	-	-	11.0
Debt securities in issue	109.4	-	-	-	109.4
Derivative financial instruments	-	-	1.7	4.7	6.4
Subscribed capital	24.0	-	-	-	24.0
Financial liabilities	**3,519.7**	**-**	**1.7**	**4.7**	**3,526.1**
Other liabilities	-	-	-	-	13.4
	3,519.7	**-**	**1.7**	**4.7**	**3,539.5**

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 30 June 2021 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	289.6	-	-	-	289.6
Loans and advances to credit institutions	51.5	-	-	-	51.5
Debt securities	-	220.6	-	-	220.6
Derivative financial instruments	-	-	4.2	0.3	4.5
Loans and advances to customers	3,045.9	-	-	-	3,045.9
Financial assets	**3,387.0**	**220.6**	**4.2**	**0.3**	**3,612.1**
Other assets	-	-	-	-	38.5
	3,387.0	**220.6**	**4.2**	**0.3**	**3,650.6**
Financial liabilities					
Shares	2,891.0	-	-	-	2,891.0
Amounts owed to credit institutions	333.6	-	-	-	333.6
Amounts owed to other customers	0.9	-	-	-	0.9
Debt securities in issue	156.5	-	-	-	156.5
Derivative financial instruments	-	-	17.2	0.6	17.8
Subscribed capital	24.0	-	-	-	24.0
Financial liabilities	**3,406.0**	**-**	**17.2**	**0.6**	**3,423.8**
Other liabilities	-	-	-	-	15.0
	3,406.0	**-**	**17.2**	**0.6**	**3,438.8**

Carrying values by category	Held at amortised cost		Held at fair value		
As at 31 December 2021 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	286.1	-	-	-	286.1
Loans and advances to credit institutions	16.1	-	-	-	16.1
Debt securities	-	260.3	-	-	260.3
Derivative financial instruments	-	-	23.0	3.1	26.1
Loans and advances to customers	3,010.9	-	-	-	3,010.9
Financial assets	**3,313.1**	**260.3**	**23.0**	**3.1**	**3,599.5**
Other assets	-	-	-	-	35.3
	3,313.1	**260.3**	**23.0**	**3.1**	**3,634.8**
Financial liabilities					
Shares	2,874.6	-	-	-	2,874.6
Amounts owed to credit institutions	346.1	-	-	-	346.1
Amounts owed to other customers	22.9	-	-	-	22.9
Debt securities in issue	127.1	-	-	-	127.1
Derivative financial instruments	-	-	6.4	0.1	6.5
Subscribed capital	24.0	-	-	-	24.0
Financial liabilities	**3,397.7**	**-**	**6.4**	**0.1**	**3,401.2**
Other liabilities	-	-	-	-	14.5
	3,394.7	**-**	**6.4**	**0.1**	**3,415.7**

Notes to the interim financial report

14 Financial instruments (continued)

Fair values of financial assets and liabilities carried at amortised cost

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

		30 June 2022 Unaudited Book value £m	30 June 2022 Unaudited Fair value £m	30 June 2021 Unaudited Book value £m	30 June 2021 Unaudited Fair value £m	31 December 2021 Audited Book value £m	31 December 2021 Audited Fair value £m
Financial assets							
Cash in hand & balances with the Bank of England	a	387.7	387.7	289.6	289.6	286.1	286.1
Loans & advances to credit institutions	b	15.5	15.5	51.5	51.5	16.1	16.1
Loans & advances to customers	c	2,876.1	2,837.2	3,045.9	3,053.7	3,010.9	3,029.3
Financial liabilities							
Shares	d	2,984.6	3,000.2	2,891.0	2,890.4	2,874.6	2,879.9
Amounts owed to credit institutions	d	390.7	390.7	333.6	333.6	346.1	346.1
Amounts owed to other customers	d	11.0	11.0	0.9	0.9	22.9	22.8
Debt securities in issue	e	109.4	109.4	156.5	156.5	127.1	127.1
Subscribed capital	f	23.9	27.6	23.9	30.6	23.9	31.0

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 fair value of loans and advances to credit institutions equates the amortised cost value.

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. The fair value of loans and advances to customers is considered to approximate the amortised cost value.

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. The fair value of shares, deposits and borrowings is considered to approximate the amortised cost value.

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.

Notes to the interim financial report

14 Financial instruments (continued)

Fair values of financial assets and liabilities carried at fair value

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

30 June 2022 Unaudited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	369.8	-	369.8
Derivative financial instruments - Interest rate swaps	-	83.6	83.6
	369.8	**83.6**	**453.4**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(6.4)	(6.4)
	-	**(6.4)**	**(6.4)**

30 June 2021 Unaudited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	220.6	-	220.6
Derivative financial instruments - Interest rate swaps	-	4.5	4.5
	220.6	**4.5**	**225.1**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(17.8)	(17.8)
	-	**(17.8)**	**(17.8)**

31 December 2021 Audited	Level 1 £m	Level 2 £m	Total Fair Value £m
Financial assets			
Debt securities	260.3	-	260.3
Derivative financial instruments - Interest rate swaps	-	26.1	26.1
	260.3	**26.1**	**286.4**
Financial liabilities			
Derivative financial instruments - Interest rate swaps	-	(6.5)	(6.5)
	-	**(6.5)**	**(6.5)**

The Group has no level 3 financial instruments carried at fair value.

Notes to the interim financial report

14 Financial instruments (continued)

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

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.

Credit risk

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

	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Credit risk exposure			
Cash in hand and balances with the Bank of England	387.7	289.6	286.1
Loans and advances to credit institutions	15.5	51.5	16.1
Debt securities	366.8	221.1	260.8
Derivative financial instruments	83.6	4.5	26.1
Loans and advances to customers	2,876.1	3,045.9	3,010.9
Total statement of financial position exposure	**3,729.7**	**3,612.6**	**3,600.0**
Off balance sheet exposure – mortgage commitments	188.7	133.2	120.0
	3,918.4	**3,745.8**	**3,720.0**

Notes to the interim financial report

14 Financial instruments (continued)

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

Credit risk (continued)

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 2022 is 100% (30 June 2021: 100%; 31 December 2021: 100%).

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 2022 (30 June 2021: £nil; 31 December 2021: £nil).

b) Loans and advances to customers

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property of £2,678.6 million, split between residential and buy-to-let loans with the remaining £269.6 million being secured on commercial property. The Group operates throughout England & Wales with the portfolio spread throughout the geographic regions.

Retail loans
Loans fully secured on residential property are split between residential and buy-to-let. At 30 June 2022, the simple average LTV of retail mortgages is 48% (30 June 2021: 51%; 31 December 2021: 49%).

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 2022 Unaudited		30 June 2021 Unaudited		30 December 2021 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	2,441.6	1.3	1,454.8	0.4	2,666.7	1.4
Stage 2: *Lifetime expected credit losses*						
< 30 days past due	215.1	0.3	1,375.6	0.5	111.5	0.2
> 30 days past due	7.0	-	4.8	-	5.8	-
Stage 3: *Lifetime expected credit losses*						
< 90 days past due	11.7	0.1	1.6	-	12.1	0.1
> 90 days past due	3.2	-	4.0	0.1	4.1	-
	2,678.6	**1.7**	**2,840.8**	**1.0**	**2,800.2**	**1.7**

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 66% (30 June 2021: 60%; 31 December 2021: 66%).

Notes to the interim financial report

14 Financial instruments (continued)

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

Credit risk (continued)

b) Loans and advances to customers (continued)

Secured Business Loans (continued)

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

	30 June 2022 Unaudited		30 June 2021 Unaudited		30 December 2021 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	234.5	0.8	142.0	2.0	215.1	0.8
Stage 2: *Lifetime expected credit losses*						
< 30 days past due	33.2	0.4	54.5	0.6	15.5	0.5
> 30 days past due	1.0	-	1.5	-	1.0	-
Stage 3: *Lifetime expected credit losses*						
< 90 days past due	0.4	-	1.0	0.1	0.7	-
> 90 days past due	0.5	0.1	0.3	0.2	0.3	0.1
	269.6	**1.3**	**199.3**	**2.9**	**232.6**	**1.4**

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 2022, there were 68 forbearance cases within the retail loans category (30 June 2021: 102; 31 December 2021: 92) and 11 cases within the SBL loans category (30 June 2021: 14; 31 December 2021: 13).

15 Notes to the cash flow statements

	Period to 30 June 2022 Unaudited £m	Period to 30 June 2021 Unaudited £m	Year ended 31 December 2021 Audited £m
Changes in liabilities arising from financing activities			
Subscribed capital at 1 January	23.9	23.9	23.9
Accrued interest	1.0	1.0	1.9
Cash flows	(1.0)	(1.0)	(1.9)
Subscribed capital at end of period	**23.9**	**23.9**	**23.9**

Responsibility statement

The Directors confirm that this Interim Financial Report has been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. 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 pages 16 to 18, and within the Risk Management Report starting on page 31 of the 2021 Annual Report and Accounts and those detailed on page 7 of this Interim Financial Report.

A full list of the Board of directors can be found in the 2021 Annual Reports and Accounts. Susan Hayes and Paul Astruc were appointed to the Board as Executive Directors on 7 March 2022 and 21 June 2022 respectively. Mike Brierley resigned as a Non-Executive Director on 25 April 2022 and David Marlow resigned as an Executive Director on 25 April 2022.

Signed on behalf of the Board by

Susan Hayes
Chief Executive

Paul Astruc
Chief Financial Officer

28 July 2022

Independent review report to Nottingham Building Society

Conclusion

We have been engaged by the Society to review the condensed set of consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2022 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Members' Interests, Condensed Consolidated Cash Flow Statement and the related explanatory notes 1 to 15. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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.

As disclosed in note 2, the annual financial statements of the Society are prepared in accordance with UK adopted international accounting standards. The condensed set of consolidated financial statements included in this Interim Financial Report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the Interim Financial Report, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the Interim Financial Report, we are responsible for expressing to the Society a conclusion on the condensed set of consolidated financial statements in the Interim Financial Report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Society in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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.

Ernst & Young LLP
Manchester
28 July 2022

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 2021 has been extracted from the Annual Report and Accounts for that year. The Annual Report and Accounts for the year ended 31 December 2021 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.

The Nottingham

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