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Cover photo:
Shuhana and Sue,
Volunteers, The Comfrey Project

Newcastle
Building Society

Newcastle Building Society Annual Report & Accounts 2022 Connecting our communities with a better financial future

Connecting our communities with a better financial future

Newcastle Building Society
Annual Report & Accounts 2022

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The Comfrey Project provides facilities, support and services to local people and in particular people who are refugees and those seeking asylum in the North East. The Comfrey Project received a grant of £3,000. Shuhana is a volunteer at the project.

"The Comfrey Project is my second home. I first came here as my father was a farmer and I was interested in the gardening side of the charity. I have since learned a lot of skills resulting in me starting my own business, which is very successful."

Shuhana, Volunteer, The Comfrey Project

Contents

Performance Highlights 2022

£31.7m
(2021: £29.1m)
Profit before tax

£4.2bn
(2021: £3.7bn)
Savings balance

12.5%
(2021: 13.8%)
Common Equity Tier 1

£30.5m
(2021: £28.5m)
Operating profit before impairments

+58
(2021: +43)
Colleague engagement score

1,450+
(2021: 1,200+)
Colleagues

£1.1bn
(2021: £861m)
Gross residential lending

5,600
(2021: 5,300)
New mortgage customers

95%
(2021: 95%)
Overall customer satisfaction

900+
(2021: 400+)
Colleague volunteering days

31
(2021: 30)
Branches region-wide

North East Business Awards
Tyneside & Northumberland company of the year

What Mortgage Awards
Best Regional Building Society (For sixth consecutive year)

Financial Adviser Service Awards
Four - Star Mortgage Provider

> “When I first assumed the role of Chair, I was fully aware of the unique role that Newcastle Building Society has in serving our region.”

James Ramsbotham | Chair

When I first assumed the role of Chair, I was fully aware of the unique role that Newcastle Building Society has in serving our region.

Now, reflecting on my first full year in position and considering everything we've faced over the course of 2022, it is difficult to overstate the importance of that role.

Both nationally and regionally, 2022 presented the Society with a host of new challenges including the rising cost of living, soaring energy costs and political turbulence. On the back of an incredibly difficult period, the resolve and resilience of the whole organisation has been tested once again.

I'm hugely proud that the Society has responded to these challenges by stepping up to support those across our region and beyond who need help. Seeing colleagues continue to find innovative and imaginative solutions to serve Members and clients demonstrates the special nature of the Society.

Those challenges and economic uncertainty will continue, but the Society remains committed to making a positive impact in its communities and continuing to deliver the unique benefits that come from being part of a Member-owned organisation. You will see concrete examples of the difference we are making on the cover and throughout this report.

Economic summary

The outbreak of conflict in Ukraine in early 2022 exacerbated existing concerns around the cost of living and price inflation. In addition, economic uncertainty caused by a period of intense political turmoil has increased recessionary pressure.

As is often the case, the impact is felt most acutely by those least able to manage. Rising rates of poverty give an indication of the scope of the challenge, but deepening levels of hardship and a sharp increase in the number of people using food banks paints a gloomy picture of social wellbeing in the UK and the North East.

The Bank of England base rate was already moving upwards at the start of 2022 and nine successive increases meant the rate moved from a historic low of 0.1% in late 2021 to 4.0% in February 2023, rates which we've not seen for more than 14 years. This does bring some good news for savers as savings providers responded by passing on increases, but with inflation peaking at over 11% any relief for savers will feel short-lived.

The housing market had a tumultuous year, first with the continued increase in house prices moving to record levels, followed by a period of substantial change as markets reacted to uncertainty caused by political turmoil in what was already a rising rate environment. First time buyers and homeowners suddenly faced steep rate changes and a clear cooling of the housing market which, given its nature, will take some time to adjust.

Whilst these are clearly national issues, we know the impact is often greatest in our region.

Strategy, purpose, performance

For the past five years, our Society has made significant progress on delivery of our Purpose: to connect communities with a better financial future.

But it is no coincidence that in a year in which our Society has continued to grow, we have generated significant momentum in delivery of its Purpose.

It proves that the strength of the Society's performance in 2022 is tied to the ever-increasing impact of our Purpose.

Especially in the context of wider economic challenges, helping people to own their own home, to save and plan their finances, is deeply important for individuals and families. And in 2022 there was real progress on commitments to care for our environment and to foster inclusion, diversity and positive change. These are long-term commitments, which mirror and support the Society's long-term growth ambitions.

I'm inspired by the Society's appetite to make an even greater, more sustainable and more meaningful impact on our communities.

The Society also delivered a strong set of results in 2022, performing well in the face of significant uncertainty. Further detail on the financial performance is contained in the Strategic Report.

Regulatory changes

In July 2022, the Financial Conduct Authority published their final rules on a new Consumer Duty which looks to set higher and clearer standards of consumer protection across financial services and requires firms to put their customers' needs first.

The Group is already well placed to deliver on these new requirements but the changes present an opportunity to deliver even better outcomes for Members.

The final rules come into effect from July 2023 and colleagues have been working hard to review our existing products, services, culture and governance. In October, the Board approved the implementation plan and throughout 2023 the Society will be prioritising the areas where we have identified improvements that could be made, in readiness for the July deadline.

Board matters

During the year we conducted an external Board Effectiveness Review, allowing for an independent assessment of the Board. The review was supportive and recognised the achievements of the Board and the Society over the last five years, recommending that we focus even more on our ambitions for the future.

I would like to express thanks to Non-Executive Director Karen Ingham, who is stepping down after almost nine years on the Board. We are extremely grateful for Karen's contribution over such a long period and, on behalf of many, wish her well for the future.

Look forward

It was the Society's laser-like focus on its Purpose which helped weather the storm of Covid-19 and I'm confident that same strategic clarity will help us meet the challenges of 2023 and beyond. Given everything we've been through over the past three years, it's difficult to imagine what we might face in the years ahead, but I know that economic recession and intense pressure on household budgets from all angles will lead to difficult decisions in almost every home in the region.

However, the Society has demonstrated a resilience that provides cause for optimism and which proves how well placed it remains to support Members and colleagues, and to deliver positive change in our communities for the long term.

The Society must harness its unique Purpose and position in the region in order to meet its growth ambitions and the Board remains committed to the investment required to achieve this.

I'd like to recognise the hard work and commitment of colleagues across the Society, who time and again show incredible support for our Purpose and dedication to Members, clients, and each other.

James Ramsbotham | Chair
2 March 2023

Photo: **Lynne, Branch Manager**

Chief Executive's Review

> **“ A strong financial performance has enabled the Group to provide significant support to Members, clients and colleagues during difficult times. I’m proud that we’ve made such progress in delivery of our Purpose,especially around branch innovation as we seek to keep face-to-face financial services on the high streets of towns across our region and helping to tackle wider issues of employability. ”**

Andrew Haigh | Chief Executive

Despite the many challenges emerging in 2022, Newcastle Building Society responded well. I am sure many of us started the year in the hope that after all the trauma and disruption of the Covid-19 pandemic, life might gradually return to something much more familiar as the year progressed.

However, conflict in Europe and the rising cost of living made it another extremely difficult year for our communities and it quickly became clear that thoughts of returning to a sense of normality were misplaced. In September, the mood of the entire country was saddened by news of the death of HM Queen Elizabeth II. Then we saw rapid political change and policy reversal cause uncertainty in financial markets.

By the end of the year, the economy continued to be challenged and households across the country were facing a difficult winter with the prospect of even more uncertainty ahead.

Resilience

I’m pleased to report that in such a volatile environment and in the face of so many new challenges, the Society continued to demonstrate its resilience and agility, delivering a robust set of results.

The underlying financial performance remains strong with increased profitability. Group profit before tax was £31.7m for the year ended 31 December 2022, compared to £29.1m for 2021. In addition to positive headlines in our financial performance, we continue to operate with appropriate levels of capital and liquidity.

Furthermore, a strong financial performance has enabled the Group to provide significant support to Members, clients and colleagues during difficult times. I’m proud that we’ve made such progress in delivery of our Purpose, especially around branch innovation as we seek to keep face-to-face financial services on the high streets of towns across our region and helping to tackle wider issues of employability.

Key highlights include:

- Good value for savers, paying an average interest rate of 1.20% versus the rest of market average rate of 0.66%, equating to around £21m more interest paid to our savers than the market average
- Good value for borrowers, with an average Standard Variable Rate (SVR) for mortgages 0.42% lower than the market average, saving our SVR borrowers over £500,000 in interest payments compared to the market average
- Profit for the year before taxation increased to £31.7m (2021: £29.1m)
- Operating profit before impairments and provisions increased by £2.0m to £30.5m (2021: £28.5m)
- Underlying operating profit of £26.7m (2021: £22.0m)*
- Record gross mortgage lending for the year at £1.1bn and record net core residential lending at £586m (£861m gross and £330m net in 2021)
- Opening of a new community branch in Knaresborough, North Yorkshire, a town recently left with no bank on its high street
- Development of a new blueprint for branches in cashless communities by adding a OneBanx multi-bank transaction kiosk pilot in two of our branches
- Partnership with Citizens Advice Gateshead to provide Members struggling with the cost of living with a comprehensive package of support
- Launch of a new employability partnership with armed forces charity Walking With The Wounded
- Increased colleague numbers by nearly 200 during the year, creating new job opportunities for the region
- The official opening of NUCASTLE powered by Newcastle Building Society, a new community hub and home of Newcastle United Foundation
- Celebration of ten years of support for the Sir Bobby Robson Foundation, with a decade of donations totalling over £3m
- Development and launch of a new shared ownership mortgage product to support first time buyers
- Over £94m of funds invested for Members through our advice subsidiary, Newcastle Financial Advisers Limited
- Customer satisfaction score of 95% (2021: 95%) and net promoter score (NPS) of +82 (2021: +82)
- Over £544,000 in community funding through charity partnerships, community grants from the Newcastle Building Society Community Fund at the Community Foundation and colleague fund raising matches.

*For more information on alternative performance measures see the strategic report.

Awards

- **Tyneside and Northumberland Company of the Year - North East Business Awards**
- **Tyneside and Northumberland Apprenticeships, Skills and Training - North East Business Awards**
- **Excellence and Positive Impact - CIPD North East of England HR&D Awards**
- **Best Use of Customer Insight - Engage Awards (highly commended)**
- **Best Regional Building Society (for the 6th consecutive year) - What Mortgage Awards**
- **Mortgage Product Innovation - Mortgage Finance Gazette Awards**
- **Best Building Society for Mortgage Credit Strategy - Lending Awards**
- **Four-star Mortgage Provider - Financial Adviser Service Awards**
- **Best Small Residential Lender - TMA Mortgage Club Awards**

Powered by Purpose

Newcastle Building Society has been focused on making a difference for Members for more than 160 years. Just five years ago, we took that spirit and commitment shown quite literally over decades and expressed it in the words we now recognise as our Purpose statement. With those words, we were propelled forward on our Purpose-led strategic journey. Our Purpose, 'Connecting our communities with a better financial future', guides our decision making, informs our strategic approach and drives our distinct proposition for our Members. The fact we made such progress through delivery of Purpose over the past few years, despite all the challenges of the pandemic, I believe shows the true value of our interpretation of the mutual model and mindset.

In the course of last year, there were many moments which highlight the progress we've made on our Purpose journey:

We've reacted to the needs of our Members and colleagues as they face into a cost of living crisis. This has included real and targeted support to focus on areas of greatest urgency: food poverty, debt, social isolation, employability, homelessness and the environment. This progress highlights the maturity of our Purpose journey, as we move from an organisation which is Purpose-led to one which is genuinely Powered by Purpose.

We're continuing to challenge national assumptions around high streets. In our view, something has simply got to change when it comes to the seemingly incessant decline of financial services provision on our high streets. We know how much customers value and need face-to-face contact in financial services and we see it as our responsibility to explore new ways to deliver that service in a cost effective manner for our customers.

We responded to rises in the Bank of England base rate by increasing our savings rates multiple times and we remained focused on providing imaginative solutions to help people achieve the dream of owning their own home.

We continue to work with partners such as the Prince's Trust, Newcastle United Foundation and Walking With The Wounded to tackle the challenges around employability and opportunity facing young people in our region. This approach has helped us take the first steps towards achieving our ambition to recruit 50% of entry level roles through our skills partnerships by 2025.

In August 2022, we announced that the Society had entered into an exclusivity agreement with Manchester Building Society to explore the possibility of a merger by way of a transfer of Manchester Building Society's engagements to Newcastle Building Society. We have subsequently in February 2023 entered into Heads of Terms with the expectation that subject to resolutions by the Boards of both building societies and regulatory approval, a merger will complete later in the year. Further information is available on the Society's website.

Supporting customers through difficult times

The rising cost of living is creating very real challenges for Members and for people across our region, sometimes for people who may never have expected to find themselves in financial difficulty.

To help provide meaningful, targeted support we launched a partnership with Citizens Advice Gateshead to fund the provision of a dedicated telephone hotline and email service for Members anywhere in the country who are struggling to manage the additional pressures. The 'Helping Hand' service enables quick access to welfare advice experts who are available to discuss financial concerns, provide guidance on options and even authorise emergency financial support in the form of supermarket vouchers. Please see our website (www.newcastle.co.uk) for details on how to access this cost of living support.

It's difficult to imagine a more important time for people to have access to financial services, information and advice. Across each of our branches, through face-to-face appointments, telephone and video calls, we're interacting thousands of times every day with our Members and clients, building meaningful relationships based on trust and warm conversation. This customer focus is reflected in our customer satisfaction scores, which at the end of 2022 equalled the record high of 95% set in 2021.

Our dedicated online customer panel, 'Connected Communities', continues to be a rich source of engagement with our Members. In 2022, Member participation in Connected Communities continued , helping to shape our planning and delivery on a range of topics through thousands of individual comments and pieces of feedback. Members provided valuable insight into our approach to branch innovation, shared their concerns around the cost of living and even came up with the name for our Sustainable Living Hub, which helped us to secure the coveted Engage award for Best Customer Contact Strategy.

Helping people save and plan their finances

In 2022, we welcomed more than 10,000 new Members to the Society through our savings product range.

Successive decisions by the Bank of England during 2022 saw the base rate rise to levels not seen for 14 years. In response, we increased our variable rate savings book multiple times, continuing to provide Members with good and consistent value.

During the period January to December 2022, our average savings book rate of 1.20% was materially higher than the market average of 0.66% (source: CACI) – this equates to around £21m more in interest for our savers.

Our subsidiary, Newcastle Financial Advisers Limited (NFAL), which provides financial advice across our branch locations, experienced another strong year providing over 7,500 customer advice conversations during the year. Demand for accessible, face-to-face meetings in our branches, on our high streets remains strong in 2022. To complement and build on this ongoing activity, we piloted a secure video appointment option.

Customers have demonstrated they value the financial advice service even more during economic uncertainty and their cost of living challenges, helping NFAL achieve VouchedFor "Top Rated Adviser" status and an outstanding customer NPS of +93 (2021: +91).

For further detail on how we continue to help people save and plan their finances, please see the Strategic Report section.

Helping people own their own home

In 2022, we also welcomed over 5,600 new mortgage customers to the Society, helping us to deliver record net core residential lending of £586m (£330m in 2021).

In a rising rate environment and with house prices at record highs, our focus supporting first time buyers and borrowers with lower deposits was vital, especially as the government's Help to Buy scheme came to an end.

Our ongoing support for those with a small deposit wanting to buy a home continued through mortgage support schemes, First Homes and Deposit Unlock and was enhanced by the launch of a new shared ownership proposition and enhancements for our Joint Mortgage Sole Proprietor offer, which extends the choice available to those looking to buy their own home.

We continue to offer good value to borrowers and throughout 2022 our Standard Variable Rate (SVR) was 0.42% lower than the market average, saving our average SVR borrowers over £500,000. Further information on how we've helped in this way can be found in the Strategic Report section.

Creating a new blueprint for branches

We listen to our Members and remain committed to delivering the services they need. Since starting our Purpose journey five years ago, some of the most visible impact of our Purpose stems from our investment into our branch network and our commitment to maintaining a physical presence in the towns and cities across our region. We are champions of the high street and believe that face-to-face service has a critical role to play as a driver of social and economic wellbeing in our communities.

We believe that too many banks are closing branches and leaving our high streets and with more and more towns being left with no permanent financial services presence, something has simply got to change. In our view, the challenge facing the financial services industry is not about closing branches, but reimagining them. Over the past five years, we've demonstrated the effectiveness of our community branch model. We now have four full service community branches in our network, in the towns of Knaresborough and Hawes in North Yorkshire, Yarm in Stockton-on-Tees and Wooler in Northumberland, showing what can be achieved in a small, shared space and with innovative application of technology.

Knaresborough opened in 2022 and is our 31st branch, located within the town's library, in partnership with North Yorkshire County Council.

This expression of our Purpose moved to the next level later in 2022 when, working with fintech partner OneBanx, we launched the pilot of a multi-bank kiosk in our Knaresborough and Gosforth branches enabling customers, both personal and small business, of all banks in the open banking network to pay in and withdraw cash.

New thinking like this is required if we are to keep vital access to cash and financial services on our high streets. We have been proud to work with innovative, like-minded partners who share our drive and beliefs, to develop this new approach.

We continue to work with North Tyneside Council to progress plans for another new community branch in Tynemouth library, which is due to open in 2024.

Savings management

Our subsidiary Newcastle Strategic Solutions Limited manages savings accounts on behalf of some of the UK's leading savings providers. A profitable business in its own right, the Solutions' business also brings scale and the capacity to invest in technology to the Group, while operating under the same culture and Purpose principles.

Driven by numerous Bank of England base rate changes and rapidly rising retail savings rates there was a very large surge of activity in the savings market in 2022. Our Solutions' clients reflected what was occurring in the broader market and our activity levels also reached all-time highs, placing a significant demand on the operational teams in the second half of the year.

New records were achieved in the number of new accounts opened, the amount of net balance growth in the year and total balances under administration.

We continued to deliver a major programme of digital investment into Solutions across the year. Ongoing work includes the re-platforming of account opening, funding and account management functionality, developed with a customer-centric focus across both app and web channels. Growth in the business meant growing the team by an additional 120 colleagues during 2022, as we continue to create jobs and offer outstanding career opportunities in the region.

The Solutions' business added a new client to its base in November whilst earlier in the year a major client chose to renew and extend our already long-term relationship. We launched SME Business Savings during the year and continue to see strong interest from others in this particular proposition.

In total, Solutions' clients amassed a total of 20 savings industry awards across the year and we also celebrated the success of our Head of Operations, Patsy Legender, who was named "Woman of the Year" at the Women in Credit Awards.

Building opportunity

Key to the Society's Purpose is our aim to deliver a great place to work, where people are empowered to realise their true potential. We do this by providing meaningful careers and developing talent from a range of different backgrounds.

We want the Society to be a place of work that is inclusive, diverse and helps drive positive change in our communities. Our strategic approach sits against wider regional skills challenges and a lack of opportunity for some to develop their employability.

To overcome those challenges and play our role in enabling social mobility, we need to take a fresh approach. By working collaboratively and imaginatively, we took several big steps in 2022. Recognising the wider need in our region to tackle the skills challenge, we've ensured that part of the grant giving through the Newcastle Building Society Community Fund at the Community Foundation Tyne & Wear and Northumberland has been focused to support charities helping to boost employability within our communities. A total of 15 grants were used in this way in 2022.

Working in partnership with Newcastle United Foundation, we've taken an innovative approach to the delivery of a bespoke apprentice recruitment programme. Our first 'Customer Service Week' took place in March 2022, providing apprenticeship candidates with an authentic and active experience, giving a real sense of day-to-day life at the Society and the types of role available. Everyone who completed the week-long programme received a Level 1 qualification and as a direct result, six young people joined the Society in May as full time Customer Service Apprentices.

In March we were delighted to enter into a brand new skills-focused partnership with the military charity Walking With the Wounded. Together we are working to establish meaningful careers opportunities for Armed Forces veterans through a tailored programme of support.

Our ambition is to recruit 50% of entry level roles through our various skills partnerships by 2025, which will only be achieved by expanding and developing our approach and by responding to the ever-changing needs of our communities.

Across the Newcastle Building Society Group, almost 1,500 colleagues work at our head office and branch locations as well as some who are fully remote, an increase of almost 200 over the past 12 months.

As part of our participation in the Women in Finance Charter, in 2020 we set an original target of 40% female representation in senior positions to be achieved by January 2023. We exceeded that target by September 2021 (43%) and as of September 2022 we have 47% female representation in senior management roles across the Group.

We're continuing to deliver a broad package of initiatives across gender, diversity and inclusion, including the establishment of our first colleague-led menopause network, which aims to break some of the taboos around menopause and provide all colleagues with the information, support and understanding they require.

Given the wider economic conditions we all face, we chose to support colleagues with their own cost of living and energy price challenges. This included bringing forward the 2023 pay increase to October for all colleagues below executive level with an initial payment of 3%. A further review is planned in March 2023, one month earlier than the normal annual review date. At the same time, for all colleagues earning £35,000 a year or below, we made a one-off payment of £600, divided into six instalments across the winter months. As a Real Living Wage employer, we were proud to be an early adopter of the new benchmark of £10.90 as the salary entry point for the organisation.

We also strengthened our colleague benefits package, subsidising our head office café so that colleagues can enjoy a well-balanced meal at a low price; introduced a discount marketplace for everyday shopping costs; and launched a new healthcare cash plan that enables colleagues to claim back some of the costs of basic healthcare expenses.

For those who may be facing severe financial hardship or struggling with their own household budget, we worked with Citizens Advice Gateshead to extend the Helping Hand advice helpline to colleagues as well as customers who find themselves in need of support. This is in addition to our existing Employee Assistance programme.

We're committed to supporting colleagues' mental wellbeing. In May, through our partnership with Newcastle United Foundation, we became a business champion of their 'Be A Game Changer' campaign.

Being part of the initiative means we can provide all colleagues with access to their mental health support and resources, strengthening the existing support provided to Group colleagues through regular wellbeing initiatives and an active network of mental health champions. Progress in this space can be measured by a clear increase in our eNPS (employee net promoter score) from +43 in 2021 to +58 in 2022, which places us in the top 10% of our survey provider's financial services client database.

Powering communities

In March 2022 we celebrated a significant milestone at the official opening of 'NUCASTLE powered by Newcastle Building Society', a brand new community hub for sports, education and wellbeing in Newcastle's west end. The building, which is also the new headquarters of the Newcastle United Foundation, will provide future generations with life-changing facilities and is expected to attract more than 100,000 visitors in its first year. We continue to work with the foundation's team to deliver a range of programmes including financial education and workplace skills development, including support for the NU:Futures programme.

Grant giving through the Newcastle Building Society Community Fund at the Community Foundation Tyne & Wear and Northumberland continued throughout 2022, with over £215,000 in small grant funding to 76 charities across the North East, North Yorkshire and Cumbria. The fund was focused to help tackle issues around the priorities of employability, food poverty, homelessness, debt management and social isolation, as well as our continuing support for cancer care services.

In 2022 we celebrated 10 years of support from the Society for the Sir Bobby Robson Foundation, which includes over £3m donations since the start of our partnership in 2012. To mark a decade of support, we worked with the foundation and the Newcastle upon Tyne Hospitals NHS Foundation Trust to create a film that shares the story of patients taking part in clinical trials. Their inspiring stories underscore the impact of Sir Bobby's legacy and are why we are proud to be the largest corporate donor to one of the most respected charities in our region.

Although the primary focus of our community support is within our region, sometimes circumstances mean we want to offer help to those in need – wherever they are.

In April we donated £25,000 to the Disaster Emergency Committee (DEC) to help those affected by the conflict in Ukraine. DEC charities and their local partners are on the ground in Ukraine and neighbouring countries, providing food, water, shelter and medical assistance.

Our total community contributions this year, made up of grants, match funding, and our ongoing partnership donations was over £544,000, support which has positively impacted over 71,000 people of all ages in our region and beyond.

It was pleasing that the return to face-to-face working allowed the return of high-impact group volunteering activities. In total, colleagues delivered more than 900 days of support to our communities. We also continue to use the tech for good 'onHand' volunteering app to deliver meaningful support to those in need in our communities.

Summary

I am proud of the way the organisation answered the challenges we faced in 2022. Across the Group, colleagues repeatedly showed their resilience and determination and I believe we've made great progress during difficult times. I'd like to thank all colleagues for their hard work and for consistently demonstrating their outstanding commitment to the Society and delivering our Purpose, and our Members, customers and clients, for their continued and enthusiastic support. Indications suggest that the wider challenges of rising costs and global uncertainty driven by the war in Ukraine will continue through 2023 and beyond. In times like these the Society has a particularly important role to play in supporting our Members and their communities, and in delivering a Purpose that is not only centred on good, consistent financial product value and excellent service, but also extends to delivering mutual value in many other ways, to the wider benefit of the Members we serve and their communities.

After a positive year in 2022, a year in which we built real momentum in our Purpose delivery, despite the challenging circumstances, we are well placed to take the Society forward to be an organisation that is truly powered by our Purpose of 'Connecting our communities with a better financial future'.

Andrew Haigh | Chief Executive
2 March 2023

Photo: **Jean and Terry, Consett customers**

Strategic Report

Our Purpose, Strategy and Stakeholders

Purpose and strategic pillars

As a sustainable mutual business, our success lies in the intersection between serving the interests of our stakeholder Members and communities and delivering an efficient, profitable and resilient business model: a strategy that is led from the Purpose of the organisation, valued by and compelling to its customers and financially robust.

As a regional building society, we are particularly focused on supporting the communities of our region, which we define as the North East of England, North Yorkshire and Cumbria. As a Member-owned business, we are clear how being truly led by our Purpose of 'Connecting our communities with a better financial future' means that through our five strategic pillars we can deliver a unique and sustainable business to benefit both our region and our customers for the long term.

We care about building lasting, authentic relationships with our customers, which means that while digital and intermediary channels play a key role in our distribution and service delivery, face-to-face contact and a thriving branch network are particularly important. We are therefore keen to innovate in this area, ensuring we can continue to play a role in maintaining vibrant high streets across our region.

Our strategy and business model

Our strategy is built around five themes:

1. Being truly Purpose-led and making sure that delivering on our Purpose is at the heart of our strategy and business model that is 'Powered by Purpose'.
2. Building our brand through our communities, recognising that our success relies on the reputation we build with our customers and the difference we make for the communities we serve across our region.
3. Growing the scale and efficiency of the business, increasing our impact and the long-term sustainability of our operations.
4. Fostering mutual advocacy, whereby our customers genuinely value the services we provide and the contribution we make to their community and region; they actively participate in the Society and become our biggest advocates, encouraging others to become part of our Society.
5. Understanding that making a positive contribution to the region's environmental sustainability is no longer a matter of choice but a necessity.

We believe that our approach to strategy delivers a truly Purpose-led business, which is driven to act in the interests of our customers, who are also our key stakeholders, but also has the attributes required to power a successful commercial outcome. Commercial success is vitally important as the profits we generate are re-invested into the business to support areas such as growth, innovation and infrastructure, for the long-term benefit of Members, and provide the capital to underpin our operations, providing resilience and security for our Members.

Our 'strategy wheel' summarises our approach and demonstrates how each aspect of our business contributes and complements each other to work in synergy and deliver stable, cost-effective funding and lending, achieving a sustainable business model for the long term, which is uniquely placed within the region and the communities we serve.

Our strategy wheel

Our business model

Our business model is powered by the delivery on our Purpose of "Connecting our communities with a better financial future". As a Member-owned, mutual, regional building society we help people own their own home, save and plan their finances. We attract savings balances by offering our customers consistently fair rates over the long term and we offer fairly priced mortgages on residential property to customers whom we believe will be well placed to repay their loan. We offer financial planning in all our branches, which helps our customers to plan their finances for the long term, while strengthening the trust and bond between us.

Our delivery of Purpose ensures that we are valued for more than consistent pricing and excellent service as we seek to benefit our region through our role as employer, enabler of talent and facilitator of positive change within communities across our region.

The net effect of 'mutual value' we deliver is to foster long term, authentic customer relationships which in turn form the foundation of a stable, sustainable savings and mortgage business, in the form of a building society. We bring scale and a diversified income stream to the Group by taking one of our core skills, savings management, and offering that as a service to other banks and building societies.

How we fund our Society

As a Member business, our funding predominantly comes from our Members and the savings they deposit with us. We diversify this funding with wholesale funding and Bank of England funding schemes. We also hold reserves which are generated from profits from prior years.

How we use this funding in our Society

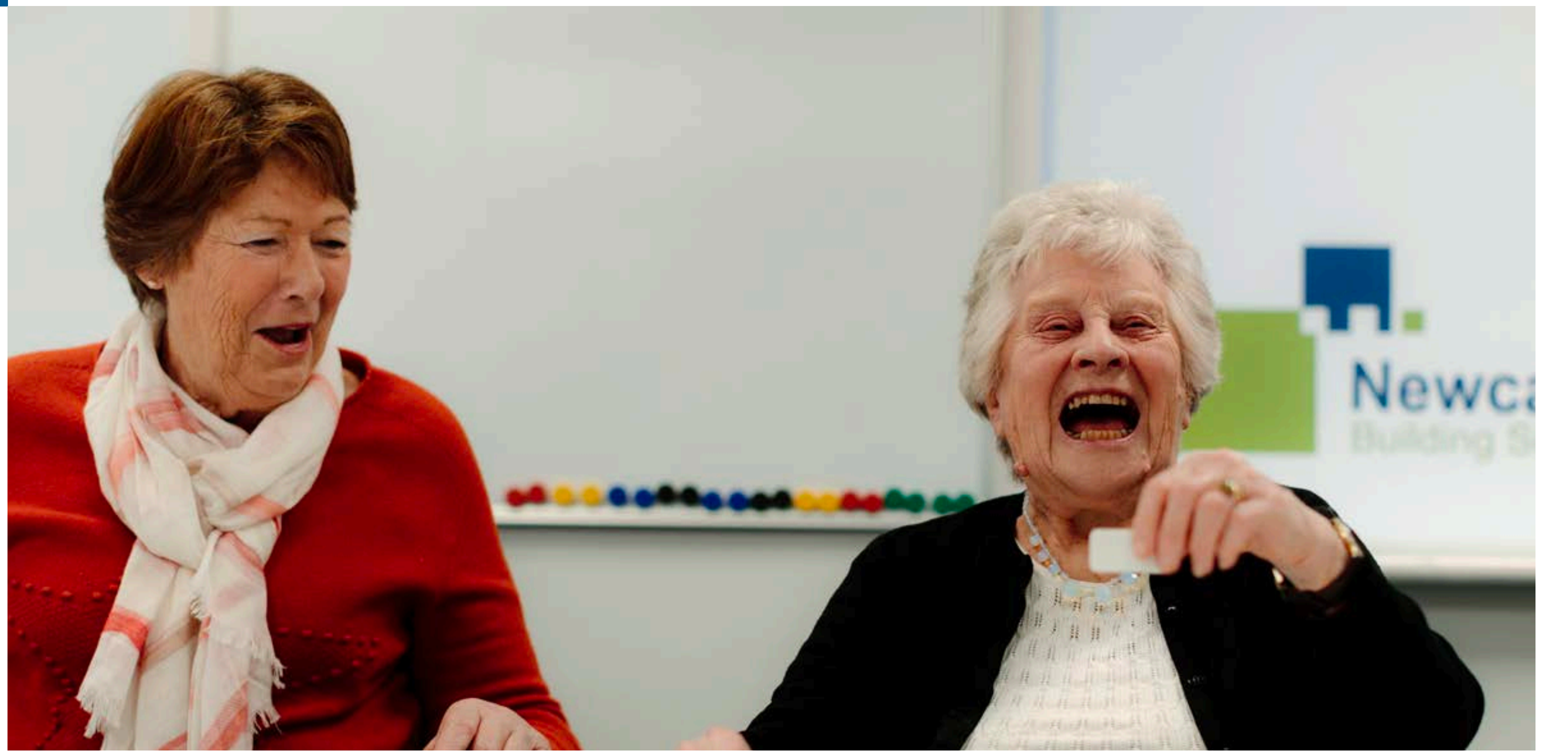
We use our funding to enable people to own their own home, save and plan for their finances. We do this by offering residential and buy-to-let mortgages. We also hold some of our funding in liquid assets so we can ensure we meet regulatory limits as well as being able to pay out all liabilities as they fall due.

How we generate income

We earn income from the mortgages our customers hold with us and this then enables us to pay interest to our Members who have savings with us. We also earn income on the liquidity we hold and through our savings managment outsourcing business, Newcastle Strategic Solutions Limited and our financial advice business, Newcastle Financial Advisers Limited.

How we invest in a sustainable business

Community sits at the heart of our Society and as a mutual business we are committed to providing a service to our communities and to building authentic, lasting relationships. We reward our colleagues fairly to ensure we are a great place to work where people can realise their potential. We also ensure that we are investing in the infrastructure and capability to provide a safe, secure and sustainable business and adapt to change and new opportunities and challenges as they arise.



Our customers

A key part of our strategy is delivering outstanding levels of service and building authentic long-lasting relationships with our Members. In 2022, we maintained our exceptionally high Net Promoter Score of +82 (2021: +82) and achieved a strong customer satisfaction score of 95% (2021: 95%), demonstrating our commitment to this strategy and something we are very proud of.

Our Voice of the Customer programme provides daily, real-time feedback from our customers, helping us to continue to develop and improve the service we deliver. In 2022 we received over 21,000 responses from our customers across all our channels including the branch network, mortgage operations, mortgage intermediaries and our financial advice subsidiary, Newcastle Financial Advisers Limited.

One way we have used customer feedback is to examine existing processes particularly in our savings journeys, and we will apply these learnings to enhance our Member experience in the year ahead. We also began to capture marketing consent from customers to use their feedback in our communications, which has resulted in a social media campaign that shares our customer voices' in the external environment.

We continue to explore new ways of reaching Members to involve them in the direction of the Society's goals and ambitions. 'Connected Communities', a Member initiative that we launched in 2021, is an online forum where views can be exchanged and gathered in an impartial way. To date 'Connected Communities' has almost 700 members and it continues to grow. Since inception, 'Connected Communities' has captured over 1,600 comments, 150 items of content, and 3,000 poll votes; a huge testament to the value our Members place on being part of our Society. This co-creation environment has facilitated the delivery of our new website and also the delivery of our new environmental hub 'Sustainable Living', consulting Members throughout the development process. In addition, we have started to explore other topics such as community support and diversity, equity and inclusion. These topics will remain on the agenda as we continue to prioritise these initiatives within our strategic plan.

In recognition of the emphasis we place on customer insight and engagement, we were awarded the accolade 'Best Customer Contact Strategy' at the national Engage Awards, also securing a 'Highly Commended' in the category of 'Best use of Customer Insight'.

Our communities

Our local communities are important to us and we support them in a variety of ways:

- **Newcastle United Foundation:** we've committed £1.1m in our six-year partnership with Newcastle United Foundation, helping the team to deliver their valuable work across our region;
- **Prince's Trust:** our ongoing relationship with the Prince's Trust helps young people aim high and achieve amazing things;
- **Sir Bobby Robson Foundation:** we're long-term supporters of the Sir Bobby Robson Foundation, with donations totalling more than £3m since launch, benefitting those in our region and beyond;
- **Community grants:** through the Newcastle Building Society Community Fund, we provide grants to local charities and groups across the North East, Cumbria and North Yorkshire;
- **Community collaboration:** we're committed to making a difference to communities across our region, providing support and focused help to thousands of people when they need it most.
- **Volunteering:** our colleagues love to get involved and help their communities make positive changes.
- **Community branches:** we believe in the importance of investing in our branch network, helping maintain high street access to financial services and face-to-face interactions;
- **Slow Shopping:** all our branches now offer Slow Shopping sessions, providing a safe, welcoming and calm environment to those who need a little extra time, space and support; and
- **Dementia Friends:** joining the UK's biggest ever initiative to change how people act, think and talk about dementia, we're proud to be Dementia Friends.

Please see the supporting our communities section of this report for more information.

Our branches

With 31 branches on high streets stretching across the North East, Cumbria and North Yorkshire, we believe that branches play an essential role in the heart of our communities. We're committed to growing our presence on our high streets and in our town centres and making people think differently about branches.

A vibrant high street is often the beating heart of a community, providing local jobs, services and driving economic wellbeing. Financial services are an important part of this, so when the last bank branch closes, the damage to the community extends far beyond its customers.

We're making the most of people and partnerships to deliver for our communities. This means bringing new thinking and working with like-minded partners to re-imagine what a branch could be, opening branches in unexpected locations and sharing space with local services such as libraries, tourist information, community centres and even the police.

After the last bank left Knaresborough in 2021, we worked with North Yorkshire County Council to open a brand new branch within the town library in 2022. Knaresborough is our 4th community partnership branch following success with the model in Hawes, Wooler and in Yarm, where our branch also sits within the town library.

In Gosforth and Knaresborough we're running a pilot project with shared bank branch innovator, OneBanx, to host their multi-bank kiosk inside our branches. The kiosks use Open Banking technology to allow small businesses and personal customers of any bank in the Open Banking network to withdraw cash from and deposit money into their accounts. They are the first to be located within the branch of a financial services provider anywhere in the world.

Our colleagues

Being a great place to work where people can realise their potential is key to living our Purpose.

Our People Strategy focuses on providing an immediate, ongoing and long-term framework for engaging, developing and managing our people, creating an inspiring place for people to work and be able to achieve their full potential whilst delivering the Society's ambitions with key objectives as follows:

- creating a healthy and sustainable culture;
- colleague engagement and communication;
- enabling a high performing environment; and
- building future proof talent.

The Society places a great deal of emphasis on engaging colleagues in the ongoing development of its business and delivering its Purpose and strategy.

Colleague Voice, our colleague survey methodology, is representative of views from colleagues across our Society and can make a significant contribution to our ongoing development, both from a business performance and a colleague experience perspective. Our approach to colleague surveys enables us to measure colleague engagement at a strategic level as well as provide managers with the ability to listen to colleagues and work with the feedback, incorporating these insights into their daily thinking, decision-making and conversations.

Our survey practices, tools and resources provide managers with real-time access to their feedback, as well as the ability to respond real-time and create simple and effective action plans to drive positive change, empowering leaders and managers to own their colleague engagement with their teams.

Employee Net Promotor Score or eNPS is our strategic people metric and enables us to benchmark ourselves against the financial services sector and the very best employers across the industry. Our colleague eNPS score for 2022 was +58, placing us in the Top 10% of the financial services sector within Workday Peakon's (our provider) global client database.

An annual pay review for all colleagues takes place on 1 March and the Group operates a discretionary bonus scheme for all colleagues based on performance as measured by the delivery of KPIs linked to the Group's strategic objectives.

2022 marked the launch of our new colleague bonus scheme, "Sharing in our Success", which aligns more closely with other financial services market practice regarding the make-up and performance of the scheme. The new scheme takes into account both business and individual performance for colleagues of all levels below Executive, with appropriate weighting depending on the seniority of the employee.

I love working at Newcastle Building Society as they really make a difference in the communities they serve and are passionate about member experience.

Helena, Newcastle Building Society Colleague

We consult with Unite when considering our approach to annual pay awards for colleagues, with the exception of Executives. The 2022 pay rise for all colleagues ranged from 0% to 17%, with an average 3% received by all colleagues. To provide additional support with the ongoing cost of living pressures we also brought forward a portion of our 2023 pay award and as such gave all colleagues below Executive level a 3% increase to salary effective from 1 October 2022 and for all colleagues earning £35,000 a year or below they received a one-off payment of £600, divided into six instalments across the winter months.

Colleague turnover is as an important reflection of the success of our colleague agenda. Although turnover remains higher than pre-pandemic levels, we've seen fewer colleagues leave us in 2022 with turnover reducing to 13.2% from 15.5% in 2021. This is a reflection of trends in the marketplace as the post-pandemic demand for labour has stabilised, but also reflects lower desire to move roles during a period of economic uncertainty.

The Group has a Health and Safety Committee which facilitates regular consultation with colleagues on specific health and safety matters.

The purpose of the Committee is to provide a forum for representative colleagues to help ensure that the Group has taken all reasonable and practicable steps to maintain a safe and healthy working environment in line with statutory requirements.

The Committee reviews the overall operation of the Group's Health and Safety Policy, including the content of employee health and safety training and discusses health and safety performance, challenges and future priorities.

Supporting colleagues with their health and wellbeing has continued to be an area of focus throughout 2022. We have raised awareness of key topics such as mental health and menopause and were proud to achieve the Continuing Excellence Level of the North East Better Health at Work Award.

Diversity, equity and inclusion

The Society operates an Equal Opportunities Policy. It is the intention of the Society that no applicant or employee receives less favourable treatment on the grounds of disability, sex, transgender status, sexual orientation, marital status, civil partnership status, race, ethnic origin, colour, age, nationality, national origins, political beliefs or trade union membership, or is disadvantaged by conditions or requirements that cannot be shown to be justifiable.

In 2022, the Society launched a campaign to improve colleague diversity data disclosure, to adopt a data-led approach to identifying its diversity, equity and inclusion strategic priorities and to enable it to implement a programme of initiatives focused on the areas where there are the greatest opportunities to improve. The campaign saw disclosure rates increase from 28% to 67%.

We have developed a robust and ambitious diversity, equity and inclusion roadmap, which we are now in the process of implementing. The initiatives planned for 2023 include signing the Race at Work charter and investigating other partnerships that fit with our Purpose and strategy. The Race at Work Charter was launched by Business in the Community (BITC) in late 2018, with the aim of tackling ethnic disparities in the workplace.

Throughout 2022, the Society has continued to raise awareness and provide education around key topics such as gender, race, disability and LGBTQ+ inclusion through a calendar of events. Reverse mentoring between our Executives and colleagues with lived experience continues to be a key initiative that is helping us to understand the barriers faced by different groups, enabling us to design targeted interventions to foster a culture of inclusion.

In 2020 we committed to the Women in Finance Charter. The charter is a commitment by the government and signatory firms across the finance sector to work together to build a more balanced and fair industry and to create gender balance, particularly at mid and higher levels across financial services firms.

As part of our involvement, we have stated our commitment to achieve a 40% female representation across senior management (which includes our Board, Executive Committee and Executive direct reports) by 2023. We were pleased to surpass that target early and published attainment of 43% gender representation in 2021. Signatories to the Women in Finance Charter are obliged to report their progress against their target in September each year. At the point of reporting in 2022 we had exceeded our 2023 target further, with 47% representation of females at senior level.

A number of initiatives have been underway across our Society since 2019 to deliver on gender diversity improvement, including our Women in Leadership Network; "Be a Trustee", providing women with the opportunity to gain wider governance experience; and work supporting "Women onto Boards". We also have a number of colleague-led networks including a Parent and Carer Network and a Menopause Network.

We want everyone to experience that their potential is not in any way limited by their background, gender, age, race, disability, religion or sexual identity. Our focus is on ensuring this is the case for all colleagues in our Society.

The Board also has an approved Diversity Policy. The gender diversity statistics for the Group at 31 December 2022 are as follows:

	Female		Male	
	2022	2021	2022	2021
Directors	25%	25%	75%	75%
Senior Managers	45%	50%	55%	50%
Managers	43%	43%	57%	57%
Colleagues	68%	67%	32%	33%
Overall	**61%**	**60%**	**39%**	**40%**

Our Group structure

At our core, we remain a straightforward saving, lending and advice business putting Members at the heart of what we do. As well as providing mortgage and savings accounts to our Members, we also provide a number of other related services, including regulated financial advice for investments through our subsidiary Newcastle Financial Advisers Limited; an Appointed Representative of Openwork LLP. We also provide a range of home insurance policies through our partner Fairmead Insurance Limited (renamed from Legal & General Group Insurance Limited).

Newcastle Strategic Solutions

Newcastle Strategic Solutions, our savings management and IT subsidiary, has been managing savings accounts on behalf of some of the UK's leading savings providers since 2004. Newcastle Strategic Solutions' purpose links directly to the overall Group's Purpose and the pillar "building lasting authentic relationships with customers, clients and partners" – this plays a key role in the Society's financial model. We support UK banks and building societies looking to launch and grow their savings operations, or transform the management of their existing portfolio. Our systems are built to provide a secure online savings platform. Newcastle Strategic Solutions' strategic ambition is to grow its client portfolio and support the ongoing growth of its existing clients, whilst providing an ever improving product capability and level of service to both clients and their customers. So it can maintain its market-leading position and to position itself to be able to launch new and enhanced services for clients and their customers, Newcastle Strategic Solutions continues to invest in its technology and service, with this including investments in cyber security, digital platforming and enhanced customer experience.

Newcastle Financial Advisers

Newcastle Financial Advisers, our financial advice subsidiary, provides Members with access to trusted financial advice, something we believe everyone deserves. The financial advice service provided by Newcastle Financial Advisers is backed by The Openwork Partnership.

Our partner, the Openwork Partnership, is one of the UK's largest and longest-established financial advice networks. Through many changes and challenges they have been a constant presence in the market for over 45 years and have served over two generations of clients. Newcastle Financial Advisers has worked with The Openwork Partnership for over 18 years to provide customers with a variety of products and excellent service.

Newcastle Financial Advisers continues to affirm its position on the high street along with its reach in the community, providing experienced advice to our Members. We are proud to offer:

1. **Personalised advice and solutions:** Advice on solutions and products that are tailored to our Members' needs.
2. **No pressure to make decisions or take products:** Our Members have no obligation to follow the advice given and no fees are charged unless they implement the advice.
3. **Trustworthy advisers you can always reach:** We've introduced new telephone and video chat options as well as our face-to face-branch service.
4. **Here for our Members at every stage of their life:** As circumstances change, so do choices of products and services. We offer pensions; investments; life and income protection insurance; and inheritance tax planning.
5. **Plenty of choice and flexibility:** Newcastle Financial Advisers (NFAL) is part of The Openwork Partnership, one of the UK's largest financial advice networks, meaning NFAL can offer advice on a wide range of products and high-quality services.
6. **A service that's open to everyone:** Unlike some UK banks and building societies, no minimum investment is required. In fact, Members are welcome to ask for advice even if they don't take up our recommendations.

Key performance indicators

The Board regards key performance indicators (KPIs) as an important way of monitoring achievement of short-term objectives and progress against the strategic plan. The KPIs that are reported to the Board on a monthly basis are detailed below.

Senior management consider a wide range of financial and non-financial metrics to assess the performance and future direction of both the Group and Society. Financial metrics include both measures defined or specified by the Group's applicable financial reporting frameworks (primarily International Financial Reporting Standards and the Building Societies (Accounts and Related Provisions) Regulations), such as Group operating profit before impairments and provisions, and non-specified measures, such as net interest margin and cost-to-income ratio.

Those financial measures not specified by the Group's financial reporting frameworks are alternative performance measures (APMs) with further detail provided in the financial KPIs and analysis section.

Key Performance Indicators	How it is measured	Performance	Link to our Strategy and Purpose
Financial			
Sustainable business			
Profit before tax*	Profit before tax as reported in the income statement	2022: £31.7m 2021: £29.1m	To ensure we generate the necessary capital to grow the business.
Operating Profit before impairment and provisions	Operating profit before impairment and provisions as reported in the income statement	2022: £30.5m 2021: £28.5m	To ensure we generate the necessary capital to grow the business.
Underlying operating profit	Underlying operating profit excludes items defined as income or expenses that arise from events or transactions that are distinct from the core activities of the Group and therefore do not represent the Group's true performance.	2022: £26.7m 2021: £22.0m	To ensure we generate the necessary capital to grow the business.
Common Equity Tier 1 ratio	Common Equity Tier 1 capital (defined by the PRA as general reserves or qualifying capital instruments which for the Society is the accumulation of retained profits as a percentage of risk weighted assets).	2022: 12.5% 2021: 13.8%	To ensure we remain financially strong and be able to protect against risks inherent in running a building society.
Leverage ratio	A Basel III ratio which measures Tier 1 capital against total on and off balance sheet assets.	2022: 4.5% 2021: 4.5%	To ensure we remain financially strong and be able to protect against risks inherent in running a building society.
Liquidity coverage ratio	The liquidity coverage ratio measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30 day stress period.	2022: 189% 2021: 216%	Ensures the Group has sufficient liquidity to operate.
Efficiency			
Cost to income ratio	Administrative expenses, depreciation and amortisation as a percentage of total income.	2022: 75% 2021: 71%	Cost to income ratio is a measure of financial progress against internal targets and the return achieved on investment in the business.
Lending and saving			
Net interest margin	Net interest margin is a relative measure of the Group's net interest income (as disclosed in the income statements) – the difference between interest received on assets and interest paid on liabilities – divided by the Group's average total assets during the year.	2022: 1.48% 2021: 1.21%	To measure the income we generate from our mortgage and savings accounts.
Lending			
Gross mortgage lending	The value of residential lending advanced during the year.	2022: £1,137m 2021: £861m	Helping people own their own homes.
Net core residential lending*	Gross residential lending, less repayments of principal and redemptions during the year across core residential and retail buy-to-let mortgages.	2022: £586m 2021: £330m	Helping people own their own homes. Helping people save and plan their finances.
Savings			
Savings balances	The value of savings balances held by our Members.	2022: £4,221m 2021: £3,732m	Helping people save and plan their finances.
Non-financial measures			
Service quality and customer experience			
Customer satisfaction	Customer satisfaction is a measure of how our products and services meet customer expectations.	2022: 95% 2021: 95%	Building lasting authentic relationships.
Customer engagement score (NPS)*	Customer engagement measures the loyalty of our customer relationships.	2022: +82 2021: +82	Building lasting authentic relationships.
People, leadership and culture			
Colleague Turnover	Colleague turnover is as an important reflection of the success of our colleague agenda.	2022: 13.2% 2021: 15.5%	Being a great place to work where people can realise their potential.
Colleague engagement score (eNPS)*	Colleague engagement is measured throughout the year across all colleagues. Society goals are delivered by highly engaged colleagues.	2022: +58 2021: +43	Being a great place to work where people can realise their potential.

*Included as a key measure in the Executive Directors' remuneration policy calculations.
For further details see the Directors' Remuneration Report.

Our financial performance

The Chief Executive's review details the Society's performance and success throughout 2022 and should be read in conjunction with this report. The Strategic Report outlines the financial performance of the Society over 2022.

Newcastle Building Society is the largest building society based in the North East of England with assets of £5.3 billion. For 2022, we are reporting an increase from 2021 to our operating profit before impairments and provisions and we continue to operate with strong capital ratios and have robust liquidity ratios.

Financial profitability

Profitability is one of the key performance measures the Board monitors closely. The Society seeks to make sufficient profit in order to invest in and grow the business for the benefit of its current and future Members.

Summary Group Income Statement	2022	2021
	£m	£m
Net interest income	75.4	59.0
Other income and charges	44.3	40.5
Total operating income	**119.7**	**99.5**
Administrative expenses	(83.5)	(65.8)
Depreciation	(5.7)	(5.2)
Operating profit before impairments and provisions	**30.5**	**28.5**
Impairment reversals on loans and advances to customers	1.6	2.8
Impairment charges on tangible and intangible assets	(0.3)	(2.0)
Provision for liabilities and charges	(0.1)	(0.2)
Profit for the year before taxation	**31.7**	**29.1**

The Group's 2022 financial results demonstrate the core strength of the Group's underlying operating model. Group profit for the year before taxation was £31.7m in 2022, an increase of £2.6m in comparison to £29.1m in 2021. Operating profit before impairments and provisions is considered an important reflection of the operating strength of the Group's business and increased to £30.5m in 2022, in comparison to £28.5m in 2021. Total operating income increased by £20.2m or 20.3%, whilst due to the continued investment into the business, administration expenses and depreciation also increased by £18.2m or 25.6%.

Alternative performance measures

The Board reviewed and was satisfied that the alternative performance measure of underlying profit before tax, which is reported alongside the statutory profit measure, gives a clearer view of the underlying performance of the business for our Members.

The following items are considered in determining the underlying profit of the Group. They are items defined as income or expenses that arise from events or transactions that are distinct from the core activities of the Group and therefore do not represent the Group's true performance, primarily relating to fair value adjustments.

On an underlying basis, operating profit before impairment and provisions was £26.7m in 2022, a difference of £3.8m to reported operating profit before impairment and provisions (2021: £22.0m). The key non-underlying adjustments in the year include the loss in the fair value of the equity release mortgage book of £2.2m, hedge ineffectiveness gain of £8.8m, the revaluation of Openwork units held of £2.1m and £0.8m in transactions costs. Transaction costs are included in "Administrative expenses" in the Income Statement.

All other items are included in "Fair value gains less losses on financial instruments and hedge accounting". The following table shows the reconciliation of operating profit before impairment and provisions to underlying operating profit.

Operating Profit	2022	2021
	£m	£m
Operating profit before impairment and provisions	30.5	28.5
Loss/ (gain) in fair value of equity release mortgages	2.2	(2.1)
Hedge ineffectiveness on accounting hedges	(8.8)	(1.0)
Revaluation (loss) / gain on equity investments	2.1	(3.4)
Gain crystallised on sale of assets	(0.1)	-
Transactional costs	0.8	-
Underlying operating profit	**26.7**	**22.0**

Segmental information is available in note 9 and details the Member business and Solutions' business segments.

The fair value of equity release mortgages is net of the movement in the fair value associated interest rate swaps.

Net interest margin

Net interest income increased by £16.4m to £75.4m and our net interest margin was 1.48% (2021: 1.21%), both increases driven by the rising interest rate environment as well as the Group continuing to access central bank funding via the Term Funding Scheme (TFS) and Term Funding Scheme with additional incentive for SMEs (TFSME) schemes.

Net interest margin

Other income and charges

Other income and charges includes income from Newcastle Strategic Solutions Limited (NSSL) and Newcastle Financial Advisers Limited (NFAL). Income from NSSL includes income generated from balances under management of Solutions' clients. Income from NFAL relates to fee income generated through financial advice services. Other income and charges increased by £3.8m to £44.3m in 2022 from £40.5m in 2021.

Administrative expenses and depreciation

Administrative expenses increased by £17.7m or 26.9% from £65.8m to £83.5m in 2022, with depreciation expenses increasing from £5.2m to £5.7m. Overall management expenses (the sum of administrative expenditure and depreciation) increased to £89.2m from £71.0m. The increase includes colleague costs associated with reward and cost of living incentives as well as costs associated with the continuing investment in the Group.

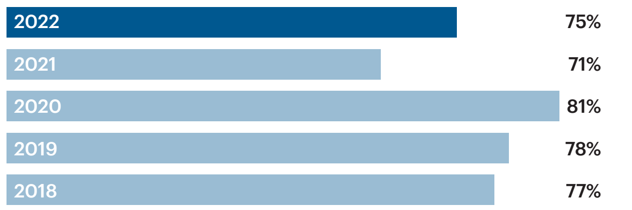
Information technology is a cornerstone of any business and investment ensures our core platforms are at a leading level to provide security of data and enhanced resilience.

The cost-to-income ratio was 75% in 2022 (2021: 71%). The increase in 2022 was due to increased colleague costs as well as investment in the Group. The ratio decreased in 2021 from 2020, following increased costs in 2020 which included costs relating to Covid-19. Although the cost to income ratio increased in 2022 from 71% to 75% as a result of increased costs in the year, our medium term objective remains to increase the efficiency of our Group.

The cost-to-income ratio reflects costs deemed to be under the control of management (administrative expenses plus depreciation as disclosed in the Income Statements) divided by total operating income, as similarly presented.

Management assesses the ratio as a measure of operating efficiency and continues to look for ways to improve this metric.

Cost to income ratio



Impairment charges

In 2020, the Society significantly increased its loan loss provisions, given the increased risk of a significant economic downturn or stress as a result of the pandemic and associated lockdowns. The most significant risks to the Society's lending business are rising unemployment rates and falling property prices. Despite the pandemic, both of these measures initially improved in 2020 and 2021, supported by fiscal and monetary policy. In addition, the Society, in line with other lenders, supported temporarily struggling customers with measures such as payment holidays. This led to low levels of losses on the mortgage books crystallising in these years. Nonetheless, in 2022 inflation started to rise, and towards the end of the year property price rises tailed off, with rising costs and increasing interest rates bringing the expectation of an economic downturn closer.

As the Society has already provisioned for an economic downturn in 2020 and 2021, no significant increases to provisions are expected as a result of the current economic development.

Residential and Buy to let

In 2022, provisions of £1.4m were booked on residential and buy to let mortgages newly originated in the year, reflecting the significant growth of the mortgage book, including some higher loan-to-value mortgages. In addition to the natural churn of the book, over the year, the Society succeeded in winding down a number of the more highly provisioned loans, overall resulting in a £1.0m reduction of the provision balance. The Society further released £0.6m in respect to residential and buy to let loans that had been originated before 2022. This is the result of significant property price growth in the year resulting in lower losses in case of default in combination with the historic trend that the probability of default for loans reduces for seasoned books.

The 2022 provisions also include an allowance relating to the cost of living and borrowing and reflecting the uncertainty in the external market.

The net impact of writing new high quality loans and winding down some older riskier loans as well as the maturing of the Society's back book was a net reduction in mortgage loss provision coverage ratios from 0.11% to 0.09%.

Legacy books

The Society also successfully continued winding down legacy portfolios, seeing the redemption of or capital repayments against some highly provisioned loans. Provisions on legacy books therefore reduced by £1.7m in total. The Society also saw a reduction in the risk profile against some legacy loans that resulted in a further net reduction in provisions of £0.3m, despite more severe economic assumptions used in the provisioning model.

Impairment charges

As not all provisions that were carried against balances redeeming in the year were required to cover crystallising losses, the Society saw a net write back of impairment charges for loans and advances to customers of £1.6m in 2022 (2021: £2.8m write-back).

The following table provides an overview of the movement in provisions. More details are included in notes 39 and 40 to the Accounts.

Movement in loans and advances to customers and related provisions	Opening balance	New originations in 2022	Redemptions in 2022	Movements relating to loans originated before 2022	Closing balance
Prime and buy to let	**Loan Balance (£m)**				
	3,185.3	1,089.8	(501.3)	-	3,773.8
	Provision (£m)				
	3.5	1.5	(1.0)	(0.6)	3.4
Legacy (excl) housing associations	**Loan Balance (£m)**				
	61.7	-	(19.0)	-	42.7
	Provision (£m)				
	4.3	-	(1.7)	(0.3)	2.3

Impairment charges on tangible and intangible assets was £0.3m in 2021 (2021: £2.0m) and relates to charges in relation to IT intangible assets. The charge for 2021 related to IT equipment and leasehold property.

Provisions for liabilities and charges

Provision for liabilities and charges was £0.1m in 2022 (2021: £0.2m), broadly comparable with the prior year.

Taxation

The Group shows an effective corporation tax rate of 18% in 2022 (2021: 18%). The tax charge reflects both tax payable against 2022 profitable operations, the banking surcharge and a decrease in the deferred tax assets and liabilities carried on the balance sheet. The effective rate paid in the current year is lower than the statutory rate of 19% due to differences in timing of when charges are recognised for accounting and tax purposes. In addition, there was an adjustment of £0.5m credit for previous year items.

Balance sheet

A consolidated balance sheet is set out below with key balance sheet items discussed in detail in this report.

	2022 £m	2021 £m
Assets		
Liquid assets	959.7	956.4
Derivative financial instruments	90.4	14.5
Loans and advances to customers	4,259.5	3,794.5
Fair value adjustments for hedged risk	(60.9)	62.1
Non-current assets available for sale	0.2	2.4
Intangible assets	10.2	7.5
Property, plant and equipment	29.1	31.0
Other assets	24.3	26.0
Total Assets	**5,312.5**	**4,894.4**
Liabilities		
Shares	4,220.8	3,731.8
Deposits and debt securities	752.9	746.7
Fair value adjustments for hedged risk	0.3	-
Derivative financial instruments	52.5	147.6
Other liabilities	20.1	24.2
Subscribed capital	20.0	20.0
Reserves	245.9	224.1
Total Members' interest, equity and liabilities	**5,312.5**	**4,894.4**

Liquid assets

The Society has continued to maintain a level of high quality liquid assets throughout 2022. The Society's liquid assets comprise of assets held in cash or that can be easily convertible to cash through treasury markets (repo) or via the various Bank of England liquidity schemes. All of the liquid assets are placed with AAA rated UK Institutions with the exception of gilts and deposits with the Bank of England which carry the UK Sovereign rating of AA+.

Asset class	2022 %	2021 %
Cash in hand and balances with the Bank of England	52.9	49.4
Covered bonds	7.5	23.3
Residential mortgage backed securities	13.7	20.6
Gilts	22.9	4.6
Other	3.0	2.1
	100.0	**100.0**

As mentioned, the Society has access to the Bank of England liquidity schemes and has pre-positioned mortgage collateral and asset-backed securities that provide funding as part of business as usual and contingency funding plans.

The statutory liquidity percentage (liquid assets as a percentage of shares, deposits and liabilities) reported at 31 December 2022 was 19.3% compared to 21.4% in 2021.

Loans and advances to customers

The Society's strategy is to grow the core lending which includes prime residential and buy to let mortgage business whilst winding down legacy portfolios continued during 2022.

Loan portfolios	2022 £m	2021 £m	Movement in year %
Core lending			
Prime residential	3,378	2,779	21.2
Retail BTL <£1m	396	400	(1.0)
Legacy lending			
Equity release	166	233	(28.3)
Specialist buy-to-let	14	28	(3.6)
Housing associations	283	323	(16.1)
Commercial	11	15	(26.7)
Other	19	25	4.0
	4,267	**3,803**	**12.2**
Provisions	(7)	(8)	
Loans and advances to customers	**4,260**	**3,795**	
	%	%	
Average LTV%	67.7	65.8	
Average ILTV%	59.0	58.5	

The balance of loans and advances to customers after provisions increased by £465m overall in 2022, this includes a net £586m increase in our core lending. Average LTV increased during the year to 67.7% (2021: 65.8%) and Average ILTV was 59.0% (2021: 58.5%). The Society does not offer new lending to professional landlords or undertake buy-to-let lending to corporates.

The main source of the reduction in the carrying amount of the Equity release portfolio was the change in the valuation due to the increase in market interest rates. The Society hedges fair value movements on the equity release portfolio due to market interest rate movements using interest rate swaps. The value of these swaps increased by £55.7m resulting in a net movement of £2.2m in the year included in the income statement.

The Group's lending is all secured with a first charge registered against the collateral property. Core and legacy residential loans are shown at indexed loan to value using the quarterly regional Halifax House Price Indices, all other loans are shown without indexing.

Further information on security loan to value is provided in note 43, credit quality.

Mortgage credit quality

Arrears

The Society measures mortgage arrears of 3 months or more (excluding possessions) for both number and value of loans. Although primarily a measure of the quality of the existing mortgage books, the Society also uses its mortgage support functions to influence future lending with "lessons learned" fed back into Lending Policy.

Arrears performance

3 months or more arrears

	By number of loans		By balance	
	2022 %	2021 %	2022 %	2021 %
Core lending	0.36	0.44	0.32	0.40
Legacy lending	0.08	0.11	-	-
Total	**0.35**	**0.42**	**0.28**	**0.34**

The percentage of mortgages in arrears by 3 months or more remains at low levels for 2022. Overall by number of loans arrears we have seen a decrease of 0.07% to 0.35%, and by balance we have seen a decrease of 0.06% to 0.28%.

Forbearance

The Society will work closely with any homeowner experiencing difficulties, offering help and advice on all aspects of the situation. Forbearance cases and options granted are monitored by the Society's Credit Risk Committee with the levels of concessions granted not considered to be material for the size of the overall book. Please refer to the credit quality note for further details.

Law of Property Act receiverships and possessions

The Society continued to experience a low level of possessions on residential loans and Law of Property Act receiver appointments. At the end of 2022 the Society had 1 property in possession in relation to owner occupied loans and there were 3 exposures in relation to legacy loans being managed by a Law of Property Act receiver.

Funding

The Society manages its funding levels, mix and duration carefully to ensure it has the required resources in place to meet its liquidity and lending targets. The Society is predominantly funded through retail savings with wholesale funding used to provide a diversified funding source.

Retail savings balances increased by £489.0m during 2022 to £4.2bn. Wholesale funding, including drawdown on Bank of England Funding Schemes, increased during the year by £6.2m. This has resulted in the ratio of shares and deposits to wholesale balances moving from 83%/17% in 2021 to 85%/15% in 2022.

Capital

The table below shows the composition of the Group's capital ratios at the end of the year.

Capital	2022 £m	2021 £m
Tier 1 capital		
Common equity Tier 1 capital	239.3	221.0
Additional Tier 1	-	2.0
	239.3	223.0
Tier 2 capital		
Tier 2 capital	20.0	18.0
Collective impairment allowance	-	0.1
	20.0	18.1
Total capital	259.3	241.1
Risk weighted assets		
Liquid assets	45.6	44.1
Loans and advances to customers	1,544.5	1,331.6
Other assets	57.4	68.3
Off balance sheet	114.3	31.9
Operational risk	148.1	125.2
	1,909.9	1,601.1
Capital Ratios	%	%
Common Equity Tier 1 Ratio	12.5	13.8
Tier 1 Ratio	12.5	13.9
Total Capital Ratio	13.6	15.1
Leverage Ratio - including claims on central banks	4.5	4.5
Leverage Ratio - excluding claims on central banks	4.8	4.9

The Group complied with Individual Capital Guidance plus capital buffers, as notified by the Prudential Regulation Authority, throughout 2022. The total capital ratio was 13.6% (2021: 15.1%); Tier 1, and more importantly Common Equity Tier 1, which offers the greatest protection to Members' funds in the unlikely event of unforeseen financial stress were both 12.5% in 2022 (2021: 13.8% and 13.9%). The capital ratios have fallen during 2022 due to growth in our business. Off balance sheet risk weighted assets has increased since the prior year following changes to regulatory framework on counterparty credit risk.

The leverage ratio is a simplified capital strength ratio measuring qualifying tier 1 capital against on and off balance sheet assets. The Board monitors the leverage ratio on a monthly basis and as at 31 December 2022 the figure was 4.5% (2021: 4.5%). This is, and has remained throughout 2022, well in excess of the regulatory target of 3%.

The Group holds capital, primarily though accumulated reserves, to protect itself against the risks inherent in the running of a building society: primarily credit risk inherent in mortgage lending, liquidity investment, operational risk and the ability to realise other balance sheet assets ultimately into cash.

The Group's total capital requirement/individual capital guidance is communicated annually by the Prudential Regulation Authority and consists of minimum regulatory capital requirements (Pillar 1) plus additional Society-specific capital requirements for credit, market, operational, counterparty, credit concentration, interest rate and pension obligation risk (Pillar 2A). The Group's total capital requirement at 31 December 2022 was £230.2m. Further details on the Group's capital position including the transitional impact of Basel III is given in the Pillar 3 disclosures available on the Society's website.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are detailed below with further detail set out in the Risk Management Report.

Category	Definition
Capital risk	Capital risk is the risk that the Society is or becomes inadequately capitalised to address the risks to which it is exposed.
Climate change risk (emerging risk)	Climate change risk recognises the risk associated with adverse climate change and the impact on the Group's operations, the impact on borrowers and the decrease in the value of security in support of mortgage lending. Climate risk is similarly relevantto Solutions' clients, and the Group may be impacted by their exposure.
Conduct risk	Conduct risk is the risk of customer detriment arising from the Society's activities. It is an operational risk particularly significant to the Society. Examples include products that do not perform as customers expected them to, or products being sold to customers for whom they are not suitable. Conduct risk and operational risk are closely aligned where the operational risk results in customer detriment.
Credit risk	Credit risk is the risk that a customer or counterparty is unable to honour their repayment obligations as they fall due.
Credit risk: residential	Retail borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to unemployment rates, house prices, interest rates and the application of underlying assumptions and data within our credit loss model.
Credit risk: commercial	Commercial borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to economic conditions that can impact the viability of tenants and commercial real estate values.
Interest rate risk	Interest rate risk is the risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates. Basis risk is the risk that net interest income falls because of a change in the relationship between two market rates.
Investment credit risk	Investment credit risk is the risk wholesale counterparties the Society lends to default, or the value of the investment falls and the Society is obliged to crystallise that fall in value. This risk arises in relation to the treasury investments made by the Group in order to meet liquidity requirements. The risk is sensitive to market volatility and credit spreads (both general credit spreads and name specific credit spreads).
Liquidity risk	Liquidity risk is the risk of loss or failure caused by the Group being unable to meet its liabilities or commitments as they fall due, or only being able to do so at excessive cost.
Macro-economic risk	Macro-economic risk is the risk that a deterioration of the economic environment in the UK could negatively impact the Group's operations and performance. This includes the impact of increased risks, such as credit risk, and market risk (e.g margin compression). There is a risk of adverse impact on consumer demand and behaviour. The overall macro-economic risk gives rise to uncertainty and reduces the predictability of outcomes. This risk applies to both the Society and the services provided to our Newcastle Strategic Solutions Limited clients who may also be impacted.
Operational risk	Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. For the Group this definition includes legal risk, strategic risk and reputational risk.
Pension fund obligation risk	Pension fund obligation risk is the risk that the value of the Scheme's assets, together with any agreed employer contributions, will be insufficient to cover the projected obligations of the Scheme over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. The Group has funding obligations for a defined benefit scheme, which is closed to new entrants. It was closed to future benefit accrual with effect from 30 November 2010.

Anti-corruption and Anti-bribery

It is our policy to conduct all of our business in an honest and ethical manner. In doing so we will take reasonable steps to prevent the facilitation of bribery, corruption and tax evasion and where we identify that our organisation is being used to facilitate bribery, corruption or tax evasion we would take a zero tolerance approach.

Our Anti-Bribery and Corruption Policy sets out our responsibilities, and those of anyone working for us, in observing and upholding our position on bribery, corruption and preventing the criminal facilitation of tax evasion, and it also provides information and guidance to colleagues on how to recognise and deal with a suspicion of bribery, corruption or tax evasion issues. It is a criminal offence to offer, promise, give, request, or accept a bribe or fail to prevent our colleagues, workers, agents or service providers facilitating tax evasion. Individuals found guilty can be punished by up to ten years' imprisonment and/or a fine. As an employer if we fail to prevent bribery or tax evasion we can face criminal sanctions, an unlimited fine and damage to our reputation. We therefore take our legal responsibilities very seriously.

Anti-Slavery and Human Trafficking

The Group has a zero tolerance approach to modern slavery and we are committed to acting ethically and with integrity in all our business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere within our own business or any of our supply chains. We are also committed to ensuring there is transparency in our own business and in our approach to tackling modern slavery throughout our supply chains, consistent with our disclosure obligations under the Modern Slavery Act 2015. We expect the same high standards from all our contractors, suppliers and other business partners.

Our Anti-Slavery and Human Trafficking Policy applies to all persons working for us on our behalf in any capacity, including colleagues at all levels, Directors, officers, agency workers, seconded workers, volunteers, agents, contractors, external consultants, third-party representatives and business partners, sponsors, or any other person associated with us, wherever located.

Outlook

At this time, the macroeconomic outlook remains uncertain, with considerable variability in determining an external market consensus as to when inflation will normalise, together with how resistant the housing market will be to the associated external pressures.

That said, as we have demonstrated over recent years, we will continue to monitor the external economic and market conditions and refine our outlook to ensure we protect our resilience whilst simultaneously ensuring we are poised to take advantages of meaningful strategic opportunities as they present themselves.

As highlighted in this report, our core strategy continues to deliver against our objectives with the momentum carried from 2022 strengthening the ability of our regional and national Member base to connect to a better financial future.

On behalf of the Board
David Samper
Chief Financial Officer
2 March 2023

The Tyne Bridge, Newcastle Upon Tyne

In partnership with Newcastle United Foundation we launched #KickOutFoodPoverty, encouraging football fans to recreate their favourite football moment, or put their personal stamp on an iconic goal celebration, while raising vital funds for food poverty charities throughout the North East. A team of freestylers helped launch the campaign at Grey's Monument, inspiring youngsters to share their own skills on Instagram using the hashtag #KickOutFoodPoverty.

Photo: **Rebaz, Professional Football Freestyler**

With our communities facing a host of challenges, the Society continued to focus on the needs of our region and on making a positive impact wherever we could.

The total value of community contributions in 2022, made up of grants, match funding and our continuing partnership donations was £544,807, reflecting our continuing commitment to the people and places that make up our heartland.

Partnerships sit at the core of this commitment, including our relationship with Newcastle United Foundation, where helping young people across the region to unlock new opportunities and develop their workplace skills and employability remains a key focus. In March 2022 we celebrated the opening of the foundation's new home, NUCASTLE powered by Newcastle Building Society, a state-of-the-art hub combining community space with education and wellness facilities which will serve its community for generations.

Colleagues are central to our work with Newcastle United Foundation, through the continuing delivery of money management workshops, work experience opportunities, mock interviews and career skills sessions. Our bespoke apprentice recruitment programme, delivered in partnership with the foundation, enabled 15 young people to achieve a Level 1 qualification in Customer Service in 2022 and resulted in six young people joining our Society employed on a full-time apprenticeship.

While we continued to nurture our existing partnerships, establishing new connections has also been a priority. The launch of our new branch in Knaresborough Library opened the door to new opportunities to collaborate, including support for Knaresborough charities, Orb Arts and Chain Lane Community Hub, as well as collaboration with Knaresborough Connectors and the Knaresborough Chamber of Trade.

We also announced a new five-year partnership with the military charity, Walking With The Wounded, focusing on the provision of access to employment and long term career development opportunities. The partnership includes a financial commitment to support the charity's employment programme and create veteran-friendly employment opportunities, tailored to our Society.

Through the distribution of £216,727 in small grants funded from the Newcastle Building Society Community Fund at the Community Foundation Tyne and Wear & Northumberland we continued to address the key themes of debt management, employability and workplace skills, cancer care, homelessness and food poverty. We also introduced two new strands to our grant giving, aiming to help address emerging issues around social isolation and the environment.

Addressing social isolation

In March 2022, we awarded grants to a variety of organisations across the region to help celebrate the Queen's Platinum Jubilee and tackle social isolation, which has been a growing issue across our communities. £14,700 was awarded to eight charities, including the Sunderland Bangladesh International Centre, where a £3,000 grant from our Community Fund covered the cost of a family fun day, welcoming a diverse range of cultures from the Sunderland area, with over 200 people from ethnically diverse, refugee and asylum-seeking communities joining an afternoon of food and entertainment from around the world.

Alleviating hunger

The rising cost of living means support for charities addressing food poverty in our communities is vital. In total £34,500 was awarded in grants to help alleviate hunger in our region.

Following a £1,000 grant from our community fund to St Paul's Community Partnership in North Tyneside in 2021, colleagues provided further support on a regular basis in 2022, including help with their FairShare project, with volunteers from our Finance team helping with the distribution of food to local residents and their 'Sit Down Lunch' at Christmas.

Workplace skills and employability

Over the course of 2022, we awarded more than £27,000 in grant funding to regional charities to help tackle issues around workplace skills and employability.

This included a grant of £3,000 which helped Skills4Work run a monthly lunch club for around 20 older people at The Mount community centre in Eighton Banks. The lunch club is delivered by the charity's service users who have not previously had any workplace experience.

Protecting our environment

A new area of focus for our grant giving, charitable projects promoting environmental and sustainability causes, received £15,000 in funding. One of these recipients was the Durham Wildlife Trust, who received a grant of £3,000 towards running practical conservation tasks for families at Shibdon Pond in Blaydon.

A further £3,000 grant was awarded to the Comfrey Project, whose community garden in Gateshead and allotment sites in Fenham and Walkergate provide its volunteers with a chance to gain a range of skills at its weekly sessions, including gardening, cookery and housekeeping. The charity, which is celebrating its 21st anniversary, encourages its volunteers to share their own skills and build new connections in the community while also developing their confidence and enhancing their personal wellbeing.

Cost of living

Delivered in partnership with Citizens Advice Gateshead, our Helping Hand scheme was set up to provide practical help to Members and colleagues facing extreme hardship as a result of the rising cost of living. A dedicated helpline will provide advice and emergency support for those most in need.

And while rising fuel and household bills made it more difficult to stay warm during the winter months, our popular community rooms provide the ideal facilities for small groups to use as bookable warm spaces, including free tea and coffee and a warm welcome guaranteed.

Cancer care

Cancer care has continued to be a focus in 2022 as we celebrated 10 years in partnership with the Sir Bobby Robson Foundation with a film highlighting the practical benefits that the donations made by our Society and the charity's other funders bring to cancer patients across the region. Since 2012, contributions made by the Society surpassed all early expectations and now stand at well over £3 million. We also prioritised cancer care through our Community Fund, with £56,000 in grants supporting charities that enhance cancer patient care throughout our region. Causes such as Coping with Cancer that we provided with a £3,000 grant enabling the charity to pay for 100 hours of one-to-one therapy services for patients, enabling individuals to access help more quickly.

Colleague volunteering and fundraising

In 2022 colleagues continued to deliver on our Society's Purpose and commitment to our communities, completing 6,527 hours of volunteering in total. Colleague volunteering covers a huge range of activities from packing goodie-bags for NHS staff to beach cleans and from assisting with the delivery of food parcels to coaching, mentoring and governorship. Colleagues and customers also showed incredible generosity, helping to raise £85,983 for the Newcastle Building Society Community Fund, Cash for Kids Mission Christmas Appeal and a variety of other charities close to their hearts.

This year ten of our colleagues take part in the 41st annual Great North Run, completing the 13.1 mile course to generate donations for Newcastle United Foundation, raising over £3,500, which was match-funded by the Society.

Another group of colleagues also took part in the third annual Children's Heart Unit Fund (CHUF) Dragon Boat Race on the River Tyne, competing against nine other teams made up of a host of local businesses, helping to raise money to support babies and children with heart conditions.

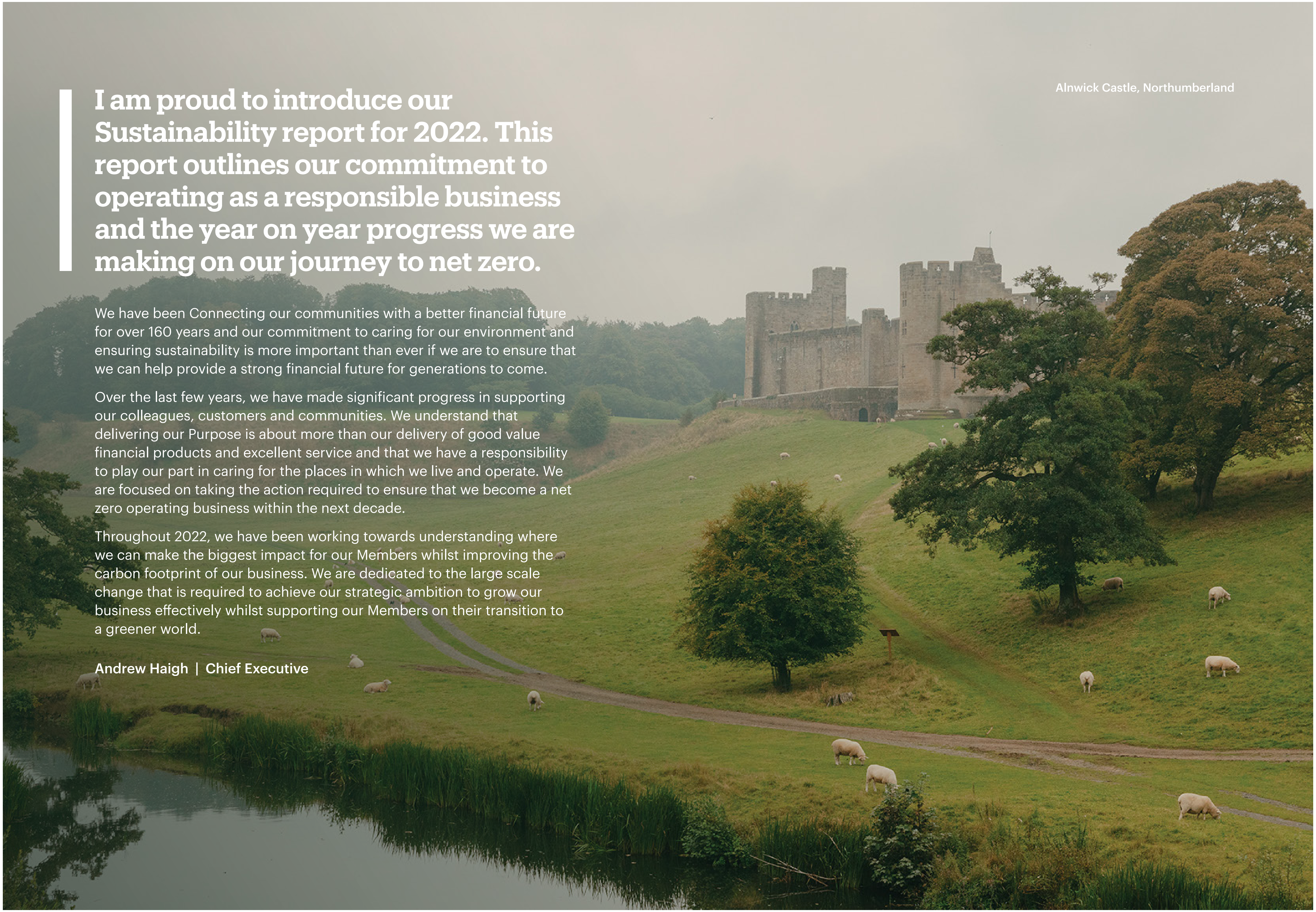
I am proud to introduce our Sustainability report for 2022. This report outlines our commitment to operating as a responsible business and the year on year progress we are making on our journey to net zero.

We have been Connecting our communities with a better financial future for over 160 years and our commitment to caring for our environment and ensuring sustainability is more important than ever if we are to ensure that we can help provide a strong financial future for generations to come.

Over the last few years, we have made significant progress in supporting our colleagues, customers and communities. We understand that delivering our Purpose is about more than our delivery of good value financial products and excellent service and that we have a responsibility to play our part in caring for the places in which we live and operate. We are focused on taking the action required to ensure that we become a net zero operating business within the next decade.

Throughout 2022, we have been working towards understanding where we can make the biggest impact for our Members whilst improving the carbon footprint of our business. We are dedicated to the large scale change that is required to achieve our strategic ambition to grow our business effectively whilst supporting our Members on their transition to a greener world.

Andrew Haigh | Chief Executive



Alnwick Castle, Northumberland

Sustainability Report

Our Commitment

Our Purpose has a specific pillar which focuses on our commitment to the environment and sustainability.

The Society has a clear commitment to safeguard our environment and deliver sustainability for future generations.

Our approach to this is managed through an Executive Environment and Sustainability Committee. The purpose of the committee is to ensure we have appropriate polices, processes and actions in place to measure our impact and drive forward actions to achieve our desire to meet our environment and sustainability goals.

Progress made in 2022

In 2022, we created an Environment and Sustainability team and reviewed and updated our Environmental and Sustainability Strategy.

Our dedicated Environment and Sustainable team are responsible for leading our journey to achieve a net zero operating business. Working with the Executive team, wider business and external partners, this team will provide a structured approach that aligns to our Business Strategy, drives positive change and delivers on agreed environmental and sustainability targets.

The Environmental and Sustainability Strategy outlines five workstreams which encompass activities that address key environmental and sustainable priorities and it also assigns an Executive to each workstream with responsibilities to ensure committment to the action required to achieve a successful net zero transition.

The five workstreams of the strategy will focus on:

The intention is that the strategy will be delivered over three phases, which will span the next decade, each phase will inform the next in line with new and emerging technology and infrastructure. The Environmental and Sustainability Strategy aligns to our overarching Purpose, which has a specific environmental and sustainability pillar, as outlined above, that focuses on our commitment to the environment and sustainability.

Stokesley, North Yorkshire

Our focus in 2023

In 2023, we are setting our foundation to enable us to achieve our net zero ambition.

In 2022, we began work to extend our greenhouse gas reporting to include scope 3 emissions and have identified that we have data gaps relating to these emissions, therefore our focus in 2023 will be to address these data gaps. By doing so it will enable us to progress towards setting science based targets.

By addressing our data gaps we will improve our disclosure contribution so that it has stronger alignment to the Task Force on Climate-Related Financial Disclosure recommendations.

We will also invest in providing training and education to upskill our people so that we can incorporate environmental and sustainable consideration and impact into every business decision made moving forward.

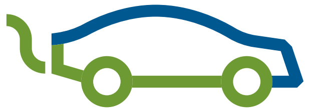
Scope 1
Direct emissions

Emissions from sources that we own or control directly (eg gas fired heating boilers and diesel used in back-up generators).

Scope 2
Indirect emissions

Emissions that we cause indirectly through the energy we purchase and use. Although electricity is used on site, the emissions take place where the electricity is generated.

Scope 3
All other indirect emissions



Encompasses emissions that are not produced by us and are not the result of activities from assets owned or controlled by us but by those we are indirectly responsible for, up and down our value chain (eg business travel by employees and waste disposal).

From 2020, we have reported our scope 1 and scope 2 emissions annually. In 2022, work commenced to start calculating our scope 3 emissions, taking into account all relevant categories and data available within the scope 3 criteria that apply to our business. This work has identified some data gaps in various categories which we will focus on addressing in 2023.

Our day-to-day business activities, as well as project and new initiatives, are targeted at ultimately minimising our use of fossil fuels and hence carbon emissions. As part of a planned multi-million pound investment in our head office, we are reviewing low carbon heating options, which is in addition to electricity already being procured from a 100% renewable source.

We operate a salary sacrifice electric vehicle scheme, which is available to all our colleagues, as well as a cycle to work scheme, which encourage colleagues to reduce their personal carbon footprint when commuting to their place of work. We have also installed seven electric vehicle charging points at our head office and our fleet of three company vehicles will be converted to electric in 2023.

Greenhouse Gas Emissions Report

Energy consumption (kWh)	2022	2021	% change
Natural gas	1,111,194	1,398,814	–21% ↓
Electricity	2,412,380	2,600,412	–7% ↓
Transport	245,769	85,281	+188% ↑
Total	**3,769,343**	**4,084,507**	**–8%** ↓

Greenhouse gas emissions in tonnes of carbon dioxide equivalent	2022	2021	% change
Natural gas	203	256	–21% ↓
Electricity	467	552	–15% ↓
Transport	57	20	+187% ↑
Total	**727**	**828**	**–12%** ↓

Intensity metric	2022	2021	% change
KgCO2e per sq. M	51	54	–5% ↓

Scope 1 emissions have been restated for 2021 and 2022 as a result of delayed invoicing from suppliers following a period of estimated readings. In 2022 we have also amended the reported intensity metric from kgCO2e / ft^2 to kgCO2e / m^2. The 2021 metric has also been restated to reflect the updated reporting format as well as a recalibration of floor space area for the 2021 period.*

Greenhouse gas emissions and energy usage have been calculated using the location based method of the UK Government's 'Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance, March 2019'.

Greenhouse gas emissions and conversion factors have been taken from the UK Government's 'GHG Conversion Factors for Company Reporting' for the year 2021. Some estimation has been used to cover missing billing.

Greenhouse gas emissions are generally shown in units of carbon dioxide equivalent (CO2e). This enables a common unit to be used for the different types of greenhouse gases, which include carbon dioxide, methane and gases used in fridges and air conditioning units.

The United Nations (UN) Sustainable Development Goals are a collection of 17 goals and the universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

In 2022, we set out our intentions to adopt appropriate goals that align to our Purpose and undertook work to identify which of the 17 United Nations (UN) Sustainable Development Goals we intended to adopt in 2023. The work also set out our intention for further adoption of goals in the coming years.

Due to our strong presence across local communities and our business Purpose and values, we have a solid platform, which seamlessly aligns to a number of the UN Sustainable Development Goals.

For 2023, we have chosen the following goals, which align to our Purpose and initiatives:

5. Gender equity

8. Good jobs and economic growth

10. Reduced inequalities

All three goals (shown opposite) encompass activity which is already happening across our business. Reducing inequalities generally and creating gender equity specifically are goals which are embedded in the day-to-day operations of our business. Initiatives such as Women in Leadership, Platinum Investors in People recognition, mental health first aiders and listening circles are established accomplishments, which we are committed to evolving over the coming months. The Good Jobs and Economic Growth goal aligns to our 'Powered by Purpose' ambition and we are all collectively responsible for ensuring we grow our business to add Member value in line with strategy and ambition.

2022 Key Achievements

Risk

- We have identified a number of assets that could operate on more self-sustaining alternative power sources allowing a move away from fossil fuel.
- We've started work to relocate our IT system capability to a more energy-efficient facility operating on 100% renewable hydro and wind energy.
- We've started developing metrics which assess the climate change risks associated with our lending activities.
- We've created metrics that cover both physical risk data and transition risk data.
- As part of the Society's 2022/3 Internal Capital Adequacy Assessment Process, two climate related scenarios were included.

People

Greener communities

- Internally we have created a net zero taskforce which drives environmental and sustainable change tactically and operationally across our business.
- In 2022, we allocated grants from our community fund to various charities related to sustainable and environmental causes, grants worth a total of £30k.
- We also have a partnership in place with the onHand app. In 2022, through colleague volunteering opportunities, 253 trees were planted and as a result 6.69 tonnes of CO2e has been taken out of the environment.
- Cycle to work was launched in 2022 and is available to all colleagues.

Infrastructure

Property

- Cobalt, our head office uses a 100% renewable electricity hydro source.
- A retrofit plan commenced for our Cobalt, head office, with work due to start in 2023.
- We continued to install LEDs across the branch network and intend to install at our head office in 2023.
- 7 EV chargers were installed at Cobalt and more to come in 2023.

Products

- Creation of the Sustainability Hub, a central platform which provides information to help Members understand how to make more sustainable choices in their homes to help protect the planet. The Sustainability Hub is accessible via our website.
- Development of an app to support homeowners with retrofitting aspirations and borrowing needs (existing Members). The app is available for both android and IOS devices and the link to download the app can be found on our website.
- Introduction of a reward for customers who take additional borrowing to carry out energy-efficient works and can evidence them. Customers will being given details of the reward scheme at the point of sale.
- We undertook exploratory work, using our Connected Communities platform to engage with our Member community, to better understand the appetite of our Members to invest in environment and sustainability-led products, testing a number of product concepts.
- We are analysing the findings of this research to develop an authentic green or sustainable savings proposition that we intend to launch in 2023.

Our Directors

James Ramsbotham | Chair

James became Chair of Newcastle Building Society in August 2021. Prior to this, he was Chief Executive of the North East England Chamber of Commerce for 15 years, and Chairman of Darlington Building Society until December 2017.

Previously James was Vice Chairman of North East construction firm, the Esh Group, and before this spent 14 years in corporate banking in Barclays Bank plc, latterly as Marketing Director.

James is Chair of Newcastle Financial Advisers Limited, Newcastle Strategic Solutions Limited, as well as being Chair of the Society's Nominations Committee, and a member of the Group Risk Committee. He was a soldier for 12 years with the Royal Green Jackets, and benefited from executive education at Harvard (USA), INSEAD (France), and Oxford University, after graduating from Durham University. He maintains his associations with the military as an Honorary Colonel for The Rifles in County Durham and as a Deputy Lieutenant and is a Trustee for The Foundation of Light, The Willan Trust and the Gillian Dickinson Trust.

James was awarded an Honorary Doctorate in Business Administration by Sunderland University in 2016 (where he's also Pro-Chancellor), made an Honorary Fellow of the Association of International Accountants in 2017; and awarded a CBE for services to business and the North East economy in the 2019 New Year's Honours list.

> "Fulfilling roles as Trustee for The Foundation of Light (Sunderland AFC), and giving time to Durham Cathedral and Sunderland University, I'm passionate about equity, diversity and inclusion and how we can embed this in the Society's strategy."

Andrew Haigh | Chief Executive

With over 25 years' experience in the mutual sector, Andrew has an extensive track record in transforming and developing businesses. He has held financial services leadership roles as both an Executive and a Non-Executive Director, reinforcing the Board's depth of consumer understanding. His previous experience is drawn from a variety of sectors including financial services, technology, automotive and airline industries.

Andrew became the Society's Chief Executive in May 2015, having joined the Board as Chief Operating Officer in January 2014. A proven Chief Executive, Andrew has particular strength in building effective leadership teams and organisations with healthy, customer-focused cultures, and proudly drives our Society's ongoing commitment to equity, diversity and inclusion.

Andrew is the current President of the North East England Chamber of Commerce and a Board member of the Community Foundation serving Tyne & Wear and Northumberland.

> "I'm hugely passionate about the role of mutuals, focused on delivering a balance of meaningful Member value and profitability, enabling long-term positive impact in our communities."

Adam Bennett | Non-Executive Director

Adam joined the Board in April 2019. He is the Senior Independent Director and a member of the Society's Group Risk Committee, the Audit Committee and the Group Technology Governance Committee, upholding the Society's commitments to financial control, integrity and regulation.

During his professional career, he has advised building societies across a range of issues. He brings formidable legal insight and experience of different business models and structures, important given the Group structure, which includes two key subsidiaries, Newcastle Strategic Solutions Limited and Newcastle Financial Advisers Limited.

Adam has advised on rules of building societies, on corporate governance, including compliance with the UK Corporate Governance Code, and on the powers and statutory and fiduciary duties of Directors, all of which contribute to ensuring the Society deals with its Members, colleagues and stakeholders in a responsible, trustworthy and ethical manner.

> "Having specialised in advising building societies at a law firm for 36 years, I have a deep knowledge of the mutual sector and my understanding of its associated corporate governance and regulatory requirements contributes to the Board's diverse spectrum of expertise".

Michele Faull | Non-Executive Director

Michele joined the Board in August 2021.

With 15 years working at the most senior levels in finance and risk at two of the largest mutuals, her time as Chief Financial Officer and Group Risk Director positions her well to deliver significant building society knowledge and a wealth of valuable experience to the Society.

She spent nine years as Trustee and Treasurer of the Bow Arts Trust and now serves on the Coventry Cathedral Finance Committee and is Interim Chair and Trustee at The Line Art Walk.

Her wide-ranging career has also incorporated roles with global insurer Aviva; accountants PwC where she was a Partner; and IT services provider, ICL.

Michele is a Non-Executive Director and Chair of the Audit Committee at IQUW Syndicate Management Limited. She is also a member of both the Society's Audit Committee and Group Risk Committee.

> "My finance background and business experience coupled with a passion for giving back and helping others achieve fits well with the Society's focus on a sustainable business model which is powered by Purpose".

Bryce Glover | Non-Executive Director

Bryce joined the Board in 2017. He is a highly experienced Director who has operated at Executive Committee and Board level in a number of leading UK financial services businesses.

Adding a genuine breadth of commercial and retail banking expertise, Bryce helps to shape the Group's overall strategy. His extensive industry knowledge and business acumen assist the development of the Group.

The majority of Bryce's career has focused on corporate and commercial banking. He was Managing Director of Commercial Banking at Alliance & Leicester/Santander, before joining Nationwide Building Society in 2009 as a Director heading its Commercial Division, where he managed a £22bn commercial lending portfolio and the Society's business savings accounts before heading Corporate Affairs. He has a deep understanding of the mutual sector, having spent nine years working for the UK's largest building society, the last three as Corporate Affairs Director.

Bryce is also Chair of the Society's Group Risk Committee and a member of the Remuneration Committee. Bryce recently co-founded a new UK SME bank which received its full banking licence in 2021.

> "My strong credit and risk management background is particularly valuable to informing decisions made in my role as Chair of the Society's Group Risk Committee."

Stuart Lynn | Non-Executive Director

Stuart joined the Group Board in April 2020, having initially joined the Society as a Non-Executive Director of the Newcastle Strategic Solutions business in 2018.

As a prominent technology business leader Stuart has a wealth of experience drawn from an extensive career in the technology sector, not least with software giant Sage, where he held a number of senior leadership roles, including Executive Vice President and Chief Technology and Information Officer. He is an advocate of utilising technology that can support the provision and delivery of excellent service that is unequivocally human and personal, which is a key component of the Group's strategy.

As an active member of the North East's thriving digital and tech community, Stuart has previously been Chair of the North East LEP's Digital for Growth steering group; Sunderland University's Technology Faculty Industrial Advisory Board; Vice Chair of Dynamo North East; Board member of the Sphere Thought Leadership network, and mentor to a number of North East business start-ups. As well as serving on the Society and Newcastle Strategic Solutions' boards, Stuart is Chair of the Society's Technology Governance Committee.

> "My deep understanding and experience of the potential for digital transformation within businesses to deliver better customer experiences and commercial growth helps to guide digital transformation across the Society and Newcastle Strategic Solutions."

Stuart Miller | Chief Customer Officer

Stuart became Chief Customer Officer in 2017 and has been a member of the Society's Board since 2018.

He's a Director of Newcastle Financial Advisers Limited and sits on the Board of the national High Streets Task Force. The Society's commitment to face-to-face financial services and its track-record in innovation align well with the Task Force's programme of work in determining and addressing issues at a national level.

As an Associate of the Chartered Institute of Bankers, Stuart also holds the Customer Experience Professionals Association qualification for senior business leaders. Stuart has over three decades' experience working in the financial services sector, including Virgin Money, where he was responsible for running branches, lounges and the ATM network; RBS International, where he was Head of Mortgages and Head of Customer Experience; and NatWest, where he ran large teams across branches and private banking.

Stuart is responsible for all customer-facing areas and the commercial performance of the Member business including branches, mortgage operations, mortgage advice, product development, marketing, group communications and financial advice.

> "I'm acutely aware of the benefits of a physical high street presence and the role that face-to-face financial services plays in delivering long- term relationships with our customers and a wider transformative impact on our communities."

David Samper | Chief Financial Officer

David became a member of the Board in 2018, when he joined the Society as Chief Financial Officer. An accomplished strategic leader with over 20 years' experience as a Chartered Accountant, David has in-depth knowledge of the issues impacting the long-term commercial sustainability of the Society's business model, balance sheet and profitability.

With exceptional understanding of the financial services sector, David has valuable experience in managing financial performance across both large and medium sized financial organisations in the UK and abroad. David's career has also encompassed multiple system migrations, which complements the knowledge and expertise of the growing Solutions business.

David has held senior roles across a number of organisations, including RBS, Ulster Bank, and Sainsbury's Bank. He has led complex acquisitions and driven transformational change, whilst consistently delivering core commercial outperformance.

David's previous experience with broader capital markets and shaping organisational strategy in an ever-changing economic and competitive environment is key to ensuring the success of our ambitious Group.

> "I try to bring a series of different perspectives to my team and the Board, gained from experience across the UK and internationally. I'm particularly interested in how technology can enable business change, which complements the knowledge and expertise of the growing Solutions business."

Anne Shiels | Non-Executive Director

Anne joined the Board in 2017. Her extensive UK and international Board-level experience working with both FTSE™ 100 and independently owned companies, in both regulated and non-regulated businesses, reinforces the Board's broad range of skills and competencies.

Her experience spans sectors including financial services, retail, telecommunications, manufacturing and consumer. Anne's breadth of knowledge, skills and qualities combine strategic leadership and deep people, culture and organisational transformation expertise with a solid understanding of governance, control and risk.

She has held executive roles at Hallmark Cards, Lloyds Banking Group/HBOS, Safeway and Thus Plc, and is a trusted executive coach and adviser to Boards and Directors in diverse businesses in the UK and the US.

She also chairs the Remuneration Committee and is a member of both the Society's Audit Committee and the Nominations Committee. She is also a Director of Newcastle Financial Advisers Limited.

> "My track record of leading large people functions and experience in facilitating transformative organisational change brings a broader view for the Board on these matters as the Society develops its people strategies, including our approach to culture, talent, succession and reward."

Mick Thompson | Deputy Chair and Non-Executive Director

Mick joined the Board in January 2019, and brings significant accountancy experience with a deep knowledge of audit to support the Society's governance and audit function. His diverse skillset and broad range of perspectives derive from vast sector experience that has seen him work in industries including housebuilding, social housing, education, engineering, charities, and financial services.

Mick spent 21 years as a Partner and nine years as Office Senior Partner at KPMG Newcastle. He is a Non-Executive Director of The Clinkard Group Limited, Atlas Cloud Limited and NorthStandard Limited (formerly known as North of England Protecting & Indemnity Association).

Recognising the importance of charitable action and giving back to causes throughout the region, Mick is also a Trustee of Greggs Foundation Charity; Trustee of NUFC Foundation Charity; Trustee of Tyne and Wear Building Preservation Trust, and Regional Treasurer of The Lord's Taverners Charity.

He chairs the Society's Audit Committee, as well as being a member of both the Nominations Committee and Remuneration Committee. He also chairs the Newcastle Building Society Pension & Assurance Scheme Board.

> "My wide-ranging Board portfolio, particularly in the charity sector, is well aligned to the Society's community focus and contributes to a better understanding of the issues affecting this sector."

A full list of all Directors as at 31st December is included in the Annual Business Statement on page 159.

Karen Ingham remains a Director until the Annual General Meeting, to be held on 27th April 2023, where she will step down at the conclusion of the meeting.

Newcastle Building Society have agreed to support the team. The money will be used to help us develop skills, help us pay for a place to play, uniforms, transportation to away games and also to give displays and talks about disabilities in sport.

Photo: **John, North East Warriors and Newcastle Building Society customer**

Directors' Report

The Directors present their Annual Report and Accounts and Annual Business Statement for the year ended 31 December 2022, which they consider to be fair, balanced and understandable, providing Members with the information necessary to assess the Group's position and performance, business model and strategy.

Objectives and activities

It is the intention of the Directors that the Society will continue to remain an independent regional building society. The Society's Purpose and strategy are set out in the Strategic Report.

Business review and future developments

The Chief Executive's Review and Strategic Report set out the business activities and business performance in the year against our strategic objectives, as well as likely future developments. The Strategic Report also outlines the Group's key performance indicators (KPIs), which include customer, colleague and financial KPIs, details of the Group's customer focus, colleague agenda, financial analysis, mortgage credit quality, funding and capital position.

The Annual Business Statement and the Credit Risk Notes, 30 to 43, contain respectively the ratios and arrears disclosures required by the Building Societies Act 1986.

Going Concern and Long Term Viability Assessment

Financial planning, risk and stress testing

The Group's financial planning includes a detailed budget for the next financial year and an assumptive forecast for a number of financial years thereafter, which consider a range of outcomes relative to internal and external conditions. Achievement of long-term plans and goals is not guaranteed, given the uncertainty in predicting macro-economic factors long into the future, which may materially impact the Group's performance and could also lead to changes in the Group's business strategy.

The Strategic Report includes a description of the Group's business activities and any factors likely to affect its future development, as well as details of the Society's financial performance and position, including liquidity and capital structure. The Group's Principal Risks, including the strategy for managing these, are detailed in the Risk Management Report. Further details with respect to interest rate risk, liquidity risk and capital risk are provided in the notes to the Accounts (see Notes 30 to 43).

The Group performs detailed capital and liquidity stress testing at least once per year in the Internal Capital Adequacy Assessment (ICAAP) and the Internal Liquidity Adequacy Assessment (ILAAP) in line with regulatory requirements.

The ICAAP stress test ensures that the Group's forecast for both capital requirements and capital generation is resilient to 'severe but plausible' stresses to the Group's external or internal environment, beyond the levels forecast in the most negative scenarios considered in the Group's longer-term plan.

The stress test demonstrates that the Group's capital buffers are sufficient to absorb the level of capital erosion considered in the stress scenario, continuing to meet minimum regulatory capital requirements.

The ILAAP stress test ensures that the Group holds adequate liquid assets to meet both its business-as-usual liquidity needs and increased liquidity requirements that could occur as a result of entering a period of stress. The Group is forecast to hold a sufficient quantity and quality of liquid assets over the following three year period to be able to meet its liabilities as they fall due, even in the event of a severe but plausible stress scenario.

The Group also maintains a detailed recovery plan, which describes actions management can take in case of a severe stress, including in a liquidity or capital stress. The recovery plan is updated and tested regularly to ensure it remains up to date and can be implemented without delay should the need arise.

Assessment of the appropriateness of preparing the Annual Accounts on a going concern basis

The Directors are required to satisfy themselves that it is appropriate to adopt the Going Concern basis of accounting when preparing the financial statements in accordance with IAS 1 Presentation of Financial Statements and guidance from the Financial Reporting Council.

The Directors' Going Concern review considered the Group's and Society's forecasts, including different possible scenarios based on possible internal and external developments and arising risks. Together with regular stress testing, the forecasts show that the Society will be able to maintain adequate levels of both liquidity and capital for at least the next 12 months while meeting all relevant regulatory requirements.

After making enquiries, the Directors are therefore satisfied that the Society has adequate resources to continue in business for at least the next 12 months and therefore it is appropriate to adopt the Going Concern basis of accounting in preparing these financial statements. The Directors have concluded that there are no material uncertainties that may cast significant doubt upon the Society's ability to continue to apply the Going Concern basis of accounting.

Assessment of the Group's long-term viability

The Directors have assessed the viability of the Group and the Society over the three years to December 2025. The assessment took account of the Group's principal and emerging risks and relevant management actions and controls, including the Board's risk appetite and performance against risk limits. It considered the Group's financial forecasts, including profitability, capital and liquidity positions. It also considered the most recent ICAAP and ILAAP stress tests, complemented by stress tests and forecasts performed as at December 2022, to ensure the viability of the Society even in times of severe stress. The most significant stress scenario which was considered included an increase in unemployment to 8% and house price falls of 21% over the period 2023 to 2025 alongside a significant operational risk event.

Based on this assessment, the Directors have a reasonable expectation that the Society will continue in operation and meet its liabilities as they fall due over the period to December 2025. The Directors consider three years the most appropriate period for the viability assessment, as it is within the period covered by the financial forecasts and the stress testing undertaken by the Society, but does not extend too far into the future, where forecasts become increasingly more uncertain.

Risk management, principal risks and uncertainties

The Risk Management Report sets out the Principal Risks and uncertainties faced by the Group together with the Risk Management Framework and risk governance structure. The Risk Management Report also details how the Group mitigates the specific key risks to which it is exposed, which are capital risk, climate change risk, conduct risk, credit risk (commercial, investment and residential), liquidity risk, market risk (interest rate, macro-economic) and pension fund obligation risk. In addition, the Credit Risk Notes, 30 to 43, set out the metrics associated with the key risks including sensitivity analysis and exposure level.

Mortgage arrears

As at 31 December 2022 there were 32 cases (2021: 25) where payments were 12 months or more in arrears. The capital balances of these loans was £4.0m (2021: £3.0m). The total amount of arrears on these loans was £0.4m (2021: £0.8m).

Political and charitable gifts

The Society is pleased to be able to give back to its heartland communities, through charitable donations, colleague fundraising and volunteering, donating a total of £323,602 in 2022 (2021: £279,602).

The organisations' that the Society supported and the corresponding donations made in 2022 were: £173,602 to the Newcastle Building Society Community Fund; £50,000 to Newcastle United Foundation to support their NU Futures employability programme; £25,000 to Walking With The Wounded and £25,000 to the Disasters Emergency Committee appeal following the outbreak of conflict in Ukraine. In 2022, £50,000 was donated to each of the Sir Bobby Robson Foundation and the Prince's Trust to support activity to be delivered in 2023.

In 2022 the Society's colleagues maintained a real commitment to local communities. A variety of fundraising activities secured a colleague and customer fundraising contribution of £85,982 in aid of the Newcastle Building Society Community Fund and other charities including Marie Curie, Alzheimer's Society, Cash for Kids and CHUF (the Children's Heart Unit Fund).

Colleagues also continued to volunteer in the community, supporting good causes and people across the region. In 2022, through a range of volunteering commitments, colleagues delivered more than 900 days of support to local communities.

The Group has not made any political donations during 2022 (2021: nil).

Supplier payment policy

The Group follows an internal policy that payment to suppliers will be made within 30 days from receipt of an invoice and endeavours to meet individual supplier payment terms which may be set at shorter timescales. At 31 December 2022, the number of creditor days was 28 (2021: 27 days).

Directors

As at 31 December 2022, the members of the Board, who have served at any time during the year and continue to act as Directors, are as follows:

James Ramsbotham, Adam Bennett, Michele Faull, Bryce Glover, Andrew Haigh*, Karen Ingham, Anne Laverack (business name: Anne Shiels), Stuart Lynn, Stuart Miller*, David Samper*, Mick Thompson. Ian Ward retired from the Board on 27 April 2022.

At the Annual General Meeting (AGM), to be held on 26 April 2023, all of the current Directors will offer themselves up for either election or re-election, with the exception of Karen Ingham who will step down at the conclusion of the meeting.

Directors and Officers insurance has been put in place by the Society.

*Executive Directors are Members of the Society.

Please see the Remuneration Committee Report for further information.

Independent auditors

A resolution to re-appoint Deloitte LLP will be proposed at the Annual General Meeting.

Statement of disclosure to auditors

So far as each Director is aware, there is no relevant audit information of which the Society's auditors are unaware. Each of the Directors, whose names and functions are listed in the Our Directors section have taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Post balance sheet events

On 21st February, the Boards of the Society and Manchester Building Society agreed heads of terms to merge by way of a transfer of Manchester Building Society's engagements into the Society. The Boards believes it is in Members' best interests to complete the merger as members will benefit from an enlarged and expanding Building Society. The transaction is still subject to resolutions by the Boards of both building societies as well as regulatory approval. As such, the financial impact of the transfer of engagements on the Society's financial position is uncertain and has not been included in these financial statements.

Corporate governance

The Society's statement on corporate governance can be found in the Report of the Directors on Corporate Governance.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Statement of Auditors' Responsibilities, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, Annual Business Statement and Directors' Report.

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation. The Building Societies Act 1986 (the Act) requires the Directors to prepare Accounts for each financial year.

Under that law, the Directors have prepared the Group and Society Accounts in accordance with International Financial Reporting Standards (IFRSs). Under the Act, Directors must not approve the Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Society and of the profit or loss of the Group and Society for that period. In preparing the Accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Accounts on the Going Concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

The Directors consider that the Annual Report and Accounts are fair, balanced and understandable, when taken as a whole, and that they provide the information necessary for Members to assess the Society's and Group's performance, business model and strategy. In addition to the Annual Accounts, the Act requires the Directors to prepare an Annual Business Statement and a Directors' Report for each financial year. Each contains prescribed information relating to our business and subsidiary undertakings.

The Directors are also responsible for safeguarding the assets of the Group and Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Society's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Society and enable them to ensure that the Accounts comply with the Act, as regards the Group Financial Statements.

The Disclosure and Transparency (the DTR) rules of the Financial Conduct Authority (the DTR) require the Annual Report and Accounts to include:

- the audited Accounts for the Society and Group;
- a strategic and risk report that includes a fair review of the business and a description of the Principal Risks and uncertainties; and
- responsibility statements (see below).

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Directors' Report, confirm that, to the best of their knowledge:

- the Group and Society Accounts, which have been prepared in accordance with IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Group and profit of the Society; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the Principal Risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as each Director is aware, there is no relevant audit information of which the Group's and Society's External Auditors are unaware;
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Society's External Auditors are aware of that information; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Members to assess the Society's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 2 March 2023 and is signed on its behalf by:

On behalf of the Board
James Ramsbotham
Chair
2 March 2023

Report of the Directors on Corporate Governance

Introduction

Corporate governance is the system of rules and practices by which the Society is directed and controlled. In discharging its responsibilities, to be accountable to the Society's Members for the operation of the Society, the Board regards good corporate governance as extremely important. The UK Corporate Governance Code (the Code), issued by the Financial Reporting Council (FRC) in July 2018, is addressed to companies with a premium listing, however the Society's Board considers it to be best practice and in the best interests of all our stakeholders to have regard to the Code when establishing and reviewing corporate governance arrangements.

The Code contains a set of Principles that emphasise the value of good corporate governance to long-term sustainable success. The Code also has at its heart the culture and Purpose of an organisation: putting the relationship between organisations and their stakeholders at the heart of a set of principles designed to promote long-term sustainable growth in the UK economy. The Code includes the responsibility for a board to have appropriate workforce policies and practices, which re-inforce a healthy culture. To help achieve this, the Society has a now well established "Colleague Forum", chaired by a member of the Executive team. This formally recognised group consists of colleagues who represent areas across the entire Group and who support leaders in the delivery of key organisational and people matters that are focused on creating a great colleague experience. The Code asks boards to create a culture which aligns corporate values with strategy and to assess how they preserve value over the long term. As a Purpose-led Society, we continue to comply with this last point by expecting that colleagues embrace the Society's Purpose, values and behaviours. In addition, a third party agency is used to organise surveys and capture comments made by colleague, in confidence, which are then acted upon by senior management. It has also been agreed that culture will be formally reviewed by the Board at regular intervals with the aim of preserving long-term sustainable success.

Corporate governance procedures and processes within the Society are regularly reviewed to ensure they are aligned appropriately with the Code, including when updates or revised guidance are published. This report outlines the approach taken by the Society and how the Board considers it has demonstrated application of the principles of the 2018 Code.

The Board

The Society recognises that it must be headed by an effective Board which is responsible for the long-term success of the Society. The composition of the Board is detailed in the Our Directors section of the Annual Report and Accounts. In carrying out its role, the Board aims to achieve its strategic goals for the benefit of the Society's Members. The Board has responsibilities for setting the values of the Group and believes that the interests of all stakeholders can be best served by remaining a strong and forward looking mutual building society.

There is a clear division of responsibilities between the running of the Board and the Executive responsibility for the running of the Society's business. No one individual has unfettered powers of decision and the roles of Chair and Chief Executive are exercised by different people within the Society. The Nominations Committee (NomCo) carries out a review of the independence of Non-Executive Directors as set out within the Nominations Committee section of this report.

An effective Board should not necessarily be a comfortable place; constructive challenge, as well as teamwork, being essential features. Open, honest and transparent debate by Non-Executive Directors is something which is encouraged by the Chair and, where appropriate, training is provided to support the challenge process. A culture of openness and accountability exists within the Society at every level and Non-Executive Directors regularly meet with members of the Executive team throughout the year to ensure a good understanding of the business and to promote strong relationships amongst the Board.

James Ramsbotham is Chair of the Society , Mick Thompson is the Deputy Chair and Adam Bennett is the Senior Independent Director. The positions of Deputy Chair and Senior Independent Director provide a sounding board for the Chair and where necessary they serve as intermediaries for the other Directors.

Board balance and independence is important to ensure an unfettered ability to fairly and objectively direct the affairs of the Society and the Board should include an appropriate combination of Executive and Non-Executive Directors (and in particular independent Non-Executive Directors) such that no individual or small group of individuals can dominate the Board's decision making. The composition of the Board, through NomCo, reflects an appropriate balance of skills and comprises of eight Non-Executive Directors and three Executive Directors.

Details of the various Board Committees in existence are set out later in this report.

Matters reserved to Board

The Board's Terms of Reference are reviewed on a regular basis and were last agreed by the Board in November 2021 (the next review of the Terms of Reference has been deferred until early 2023 to incorporate the outcomes of the Board Effectiveness Review).

A schedule is maintained of matters reserved to the Board which includes the following:

- **Strategy and Management –** determining the overall strategy of the Group including approval of the Strategic Plan, with the responsibility for its implementation delegated to the Executive team; monitoring operational and financial performance in pursuit of the strategy; overseeing and approving the Society's recovery plans, playbook, and resolution pack on an annual basis; monitoring the indicators and overseeing any proposed actions in accordance with the playbook; approving budgets, forecasts and major capital expenditure or major disposal; approving any extension of the Society's activities into new business or geographical areas; and approving any decision to cease all, or a material part, of the Society's business.
- **Culture –** overseeing and setting the tone for the culture, values and behaviours of the Group; and overseeing and setting the tone for diversity and inclusion within the Group.
- **Structure, Capital and Liquidity –** approval of the Society's Internal Liquidity Adequacy Assessment Process (ILAAP); approval of the Society's Internal Capital Adequacy Assessment Process (ICAAP); approval of changes to the Group's corporate structure; approval of any programme for the issuance or buy back of long-term debt or capital; and approval of any utilisation of Bank of England emergency liquidity support.

Report of the Directors on Corporate Governance | Continued

- **Financial Reporting and Internal Controls –** approval of stock exchange announcements, half year and annual results; approval of the Annual Report and Accounts including the Strategic Report, Risk Management Report, Report of the Directors on Corporate Governance, and the Remuneration Committee Report; approval of the Pillar 3 disclosures; ratification of the Going Concern and business viability review following review and approval by the Audit Committee; approval of any significant changes in accounting policies or practice based on the recommendations of the Audit Committee; and ensuring an adequate internal control environment is in existence. The Board delegates oversight of internal controls to the Audit Committee.
- **Risk Management and Regulatory –** ensuring an adequate Risk Management Framework is in place. This includes approval of risk appetite, oversight of risk governance, reviewing the top risks, ensuring the strategy and risk appetite are consistent, and approving the ICAAP. The Board delegates oversight of risk management to the Group Risk Committee, as well as oversight of compliance with regulations (including by the Prudential Regulation Authority and the Financial Conduct Authority).
- **Senior Managers and Certification Regime –** ensuring that the Society meets its obligations under the Senior Managers Regime (SMCR), including: reviewing at least annually the SMCR Policy; and maintaining a responsibilities map for all prescribed responsibilities and ensuring all prescribed responsibilities have been allocated.
- **Operational Resilience –** the Board retains oversight and approval of the Operational Resilience strategy and matters prescribed in regulatory requirements.
- **Board Membership and Senior Management Issues –** approval of changes to the structure, size and composition of the Board, following recommendations from NomCo; ensuring that adequate succession planning for the Board and senior management is in place following recommendations from the Nominations Committee; and approving and overseeing appointments to the Boards of subsidiary companies..
- **Appointment and/or re-appointment or removal of the external auditor –** to be put to Members for approval, following a recommendation from the Audit Committee.
- **Remuneration –** agreeing the Remuneration Policy for the Directors and other senior executives, following recommendations from the Remuneration Committee.
- **Delegation of Authority –** approval of the responsibilities of the Chair, the Chief Executive and the Senior Independent Director; approval of the delegation of authorities to the Chief Executive; ratifying the terms of reference for Board Committees and subsidiary companies; and receiving minutes and/or reports from the Chairs of the Board Committees and subsidiary companies.
- **Corporate Governance Matters –** to ensure that a formal evaluation of the effectiveness of the Board is undertaken and to facilitate an assessment by external consultants at an opportune time; determining the independence of Directors; reviewing the Group's overall corporate governance arrangements; agreeing the Directors' Conflicts of Interest Policy and other relevant policies; approval of the Notice of any General Meeting of the Society including all resolutions to be put forward to Members; and insurance: approval of overall levels of insurance for the Group, including Directors & Officers liability insurance.
- **The Society's Defined Benefit Pension Scheme –** the consent of the Board is required to amend the Pension Scheme's Trust Deed and Rules; and the Board approves of the appointment/removal of Society nominated Trustees.

The Board's Terms of Reference are included on the Society's website (https://www.newcastle.co.uk/who-we-are/our-governance/our-committees).

Board changes and elections/re-elections

It is recognised that changes need to be made to the Board from time to time. In 2022, Ian Ward resigned as a Non-Executive Director on 27th April 2022 at the 2022 AGM and Adam Bennett (already a Non-Executive Director) replaced Ian Ward as Senior Independent Director.

Copies of the Terms of Engagement for all of the Society's Directors are available on request, and at the Annual General Meeting (AGM).

All of the Society's Directors are standing for either election or re-election at the AGM, with the exception of Karen Ingham who will be retiring at the end of the meeting.

The biographies of all of the Directors are detailed in the Our Directors section.

Management Information

The Chair is responsible for ensuring that the Directors receive accurate, timely and clear information. Board members receive meeting packs on a regular basis, bar August or December. Management Information is provided to Directors throughout the year. A rolling Board agenda is tabled at each Board meeting to ensure that all key areas are covered appropriately during the year and sufficient time is set aside at each meeting to ensure that constructive discussion and challenge can take place.

All Directors have access to independent professional advice, if required, and also access to the services of the Group Secretary.

Board effectiveness

Under the UK Corporate Governance Code there shall be a formal and rigorous annual evaluation of the performance of the Board, its committees, the Chair and individual directors and shall be externally facilitated every 3 years. An external review of the effectiveness of the Board was carried out in 2022 by BVALCO Limited.

The external evaluator conducted one-to-one interviews with all Board members, the Group Secretary and any other relevant key stakeholder, as well as attending main Board meetings to observe proceedings and behaviours.

The key findings were presented to the Board in October 2022 with outcomes of the report assisting the Board to build further on its current effectiveness and will form the basis for an action plan for 2023.

Board committees

The Board has a number of Committees, all of which have their own Terms of Reference, which are reviewed on an annual basis and further details are provided below. The Chair of each Committee reports to the Board at a subsequent meeting on matters discussed at each Committee meeting.

Similar to the Board, each Committee carries out a review of its own effectiveness and where improvement opportunities have been identified the individual Committees are responsible for tracking action points. These reviews are carried out on an annual basis and concluded satisfactorily in 2022.

Information concerning attendances at the meetings is detailed in the Board and Board Committee Membership Attendance Record section of this report. Terms of Reference for the Audit Committee, Group Risk Committee, Remuneration Committee and Nominations Committee are included on the Society's website (https://www.newcastle.co.uk/who-we-are/our-governance/our-committees).

Audit Committee

Details of the Audit Committee are contained in the Audit Committee Report. Through the work of the Audit Committee and the Internal Audit Services department during 2022, the Directors have carried out a review of the Group's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls.

Group Risk Committee

Details of the Group Risk Committee are contained in the Risk Management Report.

Remuneration Committee

Details of the Remuneration Committee are contained in the Remuneration Committee Report.

Non-Executive Director Remuneration Committee

In January 2022, the Board established another Committee of the Board to be known as the Non-Executive Director Remuneration Committee ("NED RemCo"). NED RemCo reports to the Board and its overarching purpose is to consider, agree and recommend to the Board an overall remuneration approach for Non-Executive Directors together with recommendations for individual fees. The Committee is chaired by the Society Chair.

Group Technology Governance Committee

Group Technology Governance Committee was established at the end of 2020, its authority being to govern the strategic direction of the Group's technology capabilities and to advise the Group Board with regard to progress against the agreed strategy. The Committee is chaired by a Non-Executive Director.

Nominations Committee (NomCo)

The Society has a separate NomCo comprising only of Non-Executive Directors and which operates within the Terms of Reference agreed by the Board.

The main objectives of NomCo are summarised as follows:-

- to oversee the size and structure of the Board, Board Committees and subsidiary company Boards;
- to identify suitable candidates to fill Board vacancies;
- to regularly review that the Board and its sub-committees has the appropriate balance of skills, diversity (including gender balance) and experience;
- to oversee the Board's succession plan; and
- to oversee corporate governance.

All key decisions of NomCo, for example, Board appointments, must also be ratified by the full Board.

Members of NomCo are James Ramsbotham (Committee Chair), Anne Shiels and Mick Thompson. NomCo operates to a rolling agenda to ensure it discharges its full responsibilities and in 2022 it met on four occasions.

NomCo is supported by the Chief Executive and the Chief People Officer who attend meetings in an advisory capacity only.

Appointments to the Board

NomCo follows a stringent recruitment process when making appointments to the Board. This process is tailored to meet the requirements of each particular vacancy and the method of attracting candidates is adapted depending on the nature of the skills required for the vacancy. Board appointments must be ratified by the full Board following the NomCo recruitment process. External consultants and advisers are normally utilised to ensure there is a robust list of suitable candidates with which to fill a vacancy.

When a new Director is appointed, the Financial Conduct Authority and Prudential Regulation Authority have the right, for certain key roles, to carry out formal Significant Influence Function (SIF) interviews in order that the Director becomes an Approved Person.

All Directors have been issued with Service Agreements, Role Descriptions and Terms of Engagement (for Non-Executive Directors) to ensure that they all fully understand and comply with their roles and the responsibilities of being a Director of the Society.

Diversity of the Board

The Board recognises and embraces the benefits of having a diverse Board which utilises a range of factors including skills, industry experience, background, race, gender and the other characteristics, experience and qualities of its Directors. Giving specific regard to gender ratios, in 2022 there were three female Directors on the Board, namely Michele Faull, Karen Ingham and Anne Shiels.

It is important to note that all Board appointments are made on the basis of individual competence, skills and expertise measured against identified objective criteria. Appointment is therefore based on merit.

Report of the Directors on Corporate Governance | Continued

Election or re-election to the Board

All Directors are required to seek election or re-election at the forthcoming Annual General Meeting (AGM), to be held on 26 April 2023, with the exception of Karen Ingham who, as mentioned beforehand, will be retiring at the end of the meeting.

Non-Executive Directors are usually expected to serve more than one three year term, subject to satisfactory performance evaluations and re-election by Members. Only in exceptional circumstances would Non-Executive Directors be able to seek re-election when they have served nine years on the Board. NomCo has in place a risk-based succession plan which is reviewed on a regular basis.

Independence of Directors

The Terms of Engagement for Non-Executive Directors require that they declare to the Society any other external interests.

NomCo carries out an annual review of the independence of Non-Executive Directors against the circumstances set out in the Code. The last review of the independence of Non-Executive Directors was carried out by NomCo in February 2023, where it was confirmed they considered them to be independent; this was subsequently agreed by the Board.

One of the Non-Executive Directors, Bryce Glover, is a Director of Recognise Bank Limited and he has advised the Board of the existence of the relationship under the policy for dealing with conflicts of interest and procedures exist within the Society to manage the position.

The Society recognises that it is good corporate governance to have a Senior Independent Director, a role currently carried out by Adam Bennett, acting as a sounding board for the Chair and an intermediary for the other Directors and Members.

During 2022 the current Chair, James Ramsbotham, met separately with the Non-Executive Directors throughout the year, without the Executive Directors present.

Assessment of Directors

All Directors are subject to a formal appraisal of their performance on an annual basis. The Chair conducted the appraisals of the Chief Executive and Non-Executive Directors, the Senior Independent Director conducted the appraisal of the Chair and the Chief Executive conducted the appraisals of the Executive Directors.

Skills and continuous development

All Directors are required, as part of their terms of engagement, to follow a process of continuous development to ensure their skills and experience meet the needs of the Society and the regulatory environment in which it operates. The training and development plans of Non-Executive Directors are reviewed at least annually during their performance appraisal.

NomCo oversees the ongoing training and development of Non-Executive Directors including a formal induction programme for newly appointed Directors. The Chief Executive oversees the programme for Executive Directors.

In order to ensure that NomCo discharges its duties in this area effectively, a Board skills matrix and a training menu for Non-Executive Directors are in place.

Newcastle Strategic Solutions Limited (NSSL)

NSSL Board members are:

James Ramsbotham (Chair), Karen Ingham (Non-Executive Director), Stuart Lynn (Non-Executive Director), Phil Grand (Managing Director NSSL) and Andrew Ward (Finance Director NSSL).

The main responsibilities of NSSL, as delegated by the Society's main Board, are as follows:-

- to oversee the strategic direction of NSSL ensuring this is consistent with the Society's agreed Strategic Plan;
- to evaluate and monitor the financial and operational performance of NSSL against pre-determined objectives, which includes assessing performance in terms of contract contribution, profitability, efficiencies, risk, compliance and development of the savings management proposition;
- to ensure that appropriate mechanisms are in place to inform the Society's Board about the performance of NSSL and any key issues identified;
- to ensure that NSSL complies with all relevant legislation, including the General Data Protection Regulation and associated data protection legislation and the appropriate regulations relating to NSSL activities;
- to establish and review a risk appetite statement for NSSL, and to review, at least annually, the position of NSSL against that risk appetite statement;
- to ensure that an annual review of service resilience is conducted and that there is ongoing development to enhance resilience;
- to approve the NSSL budget on an annual basis (prior to inclusion in the Group budget which is approved by the Society's Board);
- to approve the NSSL statutory accounts;
- to consider and act upon the findings of any external/internal audits or reviews;
- to ensure that information assets are protected sufficiently that their confidentiality, integrity and availability are maintained in line with the ISO27001 standard along with company and client requirements; and
- to ensure that a formal evaluation of the effectiveness of the NSSL Board is undertaken on an annual basis.

Further details of the activities of NSSL are given in the Strategic Report.

Newcastle Financial Advisers Limited (NFAL)

NFAL Board members are:

James Ramsbotham (Chair), Anne Shiels (Non-Executive Director) and Stuart Miller (the Society's Chief Customer Officer). Stuart Dodson (Managing Director NFAL) resigned from the NFAL Board with effect from 31 January 2022. Interim arrangements were made for the operational oversight of the business following resignation of Stuart Dodson and pending appointment of a new Managing Director.

The NFAL Board will also use external consultants to provide challenge and advice to the Board, as required. At least once a year Directors from Openwork Limited usually attend a NFAL Board meeting to provide a financial and market update; NFAL is an appointed representative of Openwork Limited.

The main responsibilities of NFAL, as delegated by the Society's main Board, are as follows:

- to oversee the strategic direction of NFAL ensuring this is consistent with the Society's agreed Strategic Plan;
- to evaluate and monitor the performance of NFAL against the objectives set, which includes assessing performance in terms of sales quality, customer satisfaction and outcomes, complaints, risk and compliance oversight (including consideration of the aspects that are specifically the responsibility of Openwork Limited) and profitability;
- to review the performance of NFAL in terms of financial results including profitability, risk management and customer outcomes.
- to review and approve the NFAL variable remuneration scheme ensuring that quality and customer outcomes are central to performance assessment;
- to review, at least annually, the reputational and consumer risks associated with NFAL and the controls in place in respect of this risk. The review will be presented to the NFAL Board in the first instance and ratified by the Group Risk Committee;
- to ensure that NFAL complies with all relevant legislation including the General Data Protection Regulation and associated data protection legislation, and the appropriate regulations relating to NFAL activities;
- to approve the NFAL budget on an annual basis (prior to inclusion in the Group budget which is approved by the Society's Board);
- to approve the NFAL statutory accounts;
- To receive the minutes of strategic partner governance meetings and to be made aware of any changes to the framework for managing relationships with strategic partners;
- to consider and act upon the findings of any external/internal audits or reviews and make suitable recommendations as appropriate; and
- to ensure that a formal evaluation of the effectiveness of the NFAL Board is undertaken on an annual basis.

Relations with Members

Member engagement is at the heart of our strategy and the Society develops relationships with Members on a number of different levels. The first and most obvious is through the Annual General Meeting voting process where Members are encouraged, as owners of the business, to use their vote to register their views. We try to make this process as easy as possible, providing the convenience of voting online or by post, and providing an additional incentive through a small charity contribution for every vote cast.

As part of our usual activity we run a number of Member engagement events every year in locations across the North East where Members can share their feedback with the Chief Executive, Executive team and Non-Executive Directors. We have a daily online Customer Satisfaction Survey which is reviewed every morning by the Chief Executive, Executive team and senior managers. In 2021 we introduced a digital Member forum (Connected Communities) where Members can share their views across a range of topics. The forum's feedback shapes a range of decision making, including grant giving, product and service development and what Members want in the future. Our social media channels are also used by customers to provide feedback and request additional information. As part of our branch refurbishment and expansion programme we invite local customers along to branch re-launch events taking the opportunity to gain their feedback and understand their perspectives. In addition, we have a range of marketing communications designed to inform Members about our progress, products, community activities and the numerous ways we can help them.

Through our community and charity support activities we are able to engage with both our Members and the communities we serve. Following the launch of the Newcastle Building Society Community Fund at the Community Foundation, we have provided a growing volume of financial grants to North East community projects, some of which are nominated by our Members. Through our branch network we have been sharing volunteering and regional assistance opportunities with Members, facilitated by our participation in and support of the onHand volunteering app. We intend this financial support for our heartland communities will continue to grow in scope and scale. We work hard to make a difference and help our communities make positive changes.

Further details regarding our Member and community engagement are given in the Supporting our Communities section.

Board and board committee membership attendance record

The table below sets out the number of meetings attended by Directors during 2022 with the number in brackets representing the maximum number of meetings the Director was eligible to attend.

Director	Board	Audit Committee	Group Risk Committee	Remuneration Committee	Nominations Committee	Group Technology Governance Committee	NSSL	NFAL
Adam Bennett	10 (11)	7 (7)	5 (6)			7 (7)		
Michele Faull	11 (11)	7 (7)	6 (6)					
Bryce Glover	10 (11)		6 (6)	6 (6)				
Andrew Haigh	11 (11)	7 (7)				5 (7)		
Karen Ingham	10 (11)		6 (6)				6 (6)	
Stuart Lynn	11 (11)					7 (7)	5 (6)	
Stuart Miller	11 (11)							7 (7)
James Ramsbotham	11 (11)	6 (7)	6 (6)		4 (4)		6 (6)	7 (7)
David Samper	11 (11)	7 (7)						
Anne Shiels	11 (11)	6 (7)		6 (6)	4 (4)			7 (7)
Mick Thompson	10 (11)	7 (7)		5 (6)	4 (4)			
Ian Ward **	4 (4)		3 (3)					3 (3)

** resigned as Director on 27th April 2022

Annual General Meeting (AGM)

The AGM provides an opportunity for Members to question the Chair, Chief Executive, Committee Chairs and fellow Directors on the resolutions to be proposed at the meeting, the Annual Report and Accounts and on any other aspect of the Society's business.

All Members who are eligible to vote at the Annual General Meeting are encouraged to participate, either in person or online, or by using their proxy voting form. The use of the online voting system is encouraged and for each vote placed online, the Society will be donating £1 to the Newcastle Building Society Community Fund at the Community Foundation.

All votes are counted by independent scrutineers. As soon as practicable after the AGM, full details of the results of the voting are placed on the Society's website.

On behalf of the Board
James Ramsbotham
Chair
2 March 2023

Audit Committee Report

Audit Committee

Members of the Audit Committee at 31 December 2022 were:

Mick Thompson (Committee Chair), Adam Bennett, Anne Shiels and Michele Faull.

The Audit Committee's extensive experience and qualifications are detailed in the Our Directors section of the Annual Report and Accounts. The Committee has combined financial sector experience and their competence remains considerable and wide-ranging with specific relevance to the Group's core building society activities and commercial subsidiaries. At least one member of the Committee meets the requirements of the UK Corporate Governance Code to have significant recent, relevant financial experience. The Committee members were selected for appointment by recommendation of the Nominations Committee in consultation with the Audit Committee Chair.

Directors' remuneration, including for members of the Audit Committee, is detailed within the Remuneration Committee Report. The Report of the Directors on Corporate Governance also sets out the process for review of effectiveness of Board sub-committees including the Audit Committee. The Committee concluded that it was operating effectively as part of its 2022 review on 28 November 2022.

Committee meetings:

The Committee meets at least four times each year coinciding with key dates in the Group's financial reporting calendar following a rolling schedule of items for discussion, agreed and reviewed on an ongoing basis. Meetings are attended by Audit Committee members with other regular attendees at meetings including the Chief Executive, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor and a representative of the External Auditor, Deloitte LLP, as well as other management, as the Committee feels is appropriate and necessary. For details of Committee meeting attendance, see the Board and Board Committee Membership Attendance Record in the Report of the Directors on Corporate Governance.

As a general rule, the committee formally invites the External Auditor and the Chief Internal Auditor to meet the Committee without senior management present as least once a year. These meetings cover matters relating to the Audit Committee's terms of reference and any issues arising from audits. The Chair and Chief Internal Auditor also meet outside of the Committee on a regular basis.

Key roles and responsibilities as delegated by the Board:

The main function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of the following areas:

The Committee's responsibilities are delegated from the Board and details of the delegated responsibilities are available on the Society's website https://www.newcastle.co.uk/about-us/governance/our-committees/. All Board members have access to minutes from Audit Committee meetings and the Chair of the Audit Committee provides a verbal update to the Board after each Audit Committee meeting.

Financial reporting:

The Audit Committee's primary role regarding financial reporting is to monitor the integrity of the Group's financial statements, including the interim and annual reports, and any other formal announcements relating to the Group's financial performance.

This responsibility is discharged though:

- review of interim and year-end announcements, the Annual Report and Accounts, Summary Financial Statement and Pillar 3 disclosures, covering their clarity, completeness and compliance with relevant accounting standards and other regulatory and legal requirements;
- reporting to the Board on the consistency and appropriateness of critical accounting policies and any changes thereto, taking into account the views of the External Auditor;
- review and challenge of significant financial reporting judgements, estimates and the actions and judgements of management;
- review and challenge of accounting disclosures to ensure as a whole they are fair, balanced and understandable and in accordance with relevant disclosure requirements.
- advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for Members to assess the performance, strategy and business model of the Group;
- review of any correspondence from regulators in relation to financial reporting;
- review of the Going Concern and business viability assessment produced by the Chief Financial Officer on a six monthly basis;
- evaluating the risks to the quality and effectiveness of the financial reporting process, especially in light of the External Auditor's communications with the Audit Committee; and
- review and monitoring of management's responsiveness to the External Auditor findings and recommendations.

In 2022, the main areas of significant financial reporting considered by the Audit Committee were as follows:

- **IFRS 9 provisioning:** The Audit Committee maintains oversight and challenge of the key model inputs driving the Group's IFRS 9 provisioning models for the residential and commercial books, with particular focus paid towards the Group's forward looking macroeconomic forecast inputs. These inputs are the key judgements in calculating the provision. The Group's Model Risk Committee makes non-binding recommendations on the Group's IFRS 9 scenarios (base, upside, downside and stress), scenario inputs and scenario weightings. In 2022, the Audit Committee's attention focused towards the current economic environment and consideration of the impact of the cost of living crisis on the Group's existing IFRS 9 scenarios also noting the potential impact of fire safety risks relating to securities pledged on a small portion of the book.

- **Equity release accounting and valuation:** In respect to the valuation of the legacy, equity release portfolio, the Audit Committee review and challenge the key model inputs. In particular, the determination of the discount rate used to calculate the value of projected cash flows; the actuarial assumptions determined with the advice by an independent actuary; and the assumptions used to value the No Negative Equity Guarantee, such as future property price growth and volatility.
- **Effective interest rate:** Loans and advances to customers are held at amortised cost, using the effective interest rate method (EIR). That implies that one-off charges and receipts, such as property valuations the Society pays for, arrangement fees and early repayment fees, are included as interest income and spread over the life of the product, rather than being recognised separately. Assumptions and estimates relating to the expected behaviour of the Society's current mortgages were reviewed based on recent experience.
- **Valuation of equity investments:** The Group's investment in Openwork units is accounted for at fair value. At the year end 2021, the Group adopted a valuation approach based on market value of the units during a trading window available to unit holders. The appropriateness of the valuation methodology is assessed annually and it was concluded that a discounted cash flow approach was more appropriate in valuing the units for the year end 2022. Further details on the change in valuation approach are provided in note 32. The Audit Committee review and challenge the appropriateness and rationale of Management's accounting judgements, assumptions and estimates on the valuation approach, forecasting potential returns from the units and the discount rate applied. It also monitors the latest trading windows for the units as a benchmark for the valuation process.
- **Hedge accounting:** The Audit Committee is appraised of the Group's derivative and hedge accounting position and strategy and agrees the accounting policy for hedging, including disclosures in the Annual Report and Accounts. The Group has adopted macro cash flow hedging under IFRS 9 during the year, which allows for the economic hedging of pipeline mortgage completions to be included in formal hedge accounting relationships. This requires additional disclosures relating to affected hedging instruments and hedged items.
- **Going Concern:** Preparing the Annual Report and Accounts under the Going Concern assumption requires the Board and Audit Committee to be satisfied that the Society will stay in business for at least 12 months from the date the Accounts are signed. In addition, the Accounts should contain a statement that the Society and Group are considered viable over a longer time period. As a result, a detailed assessment of the Group's viability over the next three years is reviewed by the Committee, which considers the Group's business operations, business planning, business management and risk management. The assessment also includes forecasts and stress testing of long term liquidity and capital resources. The Audit Committee concluded that the adoption of the Going Concern basis to prepare the Accounts is appropriate and considers the Group viable over the next three years.
- **The Committee considers matters raised by the External Auditor** and concluded there were no adjustments required that were material to the Annual Report and Accounts.

The Audit Committee is satisfied that the key estimates and judgements are appropriate and suitably disclosed in the Annual Report and Accounts. Having undertaken the above responsibilities and considerations throughout the Group's 2022 financial year, the Audit Committee recommended to the Board that approval be given to the audited Annual Report and Accounts and Summary Financial Statement as at 31 December 2022.

Internal control and risk management:

The Audit Committee works closely with the Group Risk Committee to ensure that management and colleagues take appropriate responsibility for departmental, business unit and subsidiary risk mitigation and internal control. The Audit Committee also reviews Internal Audit and management reports on the effectiveness of systems for internal control and risk management across the Group.

Further details of risk management activities are given in the Risk Management Report.

The Audit Committee is responsible for:

- review of the scope and effectiveness of the Group's internal controls and risk management systems, including those for ensuring compliance with the regulatory environment in which the Group operates;
- review of the Society's resolution pack arrangements and oversight of the Society's recovery plan self-assessment; and
- review and approval of the statements to be included in the Annual Report concerning internal controls and risk management.

The Group's Internal Audit Services forms a core component of the Group's risk management and internal control process.

During the year, the Audit Committee, through Internal Audit Services and from other management reports, reviewed the scope and effectiveness of the Group's internal controls. The coverage of the reviews in 2022 included reviewing the controls in operation for: lending, savings, financial advice, information technology and cyber security, treasury, finance, risk management, operational resilience, regulatory compliance and reporting, governance and strategic change initiatives. Internal Audit Services utilised the services of PricewaterhouseCoopers LLP, BDO LLP and RSM during 2022 for co-sourced internal audits to provide specialist expert input and promote knowledge transfer to Internal Audit Services.

Internal Audit Services reflects the Audit Committee's primary available resource, however the Committee retain the authority to obtain outside legal or independent professional advice as it sees fit. Reports from the Chief Risk Officer, Internal Audit Services, the External Auditor and senior management provide input on key risks, uncertainties and controls directly to the Audit Committee.

Internal Audit Services:

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Group's Internal Audit Services in the context of the Group's risk management, and for ensuring that professional standards are applied, resource is adequate in terms of number, skills, knowledge and standing within the Group to execute its responsibilities in an independent and objective manner. This review includes assessment of the Chief Internal Auditor with respect to appointment, remuneration, performance evaluation and assessment of their objectivity and independence.

A formal internal review of the qualification and effectiveness of Internal Audit Services is undertaken by the Committee annually and most recently in July 2022, which concluded positively, confirming that Internal Audit Services effectively met its responsibilities.

Additionally and in accordance with good practice, the Audit Committee also requires an external effectiveness review of Internal Audit Services at least every five years, which considers the quality, experience and expertise of the function. A review was carried out during 2019 by an external firm appointed by the Audit Committee.

The review concluded that Internal Audit Services was operating effectively, and confirmed that Internal Audit Services conforms to the standards expected by the Institute of Internal Auditors. The next external review is planned for 2024, but the Audit Committee has discretion to require an earlier review if this is deemed appropriate.

The Committee approves and reviews the Internal Audit strategy, work programme and results, and ensures Internal Audit Services maintains sufficient access to the Board, management and the books and records of the Society and its subsidiaries. This oversight allows the Audit Committee to monitor and assess the role and effectiveness of Internal Audit Services in the overall context of the Group's internal control framework, ensure appropriate management responsiveness to audit findings and recommendations given and promote open communication between the Group's Risk, Compliance, Finance and Internal Audit functions and the External Auditor.

External audit:

The Audit Committee is responsible for overseeing the Group's relationship with the External Auditor Deloitte LLP. This role extends to:

- appointment, reappointment, removal and assessment of independence, objectivity and effectiveness of the External Auditor;
- approval of terms and remuneration in respect of audit services provided;
- annual approval of the Group's policy on the use of the External Auditor for non-audit work as well as any non-audit work to be performed by the External Auditor; and
- consideration of audit quality, including reports by the Audit Quality Review Team.

The Audit Committee annually assesses the qualification, expertise and resources of the External Auditor, seeking reassurance that the auditor and their staff have no family, financial, employment, investment or business relationship with the Group that are considered to impact their independence. The External Auditor communicates their formal independence annually and appraises the Audit Committee of policies, processes and monitoring in place for maintaining their independence. The Audit Committee seek annual feedback from internal stakeholders to facilitate a robust assessment of the effectiveness of the External Auditor.

Prior to an External Audit engagement, the Audit Committee discusses the nature and scope of the audit. It reviews findings of the auditor's work and assesses the effectiveness of the audit process. This assessment reviews whether the auditor has met the agreed audit plan, considers the robustness and perceptiveness of the auditor in responding to questions from the Audit Committee and obtains feedback about the conduct of the audit from key people involved.

The Audit Committee ensures that non-audit services provided by the External Auditor will not adversely impact the independence and objectivity of the audit firm in performing their duties. A formal policy on the use of the External Auditor for non-audit work is reviewed annually.

During 2022, the External Auditor provided accounting advice to the Group that was non-audit work. The Audit Committee approved this work prior to it being carried out as it was limited scope advice and closely linked to future audit engagements. Where necessary to maintain independence, non-audit work is carried out by Deloitte partners and staff that have no connection to the External Audit team. The fees paid to the External Audit firm for audit and non-audit services are set out in the Administrative Expenses note to the Annual Report and Accounts.

Whistle blowing:

The Audit Committee reviews the Group's procedures for detecting fraud and policies related to its prevention and detection, including whistle blowing. This includes ensuring that arrangements are in place by which colleagues, in confidence may raise concerns about possible improprieties ensuring that arrangements are in place for independent investigation and appropriate follow up action. These could be in matters of financial reporting, financial control or any other matters. The outcome of the review is reported to the Board.

On behalf of the Board
Mick Thompson
Chair of the Audit Committee
2 March 2023

Remuneration Committee Report

Annual statement from the Chair of the Remuneration Committee

Introduction

I am pleased to share the Directors' Remuneration Report, on behalf of the Remuneration Committee, which details the Group's approach to pay, incentives and benefits for the period 1 January to 31 December 2022. It sets out the remuneration policy and remuneration details for the Group's Executive and Non-Executive Directors, how this aligns with our broader business strategy and how it applies the principles of the UK Corporate Governance Code relating to remuneration, the Regulators' Remuneration Code and the disclosure requirements arising under the EU Capital Requirements Directive IV (CRD IV).

The Committee

The Committee is comprised solely of Non-Executive Directors who have no personal financial interest in the recommendations and include members of the Board Risk and Audit Committees:

Anne Shiels	Non-Executive Director (Chair)
Bryce Glover	Non-Executive Director & Chair of Group Risk Committee
Mick Thompson	Non-Executive Director & Chair of Audit Committee

The Chair of the Board, Chief Executive and Chief People Officer (except for items relating to their own remuneration) also attend meetings but are not members of the Committee.

Rewarding with Purpose

As a Society, our Purpose continues to be connecting our communities with a better financial future. This guides all of the Society's actions including how we reward our colleagues, leaders and Board members. Paying our people a fair and competitive wage not only contributes to their own financial wellbeing, but also ensures that we can attract and retain the best talent from our region and beyond. We continue to see our catchment area for talent widening, and like many other organisations, we now find ourselves competing for talent in a national market. This has meant that we have had to further review our reward practices to make sure that we remain competitive. Having the right talent in the business enables us to deliver our ambitious strategy and objectives, deliver for our Members and ultimately continue our work to benefit and support the communities we are proud to serve. The wider economic and geo-political situation during 2022 and the resulting challenges this has presented to our colleagues in dealing with cost of living pressures, has made us acutely aware of the importance of ensuring our colleagues receive a fair, purposeful total reward package, and the Committee has been mindful of this throughout the year.

We have worked hard in recent years to implement a fair and purposeful reward strategy, ensuring that our people are compensated appropriately with a mix of variable and fixed remuneration. This work along with the significant investment which has accompanied it, has allowed us the flexibility and agility to respond to challenges as they emerged this year.

The Remuneration Committee's purpose is to consider, agree and recommend to the Board an overall remuneration policy and approach that promotes this aim, while ensuring that it remains aligned with the long term interests of the Society's Members and other stakeholders. We constantly strive to maintain the highest standards of governance and fairness in relation to remuneration and continued alignment with our business strategy. Risk appetite and regulatory requirements are also at the forefront of the Committee's consideration.

The Remuneration Committee 2022

2022 has continued to present economic turmoil for the UK which has impacted the Society, its Members and its colleagues. As we continue to operate in the shadow of the Covid-19 pandemic we are still seeing volatile labour markets with an increased demand on certain skills, although there is emerging evidence that this is starting to calm.

Inflation has continued to rise throughout the year, with the war in Ukraine compounding already high energy costs. As a result, we have seen significant wage movement across all sectors, and also observed businesses offering additional support to their employees during this time. The Committee considered what would be the most appropriate way to respond to this and how best to support our own colleagues during this time. It accordingly approved a set of measures, both financial and non-financial, for colleagues during the year.

In spite of the challenging conditions which 2022 presented, our colleague net promoter score climbed to an all-time high of +58 which places us in the top 10% of financial services sector within the Workday Peakon's (our external provider) global database.

The Society has renewed its commitment this year to fostering diversity, equity and inclusion at work and the Committee has been continuing its focus on ensuring we are a fair and equitable employer. We continue to closely monitor our Gender Pay Gap and have further increased our female representation at senior management level, building on the excellent progress we made in 2021 where we exceeded our 2023 target two years early. There is, however, still more to do to ensure our colleagues fully reflect the communities we serve. The focus on equitable pay will continue into 2023, with refreshed diversity, equity and inclusion data allowing us to do further analysis on wider reward inclusion.

Director and Executive remuneration in respect of 2022

Significant work has been carried out over recent years to introduce a robust and fair performance and reward framework for colleagues across the Society, in a way that is fair, affordable, reflects market practice and ensures that the organisation offers competitive total reward practices. Colleague reward continues to be competitive, equitable and ethical, ensuring we can attract, retain, motivate and reward the right people with the right skills to deliver our strategy for our Members.

The implementation of our Reward strategy referred to earlier, is the culmination of the work we have undertaken over the past few years to ensure that we pay all our people a reasonable and appropriate wage, comparable with industry peers. The work began by re-aligning our grading structure and benchmarking process for colleagues below executive level in line with external guidance and data, and concluded with a review of our Executive remuneration and Non-Executive fees in line with industry norms. We started this work in 2021 and continued with the second phase of the realignment of Executive compensation in 2022, with further adjustments being made to our Executive pay of between 5% and 18% to bring remuneration closer in line with peers in the sector and wider marketplace. This will help ensure we attract and retain the quality of leadership that will be required to implement the strategic goals we have laid out to grow and evolve our business and equip our leaders to successfully take the Society into the future.

Further detail on how we have delivered our Purpose of being a great place to work, where people can realise their potential in 2022, can be found in the Chair's Statement and Chief Executive's Review.

Directors' Remuneration Policy

Policy aims and principles

The Group's policy for remunerating Directors is designed to provide fair and competitive remuneration packages that attract, retain and reward Executives, including Executive Directors, to deliver business objectives in support of the Society's strategy, while providing value for Members.

With regard to Executive Directors' annual pay rise, the percentage increases are dependent on performance in the same way that this applies to the Group's wider colleague base.

In designing the Remuneration Policy, the following key principles have been followed:

- The policy is clearly linked to and influenced by the Group's Purpose, Strategic Plan, objectives and values and serves the interests of all key stakeholders;
- Policy, process and practice are consistent with and promote effective risk management in line with the Group's Risk Appetite Statement and detailed policies;
- Basic pay and total remuneration are set at a fair, affordable, reasonable and competitive level to attract and retain the appropriate calibre of people;
- The approach to pay and total remuneration is inclusive and equitable, supporting wider diversity and inclusion aims;
- The approach to pay satisfies all regulatory requirements and good, responsible corporate governance practice;
- Remuneration arrangements are transparent and fair reflecting individual responsibilities and performance; and
- Remuneration arrangements are straightforward to understand, communicate and administer.

Directors' service agreements and notice periods

Executive Directors are employed on service agreements which can be terminated by either the Society or the Director giving 6 months' notice.

Non-Executive Directors do not have service agreements. Non-Executive Directors are appointed for an initial three-year term. They will generally be expected to serve more than one three-year term, but not longer than 9 years in total, unless in exceptional circumstances and after approval by the Board.

All of the Society's Directors volunteer for annual re-election.

Policy on termination pay

The Committee aims to treat departing Executive Directors fairly, taking into account the circumstances of their departure, but is always careful to ensure that the interests of Members are considered and that there are no rewards for failure. Executive Directors are entitled to be paid their basic salary and contractual benefits (including pension contributions) during their notice period. The Society has the discretion to pay these as a lump sum in lieu of notice.

The rules of the Executive Bonus Scheme set out the treatment for an individual who ceases to be a colleague or Director of the Society.

Remuneration for Executive Directors

The table below shows the elements of remuneration for Executive Directors and the way they operate. These elements would be expected to apply equally to any new Executive Directors appointed in the future.

How elements support our strategy	Policy	Financial investment	Performance conditions and assessment
Basic salary Supports the attraction and retention of Executive Directors, reflecting their individual roles, skills and contribution and ensuring internal pay equity (ensuring colleagues within similar roles are compensated in a similar way).	Basic salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual. In setting appropriate salary levels, the Committee takes into account data for similar roles in comparable organisations as determined by the Group Job Evaluation Policy. The Society aims to position Executive Directors competitively within the reference group. Consideration is also given to internal pay equity.	Increases to base salary are determined annually by the Committee taking into account: individual performance; • the scope of the role; • pay levels of comparable • organisations; and • pay increases elsewhere in the Group.	Individual performance is taken into account when considering base increases, as well as affordability and the performance of the Group. Increases are proposed by the Chief Executive and approved by the Remuneration Committee.
Pension Supports attraction and retention of Executive Directors at a cost that can be controlled by the Society.	Generally, the Society contributes to a defined contribution pension scheme for the Executive Directors. The contribution can instead be paid in cash (which is excluded from bonus calculations) if the Executive Director is likely to be affected by the limits for tax approved pension saving.	9% of basic salary.	None applicable.
Benefits • Supports attraction and retention of Executive Directors; and • Provides a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including car allowance, private medical insurance, life insurance and permanent health insurance. The Committee reviews benefits offered and may make changes, for example to reflect market practice or the needs of the business. The Society offers all colleagues the option to participate in a salary sacrifice scheme in order to make use of current incentives and encourage use of electric vehicles.	The Society chooses to invest in the cost of providing benefits which may vary from year to year.	None applicable.
Executive Bonus Scheme* • Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate strategy; • Supports attraction and retention of Executive Directors; and • Supports the development of a high performance culture.	• Based on a number of performance measures and targets linked to the delivery of corporate strategy; • Measures include financial, customer, people and personal objectives; • Targets are set annually and payments are made at the discretion of the Remuneration Committee; and • Payments are made in cash in instalments over a three year period.	The maximum potential bonus opportunity is 50% of base salary. On target bonus opportunity is 30% of base salary.	Performance against pre-determined objectives will be measured by the Remuneration Committee on an annual basis and discretion may be applied under exceptional circumstances. Bonus levels take affordability into account together with specific performance measures which are set at the beginning of each financial year. For 2022, performance measures were weighted as follows: • 40% financial • 30% non-financial • 30% personal objectives A financial gateway exists in the operation of the Scheme.

Notes to the table

*As noted above, the Committee has complete discretion to make payment under the Executive Bonus Scheme and also has discretion to amend or remove that Scheme where necessary to ensure the arrangements continue to meet the Committee's overriding remuneration principles. For example, due to the uncertain economic situation caused by the Covid-19 pandemic, in early 2020, it was agreed that there would be no participation in the Executive Bonus Scheme for performance year 2020.

Directors' Emoluments (Audited)

The total remuneration received by Executive Directors is shown below. The information has been audited and shows remuneration for the years ended 31 December 2021 and 31 December 2022 as required under the Building Societies (Accounts and Related Provisions) Regulations 1998. There is a requirement under Rule 14 of the Society's Rules to have deposits to the value of not less than £1,000 in a Society share account in order to qualify as a Director. This means all Directors are Members of the Society. There are no requirements for a Director to own shares in the Society's subsidiary companies.

Details of other non-Society Board positions held by the Group's Directors are shown in the Annual Business Statement in the Annual Report and Accounts. None of the current Executive Directors retained any remuneration as a result of their non-Society positions.

	Year	Salary or fees	Taxable benefits (Notes 2,3 and 4)	Annual bonus (Note 1)	Pension contributions to defined contribution scheme (Notes 2,3 and 4)	Total contractual benefits
Executive Directors		£000	£000	£000	£000	£000
AS Haigh	**2022**	**460**	**55**	**215**	**-**	**730**
	2021	381	48	160	-	589
D Samper	**2022**	**294**	**38**	**146**	**-**	**478**
	2021	243	34	118	-	395
S Miller	**2022**	**244**	**34**	**121**	**-**	**399**
	2021	187	29	90	-	306
Total for Executive Directors	**2022**	**998**	**127**	**482**	**-**	**1,607**
	2021	811	111	368	-	1,290
Non-Executive Directors						
PJ Moorhouse (Retired 23 August 2021)	**2022**	**-**	**-**	**-**	**-**	**-**
	2021	53	-	-	-	53
IW Ward (Retired 27 April 2022)	**2022**	**22**				**22**
	2021	52	-	-	-	52
B Glover	**2022**	**68**				**68**
	2021	47	-	-	-	47
A Laverack (Business name: Anne Shiels)	**2022**	**65**				**65**
	2021	57	-	-	-	57
K Ingham	**2022**	**53**				**53**
	2021	48	-	-	-	48
MR Thompson (Note 5)	**2022**	**86**				**86**
	2021	75	-	-	-	75
GA Bennett	**2022**	**54**				**54**
	2021	48	-	-	-	48
S Lynn	**2022**	**61**				**61**
	2021	46	-	-	-	46
MJ Faull (Appointed 23 August 2021)	**2022**	**48**				**48**
	2021	23	-	-	-	23
JDA Ramsbotham (Appointed 23 August 2021)	**2022**	**110**				**110**
	2021	40				40
Total for Non-Executive Directors	**2022**	**567**				**567**
	2021	489	-	-	-	489
Total for all Directors	**2022**	**1,565**	**127**	**482**		**2,174**
	2021	1,300	111	368	-	1,779

Notes

1. During 2022 the Society's Executive Directors participated in the Group's annual Executive Bonus Scheme. A proportion of the Executive bonus payment is deferred and is payable in future years as shown in the Executive Bonus Payment table overleaf.
2. Mr AS Haigh has elected to take his pension contribution amounting to £41,400 (2021: £34,326) as a cash payment. He is liable for his own tax and National Insurance contributions on this payment.
3. Mr D Samper has elected to take his pension contribution amounting to £26,438 (2021: £21,878) as a cash payment. He is liable for his own tax and National Insurance contributions on this payment.
4. Mr S Miller has elected to take his pension contributions amounting to £21,938 (2021: £16,825) as a cash payment. He is liable for his own tax and National Insurance contributions on this payment.
5. Mr M Thompson received £18,000 (2021: £18,000) in relation to chairing the Newcastle Building Society Pension and Assurance Scheme Board.
6. No Directors received termination payments in 2022 (2021: None).

Chief Executive remuneration

The Chief Executive is the Group's most highly paid colleague and no colleague earns more than any Executive Director.

Mr A Haigh received an 18% pay rise on base salary in March 2022. This increase is an outcome of the independent review of Executive reward, undertaken by the Committee's reward advisors Willis Towers Watson and represents the second of two stages of a reward roadmap adopted by the Committee in respect of Executive remuneration.

Chief Executive Officer (CEO) pay ratio

The Companies (miscellaneous Reporting) Regulations 2018 requires the publication of the ratio of the CEO's single figure remuneration. We have chosen to use the Governments' preferred methodology (option A), which determines the total full time equivalent total remuneration for all colleagues for the relevant financial year, and compares the 25th, 50th and 75th percentiles against the CEO's single figure.

	Quartile	Base salary £	Total pay and benefits £	Ratio to CEO %
	25th	**22,316**	**25,677**	**26.28**
2022	**50th**	**27,882**	**32,082**	**21.03**
	75th	**39,328**	**46,753**	**13.43**
	25th	20,623	22,438	27.37
2021	50th	25,987	29,087	21.11
	75th	36,773	42,329	14.51

Annual Executive Bonus

An Executive Bonus Scheme, which Executive Directors and other Executives participate in, was introduced in 2019 as part of the move towards alignment to market practice. It is paid in three parts, with the first payment of 50% in the year after the bonus is earned and the remainder over two equal payments in the following two years. This allows the Committee to review whether the payment remains appropriate and in line with strategy and Purpose, providing the ability to reduce or cancel the payment in cases such as, but not limited to, significant failures in risk management, material errors or the Society's financial underperformance. The Executive Bonus Scheme is dependent on performance, measured against personal objectives as well as financial and non-financial performance indicators. Should all metrics be met, on target bonus payments are set at 30% of base salary, with a maximum bonus potential of 50% of base salary for exceptional business and personal performance.

The Executive Bonus Scheme has been paid out in line with the rules of the Executive Bonus scheme. 2022 pay awards for Executive Directors were paid in line with pre-agreed levels as part of the review which was based on Willis Towers Watson advice. As a result there was no discretion applied.

Payments and deferred payments under the Executive Bonus Scheme for performance year 2022 are shown in the table below.

Executive Director	Bonus deferred from	Bonus payable in 2023 £000	Bonus payable in 2024 £000	Bonus payable in 2025 £000	Total bonus deferred £000
Andrew Haigh	**2021**	40	40	-	40
	2022	107	54	54	108
	Total	**147**	**94**	**54**	**148**
David Samper	**2021**	30	30	-	30
	2022	73	37	36	73
	Total	**103**	**67**	**36**	**103**
Stuart Miller	**2021**	22	23	-	23
	2022	61	30	30	60
	Total	**83**	**53**	**30**	**83**
Total		**333**	**214**	**120**	**334**

Remuneration of Non-Executive Directors

A focus on Non-Executive Director remuneration was the final phase of the work undertaken over recent years to introduce a robust and fair performance and reward framework across the Society. This included the introduction of a new separate Non-Executive Director Remuneration Committee who approve the fees of non-executive directors which are then be ratified by the Board. Membership of the Non-Executive Remuneration Committee consists of the Chair of the Board, Chief Executive and Chief Financial Officer and is attended by the Chair of Remuneration Committee and Chief People Officer. Remuneration for the Chair of the Board is recommended by the Chief Executive to the Remuneration Committee for approval and subsequent ratification by the Board.

Element	Approach
Basic fees	Reviewed annually, based on time commitment and responsibility required by Board and Board Committee meetings. The review takes into account fees paid by comparable financial services organisations. The basic fee currently paid is £48,000 (2021: £35,000)
Additional fees	Additional fees are payable for additional responsibilities, such as Committee Chair. Committee Chair fees range from £12,000 to £20,000 (2021: £8,150 to £10,500) depending on time commitments required
Other items	Non-Executive Directors are not eligible to participate in any form of performance pay and do not receive pensions or other benefits in kind.

Consideration of remuneration for colleagues who are not Directors

Code Staff and Executives who are not Directors

In addition to setting the remuneration of the Executive Directors, the Remuneration Committee approves the remuneration policy for senior managers who have a material impact on the Society's risk profile (code staff). The Committee also reviews recommendations from the Chief Executive for approval of the remuneration of other Executives.

The Group's colleagues

All colleagues receive basic salary and benefits consistent with market practice, and are eligible to participate in the Group's Corporate Bonus Scheme and pension arrangements. When setting salary increases for Executive Directors, the Committee considers the level of salary increases across the Society and Group. No colleague consultation on Executive Director remuneration has been undertaken.

In 2022 the Society introduced the 'Sharing in our Success Scheme' for colleagues below Executive level. Introduction of the scheme improves the reward practices and structures, ensuring the Society has the correct mix of base and variable pay to incentivise the level of performance required to deliver the ambitious strategic plans over the next 3-5 years.

The Remuneration Committee approved the payment of the 2022 'Sharing in our Success Scheme', in line with the scheme rules.

Please refer to the 'Our Collegaues' section of the Strategic Report for more information.

Summary of the remuneration of code staff

Remuneration code staff are currently defined as senior management, control functions and any colleague receiving total remuneration that takes them into the same remuneration bracket as senior management, or whose professional activities have a material impact on the Group's risk profile. The table below shows the aggregate remuneration for code staff in relation to their services to the Society and Group.

Consideration of Member views

The Committee does not consult with the Society's Members on its Executive Remuneration Policy, but takes into account feedback given by Members. For a number of years, the Committee has invited Members to vote on the annual remuneration report and Members have always voted in favour.

The Directors' Remuneration Report and Policy were last voted on in April 2022. Member approval was given to the 31 December 2021 Directors' Remuneration Report (90.46% approval with 12,681 votes for, 1,337 against and 241 withheld).

Category	Typical Functions	Year	Number	Salary or Fees £000	Other taxable benefits £000	Variable remuneration (Note 1) £000	Total remuneration £000
Executive Directors	Chief Executive Officer Chief Financial Officer Chief Customer Director	**2022**	**3**	**998**	**127**	**482**	**1,607**
		2021	3	811	111	368	1,290
Other Executives	Chief Information Officer Chief People Officer Chief Risk Officer Chief Transformation Officer Managing Director NSSL Managing Director NFAL	**2022**	**6**	**968**	**135**	**315**	**1,418**
		2021	6	861	128	323	1,312
Control Functions	Balance Sheet Management Compliance Customer Outcomes Internal Audit IT Services Product Development Risk Treasury Underwriting	**2022**	**10**	**933**	**124**	**261**	**1,318**
		2021	10	745	109	44	898
Total		**2022**	**19**	**2,899**	**386**	**1,058**	**4,343**
		2021	19	2,417	348	735	3,500

Notes:

1. Variable remuneration reflects participation in the Group's Executive Bonus Scheme for Executive Directors and other members of the Executive Committee and the Group's annual Corporate Bonus Scheme for all other code staff.

The Remuneration Committee and its advisers

The Committee's responsibilities

The Committee is responsible for the oversight and governance of the Group's overall compliance with the Remuneration Code.

The Committee's main objectives are:

- to ensure that fair and competitive remuneration packages are in place, in line with market rates, that attract, retain and reward the Group's Executive and Senior Management for delivering stated business objectives in support of the Group's strategy and Purpose, whilst providing value for Members, stakeholders and communities;
- to ensure compliance with the Regulators' Remuneration Code through at least annual review and to ensure the Remuneration Policy is consistent with regulatory requirements and the Group's financial situation and future prospects;
- to determine and agree with the Board the framework for Executive and Senior Management remuneration and conditions of employment;
- to approve the salaries, and any salary adjustments, variable pay awards and payments for Executive and Material Risk Takers and to approve the terms of the annual pay review for all colleagues;
- approve the design of any variable remuneration schemes and approve the total annual payments under such schemes;
- to approve the Society's Remuneration Policy Statement and Remuneration Committee Reports in the Group's Annual Report and Accounts and Summary Financial Statements, and the remuneration section of the Group's Pillar 3 disclosures
- to approve service agreements, and terms and conditions for the appointment of Executive Directors;
- to consider and make recommendation to the Board on the general framework of colleague bonus schemes.

The Board believes remuneration should be sufficient to attract, retain and motivate colleagues and senior managers to continue to run the Group successfully and in line with stated aims and purpose. The Remuneration Policy, therefore, focuses on rewarding colleagues and Executives in line with the achievement of the Group's goals set out in the Strategic Plan and Corporate Key Performance Indicators, thus ensuring long-term value for money for Members.

The Remuneration Committee operates within the Terms of Reference (TOR) agreed by the Board. The TOR are reviewed annually and were last reviewed in January 2023. The effectiveness of the Committee is to be included in a broader Board effectiveness review which will take place during 2023. A plan is in place to undertake a full review of the reward policy, practices and frameworks in 2023, together with a review of effectiveness, rolling agenda and Terms of Reference of the Remuneration Committee.

During the year, the Committee met eight times, and activities included:

- overseeing compliance of the Group's approach to remuneration against the requirements of the Regulators' Remuneration Code;
- considering and agreeing pay and benefits for Executive Directors, Executives, Material Risk Takers and the Chair;
- overseeing remuneration matters across the Society and its subsidiaries;
- reviewing the performance for the full year and approving the level of Executive and Corporate Bonus to be paid based on achievement of various financial and non-financial key performance measures;
- responding to the macroeconomic conditions specific to 2022 that were impacting on colleagues' cost of living;
- reviewing and benchmarking the level of pay for both colleagues and Executives;
- considering the disclosure requirements for the Remuneration Report including Pillar 3 disclosures; and
- approving the Directors' Remuneration Report.

External advice received

During the year, Willis Towers Watson were engaged to assist the Remuneration Committee by reviewing the Group's Director and Executive level remuneration and benchmarking it against the external market. The Committee is satisfied that the advice received is objective and independent, with Willis Towers Watson being a reputable firm with no other ties to the Group, its Directors or senior management.

The fee for the advice was £18,925 (2021: £13,192)

On behalf of the Board
Anne Shiels
Chair of the Remuneration Committee
2 March 2023

Risk Management Report

Overview

The Society's risk management framework is designed to pro-actively identify and manage risk, while supporting senior management in the delivery of the Group strategy. This is achieved through the effective utilisation of risk appetite and ensuring resilience to operational and financial risks. The Society's ability to identify, measure, monitor, report and control risks is key to the continued delivery of sustainable and resilient business performance, including fair outcomes for our customers. The Society's Chief Risk Officer has ultimate accountability for the maintenance and enhancement of the organisation's Risk Management Framework.

Risk framework

The Society continues to adopt the traditional 'Three Lines of Defence' approach to risk management:

First line of defence	Comprises of core business units, which ultimately hold the responsibility for **identifying, quantifying and managing risk** while adhering to corporate risk appetite, policies and standards. The first line also holds the responsibility for implementing and maintaining regulatory compliance.
Second line of defence	The Risk function provides **independent oversight** of the implementation of effective risk management, while developing and maintaining risk management policies and methodologies. The second line reports (through the Chief Risk Officer) to the Chief Executive and ultimately to the Group Risk Committee.
Third line of defence	The Internal Audit function provides **independent assurance** to the Board and senior management on the adequacy of the design and operational effectiveness of internal control systems and measures across the business.

The risk management framework includes the use of Board approved risk appetite statements covering a variety of Principal Risks that the organisation faces. Additionally, regular management information and performance data in respect of the overall framework is provided to the Group Risk Committee. There is a demonstrated level of balance within the framework with evidence of performance, stress testing, scenario analysis and recovery planning.

Overall, there is a high degree of awareness and understanding of risk across the organisation. Senior management understand, and champion, the basis for risk measures with detailed understanding of strengths and limitations. The culture across the organisation supports the development of risk skills which is articulated from the top down and gives due focus to risk management.

Risk governance

The Board is ultimately responsible for ensuring that adequate systems of risk management are in place and that the Society's strategy, risk appetite and risk management are aligned. To assist the Board, a Group Risk Committee oversees the management of risk across the Group (see below). In addition, the Board is responsible for the establishment of risk appetites that ensure business activities and decisions are taken within our capacity for accepting risk, performance to risk appetites are monitored by the Board and the Group Risk Committee.

The second line of defence Risk function oversees the suitability and effectiveness of risk management across the organisation and supports the Group Risk Committee. This includes the provision of oversight reporting to the Group Risk Committee and its sub-Committees.

The Chief Risk Officer provides formal updates on risk management to the Board, in relation to the Group, on a regular basis.

Group Risk Committee

Members of the Group Risk Committee at 31 December 2022 were:

Bryce Glover (Committee Chair), Adam Bennett, Michele Faull, Karen Ingham and James Ramsbotham.

The Group Risk Committee oversees the Society's risk management and governance framework and the Society's overall risk profile. The Committee meets at least four times per year and more frequently when required.

The duties of Group Risk Committee include:

- oversight of overall risk appetite, tolerance and risk management strategy and the principal and emerging risks the Society is willing to take in order to achieve its long-term strategic objectives;
- oversight of the management of risks to which the business may be exposed, including (but not limited to) prudential risks, conduct risks, operational risks, operational resilience and IT related risks including cyber;
- oversight of compliance with risk policies;
- oversight of the risk sub-committees (see below); and
- review and assess the Society's risk appetite and associated stress testing.

During 2022, the Group Risk Committee met on six occasions and in particular considered the following matters:

- review of key and emerging risks facing the Society, notably post-pandemic macroeconomic risks, including the impact of the 'cost of living crisis';
- oversight of the annual stress testing report including low likelihood high impact risks;
- review and ratification of key risk policies including (but not limited to) lending, treasury, interest rate risk and operational risk;
- review of the Group Operational Resilience plans and approach;
- review and approval of the Society's Compliance monitoring plans; and
- review of compliance with Building Society Sourcebook limits.

Credit Risk Committee

The Credit Risk Committee, chaired by the Chief Risk Officer, is responsible for the oversight of the retail and commercial credit risk framework. This Committee acts under the authority of the Group Risk Committee and has delegated authority to make decisions and recommendations in accordance with the agreed terms of reference. The Credit Risk Committee ensures the use of regular stress testing and scenario modelling that are reflective of the nature of the associated risk.

The Credit Risk Committee met on thirteen occasions during 2022.

Enterprise Risk Committee

The Enterprise Risk Committee, chaired by the Chief Risk Officer, is responsible for overseeing the risk framework for Operational Risk, Conduct Risk, IT Risk, People Risk and Operational Resilience. The Enterprise Risk Committee has the responsibility for review and approval of Group-wide policies in advance of final approval by the Group Risk Committee. All relevant operational risk management information, to include (but not limited to) performance against risk appetite statements, is reported to the Enterprise Risk Committee.

The Enterprise Risk Committee met on eleven occasions during 2022.

Model Risk Committee

The Model Risk Committee, chaired by the Chief Risk Officer, ensures the Group's compliance with the Prudential Regulation Authority Supervisory Statement SS3/18 'Model Risk Management Principles for Stress Testing'. The Model Risk Committee acts under the authority of the Group Risk Committee in an advisory capacity and makes non-binding recommendations concerning the Group's adherence to the Model Risk Policy.

Recommendations are made by the Model Risk Committee to the Group Risk Committee on suitable macroeconomic scenarios, model risk appetite, model performance (monitoring) and model limitations. Approval of the Group's macroeconomic scenarios remain the responsibility of the Board.

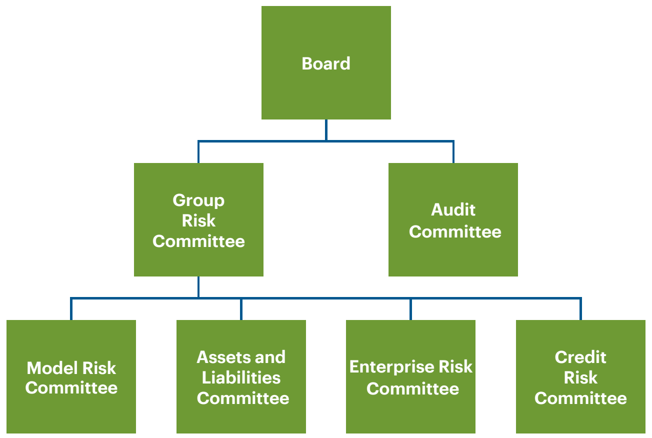
The Model Risk Committee met on seven occasions in 2022.

Assets and Liabilities Committee

The Assets and Liabilities Committee, chaired by the Chief Financial Officer, oversees asset and liability mix, the effectiveness of risk and controls of strategic capital planning, liquidity, funding and interest rate risk in the Banking Book (IRRBB) and compliance with limits and metrics set out in the Treasury Policy and Standards.

The Assets and Liability Committee met on twelve occasions in 2022.

Risk governance structure



Principal Risks

The following table provides an overview of the Group's principal and emerging risks and the way these are managed. In assessing these risks, due account is taken of the challenging macroeconomic environment, to include the global economic outlook and the impact of sustained rises in food prices, high energy costs and increased cost of credit continue to squeeze the reach of household income.

Principal Risk	Risk Management	Commentary
Capital Risk ***(Principal Risk)***	As a deposit taking institution, the Society's capital is highly regulated and the Society submits regular capital returns to regulators. The Group's capital position is forecast monthly and its adequacy monitored by the Board and senior management. The Group uses stress testing at least annually to assess whether its capital buffers and limits are sufficient to withstand even very severe economic and idiosyncratic conditions. The Group also maintains a recovery plan with detailed measures that could be used to rebuild the Group's capital if this was necessary. The Group maintains its capital at a level in excess of its regulatory total capital and buffer requirements and internal limits.	**Risk remained static in 2022** In line with the Society's growth plan, the Group's Common Equity Tier 1 ratio has decreased from 13.8% to 12.5%, comfortably above the regulatory minimum of 4.5%. The decrease is a result of the growth of the Society's mortgage book outweighing captial generation in the year.
Climate Change Risk ***(Emerging Risk)***	The Society has robust operational resilience processes and responses to manage the impact of any transient localised climate change events. The Society has developed climate change scenarios which have been used in our capital modelling and stress testing. The Group actively engages with the industry as a whole to consider the potential impacts and longer-term scenarios of climate changes and resulting risks.	**Risk increased in 2022** Risk increased due to progressive climate change events. The Society is strengthening its strategic focus on environmental sustainability to include relevant CO2 reduction. Scenario planning and modelling continue to evolve, though the Society's exposure to losses from climate change related risks remain low in the context of overall credit loss provisioning.
Credit Risk - Commercial ***(Principal Risk)***	The commercial loan book continues to be actively managed down. All commercial loans over £500k are subject to annual review, with summary reporting of outcomes to the Credit Risk Committee. Quarterly lending management information provides the Credit Risk Committee with high-level detail for greater than £500k loans, emerging risks and wind-down progress.	**Risk reduced in 2022** The Society withdrew from new commercial lending in 2008. Lending balances on commercial property continue to reduce. The legacy commercial book has remained performant throughout 2022. Throughout 2022, the Society continued to see further redemptions, in this respect the risk is decreasing, though we continue to monitor the external macroeconomic influence.

Principal Risk	Risk Management	Commentary
Credit Risk - Residential ***(Principal Risk)***	Loans are underwritten individually based on affordability, credit score and history, acceptable collateral (including loan to value) and the Society's lending criteria. The Society does not undertake sub-prime or self-certification lending. The Society's Lending Policy has been actively reviewed and enhanced through 2022 to ensure we respond appropriately to the macro economic environment and market challenges. The residential book is subject to monthly reporting to the Credit Risk Committee in relation to its credit risk characteristics (including loan to value, loan to income, arrears, credit score profile, early delinquencies, and arrears arising from cohorts of lending). The Society's risk appetite is expressed in terms of losses arising in a stressed scenario, and stress testing is used to ensure that the portfolio is within the Society's risk appetite.	**Risk increased in 2022** Risk increased due to macroeconomic influences. The Society has maintained a prudent approach to lending during 2022, whilst continuing to enhance predictive modelling and scenario analysis to inform our lending approach and controls, recognising increasing financial pressures on borrowers due to rising living costs. The volume of loans that are three months or more in arrears remain well within the Society's risk appetite and remain consistent with levels of 2021. Actual losses on residential mortgages remain extremely low. The residential mortgage book will continue to be closely monitored for early indications of arrears.
Conduct Risk ***(Principal Risk)***	The Society maintains a risk appetite statement relating to customer outcomes and measures performance against this monthly, reporting to the Enterprise Risk Committee with oversight from the Group Risk Committee. All new products are approved by a Mortgage and Savings Committee, which includes consideration of an assessment of risks to customer outcomes. The Society maintains a Customer Outcomes dashboard, which looks at evidence supporting good customer outcomes (or suggesting poor outcomes) and this is reviewed monthly and reported to the Enterprise Risk Committee. The Society maintains quarterly Conduct Risk monitoring plans, which are risk based, reporting to Enterprise Risk Committee with oversight from the Group Risk Committee.	**Risk remained static in 2022** The Society provides a simple product range of savings and mortgages to its Members. Newcastle Financial Advisers Limited provides financial advice as an appointed representative of Openwork. The Society continues to review its suite of conduct risk controls in line with forthcoming Consumer Duty requirements.
Interest Rate Risk ***(Principal Risk)***	Interest rate risk (IRR) exists in the Society's Banking Book only. The Society does not operate a Trading Book. Interest rate risk and basis risk are monitored and reported monthly to the Assets and Liabilities Committee, including compliance with policy defined limits and metrics. The Society uses a suite of metrics to manage interest rate risks within risk appetite. These metrics are designed to address all sub-components of interest rate risk including basis risk, earnings risks, economic value risks, credit spread risks, duration and optionality risks. The Society completes regular stress testing analysis to ensure that IRR remains within appetite should such scenarios arise.	**Risk increased in 2022** Risk increased due to market response to political events, monetary and fiscal policy decisions. The Society continues to maintain a robust interest rate risk framework and an effective hedging strategy. The interest rate risk in the Banking Book continues to be managed within the Society's low risk appetite.

Principal Risk	Risk Management	Commentary
Investment Credit Risk ***(Principal Risk)***	Investments are subject to a Group Risk Committee approved policy, including limits on exposures to instruments, countries and counterparties. Investments are monitored and reported daily to management and monthly to the Assets and Liabilities Committee, including compliance with the policy. The credit default swap rates for the Society's counterparties are monitored and alerts raised if certain criteria are met in relation to those spreads. The mark-to-market value of the Society's investments in gilts, residential mortgage backed securities and covered bonds are monitored daily and reported to the Assets and Liabilities Committee monthly.	**Risk remained static in 2022** Acknowledging increased market volatility in 2022, the Society maintains a robust Treasury Policy governing such activity and almost all investments are in high-quality liquid assets. The Society has increased analysis of asset-backed securities which are proving to be resilient and sufficiently overcollateralised.
Liquidity Risk ***(Principal Risk)***	Liquidity risk is monitored against limits and metrics defined within the approved Treasury Policy and Standards, including Liquidity Coverage Ratios, whilst the Internal Liquidity Adequacy Assessment Process is subject to both the Assets and Liabilities Committee and Board approval. Stress tests are used to ensure liquidity risk is managed within risk appetite. Liquidity is monitored daily with monthly reporting to the Assets and Liabilities Committee.	**Risk remained static in 2022** Liquidity risk overall remains within our risk appetite and the Group maintains sufficient sources of liquidity to be able to avoid having to sell investments at a discount to raise cash, even in severely stressed circumstances.
Macroeconomic Risk ***(Principal Risk)***	The Society actively monitors and responds to the key macroeconomic indicators, taking account of wider industry economic forecasting to ensure management understand the range of possible outcomes. We continue to use outcomes based scenario modelling, to inform strategic decisions and risk management. We consider a variety of scenarios and sensitivities to reflect outcomes and to ensure we have appropriate mitigation strategies in place.	**Risk increased in 2022** The macro-economic risks continue to create uncertainty, rising inflation has led to increases in the Bank of England base rate and signs of upward pressure on living and borrowing costs. The Society continues to monitor, forecast and plan for increases in arrears and support to our customers, though the impact of macroeconomic risks has not had a material impact on the Society's credit book as at end of 2022.
Operational Risk ***(Principal Risk)***	Operational risk is subject to a Group Risk Committee approved policy, which covers the framework for the management of operational risk. This framework includes identification, assessment against risk appetite and management of risks through controls and control testing. The framework also defines procedures for reporting risk events, response and operational losses. Key risks and controls are mapped by all areas of the business and are used to inform scenario exercises to test business resilience and operational recovery. Corporate insurance policies are negotiated with regard to the key risks within the Group requiring greater mitigation.	**Risk remained static in 2022** As the Society's business model includes diversification via the Solutions business, this increases exposure to operational risk particularly in relation to IT systems capability and human error. The Society continues to invest in a programme of operational resilience which is predicated on reducing the impact of operational events within the business. Throughout 2022, the Society's operational risk exposure has been managed and remains well within risk appetite.

Principal Risk	Risk Management	Commentary
Pension Fund Obligation Risk ***(Principal Risk)***	The pension fund is overseen by the Trustees of the Scheme, within an agreed Investment Strategy. Reports prepared by the Scheme's independent actuary are reviewed by the Trustees quarterly and if appropriate, management action is taken. The Group performs stress testing on the pension scheme liabilities and assets at least annually.	↑ **Risk increased in 2022** The risk increased in 2022 due to adverse market turbulence. The Scheme has continued to maintain a satisfactory funding position, despite adverse market turbulence. The Scheme and the Society are actively looking to further reduce/extinguish the residual risk to the Society through a strategy of buy in/buy out.

On behalf of the Board
Bryce Glover
Chair of the Group Risk Committee
2 March 2023

Independent Auditor's Report
to the Members of Newcastle Building Society

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Newcastle Building Society (the 'Society') and its subsidiaries (the 'Group'):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2022 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- the Group and Society income statements;
- the Group and Society statements of comprehensive income;
- the Group and Society balance sheets;
- the Group and Society statements of movements in Members' interests;
- the Group and Society cash flow statements; and
- the related notes 1 to 45.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom international accounting standards.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and the Society for the year are disclosed in note 6 to the financial statements. We confirm that that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - Fair value of equity release mortgages; - Expected credit loss (ECL) allowance on residential lending; and - Expected credit loss (ECL) allowance on commercial lending. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £1.3m which was determined on the basis of 0.5% of net assets (consisting of reserves and subscribed capital).
Scoping	All material entities in the Group are within our audit scope and audited to a lower materiality for the purposes of individual entity reporting. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.
Significant changes in our approach	Following our risk assessment procedures, we considered it appropriate to remove fair value of hedge accounting as a key audit matter. Following an accounting policy change in the prior year, there is no longer a hedge designation in respect of the equity release mortgage portfolio and the remaining hedge accounting judgements do not involve significant estimation.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls around the Directors'' going concern assessment;
- assessing Directors'' considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- assessing the Group's and Society's compliance with regulation including capital and liquidity requirements;
- involving prudential risk specialists in assessing the information supporting the liquidity and capital forecasts, including the stress testing and reverse stress testing performed by the Directors;
- assessing the assumptions such as cash flows, capital and liquidity, used in the forecasts prepared by the Directors;
- assessing historical accuracy of forecasts prepared by the Directors; and
- assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Fair value of equity release mortgages

Key audit matter description	The Group holds a legacy portfolio of equity release mortgages ("ERMs") at fair value in line with IFRS 4 and IFRS 13 which is classified within level 3 of the fair value hierarchy (see note 32 for a definition of level 3 measurements). The ERMs had a carrying value at 31 December 2022 of £166.3 million (2021: £232.6 million). The fair value of the ERMs is determined using a discounted cash flow model and is reliant upon several unobservable and judgemental inputs. Our key audit matter relates to the risk of management bias in determining its estimate of the discount rate and future house price (HPI) assumptions used within the fair value model and the impact these assumptions have on the modelling of the no negative equity guarantee. This also includes consideration of repayment profiles and the credit risk associated with the assets. The Group's disclosure of the ERMs is detailed within note 13 and note 32. The associated accounting policies are detailed on page 88 with detail about critical accounting judgements in applying accounting policies and key sources of estimation uncertainty on page 92. The Audit Committee's consideration of the matter is described on page 58.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the fair valuation of ERM portfolios. We challenged the Society's valuation methodology for the ERM portfolio by: • involving our valuation specialists in the audit of the Group's valuation approach; • verifying that the ERM model is consistent with the model reviewed by our modelling specialists in the prior year, when we assessed that the model mechanics had been prepared in accordance with the contractual terms of the loans; • assessing the rate used to discount the future cash flows to present value, by independently determining a reasonable range of discount rates through utilising external data and taking into account the repayment profiles associated with the Group's borrowers and credit risks related to the assets; • involving our economics specialists to assess the future HPI forecast assumptions used; this was done by benchmarking to external information and internal consistency with assumptions used in other modelling by the Group; • testing the appropriateness of the other elements inherent in the valuation of the underlying loan assets, such as no negative equity guarantees provided by the Group; • challenging the appropriateness of the assumptions in light of current market factors; and • performing a 'stand back' assessment as to whether the fair value of the ERM portfolio determined by the Group using each of the individually assessed judgemental inputs, resulted in a reasonable outcome when combined in aggregate through the ERM model.
Key observations	Based on the work performed, we concluded that the Group's valuation methodology of the ERM portfolio was in line with the accounting standards and that each of the assumptions, as well as the overall valuation, were within a reasonable range.

5.2 Expected credit loss (ECL) allowance on residential lending

Key audit matter description	Under IFRS 9, the Group is required to determine a provision for the expected credit loss ('ECL') on loans measured at amortised cost. Estimating expected credit losses requires judgement and estimation on assumptions relating to customer default rates, likelihood of repossession, future property values, forced sale discounts and indicators of significant increases in credit risk. These assumptions are informed using historical behaviour and experience through different economic cycles as well as credit bureau data. The Group held £3.5m of impairment provisions at year-end in accordance with IFRS 9 (2021: £3.4m) against total loans and advances to customers of £3,773.8m (2021: £3,185.3m). The Group applies four macro-economic scenarios when determining the ECL calculation: a central outlook, a downside, a severe downside and a growth scenario. The selection and probability weighting of relevant macro-economic scenarios is judgemental and has a significant impact on the ECL calculation. The level of judgement is also increased in the current year due to the rises in inflation, interest rates and the cost of living for borrowers which are macro-economic factors that are not captured in the Group's core ECL model. The Directors have therefore determined a post model adjustment to increase the ECL by £0.2m (2021: £nil). This estimate was determined by using credit bureau data to identify a population of customers that may be at risk of future affordability to meet loan repayments. We have identified the selection of macro-economic assumptions, scenario weightings and the post model adjustment in respect of inflation and interest rate rises as a key audit matter; it is highly judgemental and has a significant impact on the ECL calculation. There exists a risk of bias in selecting the weightings and assumptions applied in the IFRS 9 model. The Group's loan loss provision balances are detailed within note 12. The associated accounting policies are detailed on page 88 with detail about critical accounting judgements in applying accounting policies and key sources of estimation uncertainty on page 92. The Group's consideration of the effect of the future economic environment is disclosed in note 39. The Audit Committee's consideration of the matter is described on page 58.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the loan impairment provisioning process. This included assessment of the data flows used within the models, and the level of challenge at the Model Risk Committee in respect of the assumption and methods used to determine these accounting estimates. With the involvement of our credit risk specialists, we assessed the compliance of the modelling approach and methodology with the requirements of IFRS 9. With the involvement of our credit risk specialists we assessed whether the documented modelled approach was implemented in practice and if there had been any changes to the model since our review in the prior period. We challenged the Group's consideration of the future economic environment by engaging our economic specialists to review the Group's approach as well as comparing modelled assumptions to publicly available data from peer organisations, regulators and economic commentators. We challenged management as to whether there was sufficient evidence for the level of provisions held compared to the low levels of historical loss data. We assessed, using publicly available data, whether the combination of management's modelled downside and alternative downside scenarios appropriately captured credit risk relating to the future economic environment. Working with our credit risk specialists, we assessed the methodology and valuation of the post model adjustment that was made in respect of affordability risks. We reconciled the mortgage book to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate.
Key observations	Based on the work performed, we concluded that the Group's ECL applied to the residential mortgage book is reasonable.

5.3 Expected credit loss (ECL) allowance on commercial lending

Key audit matter description	As noted above, under IFRS 9 a provision is required for the expected credit loss (ECL) on loans measured at amortised cost. The Group holds a legacy mortgage portfolio secured against commercial properties, which totalled £13.9m as of 31 December 2022 (31 Dec 2021: £32.0m). The portfolio includes a wide variety of property types, however as a legacy portfolio only a small number of loans with individually material exposures remain. The expected credit loss provision balance of £2.3m as of 31 December 2022 (31 Dec 2020: £4.3m) which is determined following an assessment of each individual loan. We consider the most significant areas of judgement within the Group's commercial ECL allowance to be: • the macro-economic assumptions and assigned probability scenario weightings; and • underlying collateral valuations, given the uncertainty that increased energy costs could have on tenants' ability to pay rent, particularly in certain sectors. The Group's loan loss provision balances are detailed within note 12. The associated accounting policies are detailed on page 88 with detail about critical accounting judgements in applying accounting policies and key sources of estimation uncertainty on page 92. The Group's consideration of the effect of the future economic environment is disclosed in note 39. The Audit Committee's consideration of the matter is described on page 58.
How the scope of our audit responded to the key audit matter	We tested the relevant controls over the loan impairment provisioning process. This included assessment of the underlying data used within the models, and the level of challenge at the Model Risk Committee in respect of the assumption and methods used to determine these accounting estimates. We challenged the assumptions by: • utilising our real estate specialists to assess the reasonableness of the underlying collateral valuations of properties within the commercial portfolio; • engaging with an internal economic advisory specialist to assess the reasonableness of the macro-economic variables and scenario weightings; and • challenging the macro-economic assumptions using publicly available data, as well as benchmarking against peer organisations.
Key observations	Based on the work performed, we concluded that the Group's ECL applied to the commercial mortgage book is reasonable.

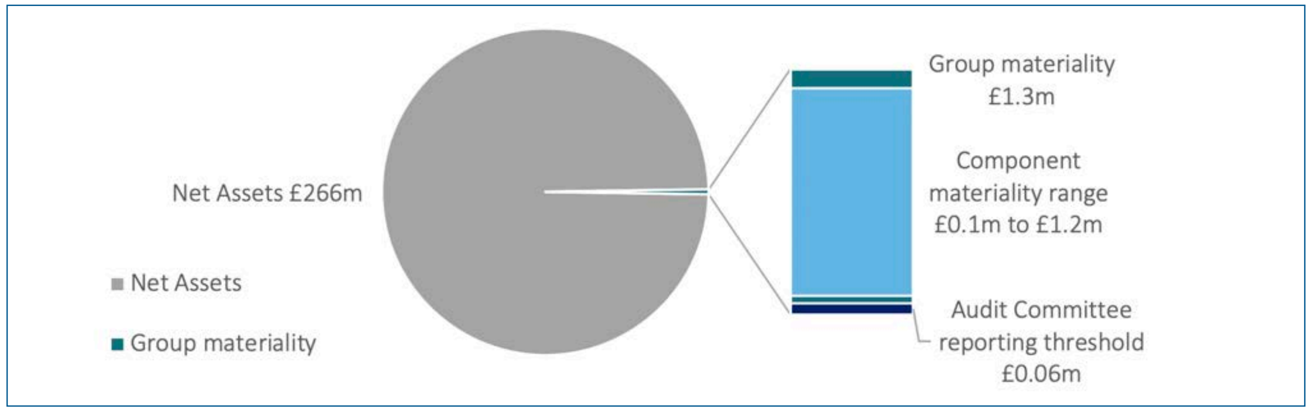
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Society financial statements
Materiality	£1.3m (2021: £1.2m)	£1.2m (2021: £1.1m)
Basis for determining materiality	0.5% of the Group's net assets (2021: 0.5% of Group's net assets)	0.5% of the Society's net assets (2021: 0.5% of net assets). Society materiality is capped at 90% of group materiality.
Rationale for the benchmark applied	In determining materiality we considered a range of possible benchmarks. The overall capital base is a key focus for the Society's Members and regulators. Net assets are also a more stable metric in comparison to profit before tax. Therefore net assets (consisting of reserves and subscribed capital) have been considered the most appropriate base on which to determine materiality.	



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Society financial statements
Performance Materiality	70% (2021: 70%) of Group materiality	70% (2021: 70%) of Society materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. the quality of the control environment and that we consider it appropriate to rely on controls over a number of business processes; and b. the nature, volume and size of misstatements in the previous audit.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £63k (2021: £60k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and material subsidiaries executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £0.1m to £1.2m (2021: £0.1m to £1.1m). This provided 99% coverage of revenue, profit before tax and net assets of the Group.

At the Group level, we also tested the consolidation process.

7.2 Our consideration of the control environment

Our approach in relation to the Group's business cycles

We relied on controls over the following business cycles for the Group:

- Residential mortgage lending (loans and advances to customers and interest income); and
- Saving accounts (due to members and interest payable).

We obtained an understanding of the relevant controls of the above-mentioned business cycles and tested the operating effectiveness of these. We also assessed the design and implementation of controls that relate to our identified significant audit risks. The Committee's assessment of the Group's internal control environment is set out on page 58.

Our approach in relation to the Group's IT systems

We planned to take a controls reliance approach over the following IT systems as being the key to the financial reporting processes in the Group:

- core mortgage system;
- core savings system; and
- underlying databases for the above systems

Together with IT specialists, we tested the general IT controls related to these systems and were able to rely on the IT controls as planned. We also tested the relevant automated controls associated with the business cycles noted in the preceding section, and where relevant reviewed service auditor reports obtained by the Group in respect of these systems, and were able to rely on these controls as originally planned.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on page 69.

Management concluded that there was no material impact on the financial statements. Our evaluation of this conclusion included performing enhanced risk assessment procedures over the key judgements and estimates in areas where we considered that there was greatest potential for climate change impact. This was principally in relation to the ECL.

We also considered the consistency of the climate change disclosures included in the Strategic Report with the financial statements and our knowledge from our audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and 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 Group or the Society or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of the Directors, management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, pensions, IT economic, credit risk, pricing and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: fair value of equity release mortgages and the ECL allowance for residential and commercial lending. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Building Societies Act 1986 for the Society and UK Companies Act for the subsidiaries.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the regulations set by the Prudential Regulatory Authority (PRA) relating to regulatory capital and liquidity requirements.

As a result of performing the above, we identified fair value of equity release mortgages and the ECL allowance for residential and commercial lending as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

11.2 Audit response to risks identified

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and those responsible for legal and compliance matters concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- the annual business statement and the directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In the light of the knowledge and understanding of the group and the society and their environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 45 to the financial statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the society; or
- the society's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Society's Members at the Annual General Meeting on 28 April 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ended 31 December 2021 to 31 December 2022.

15.2 Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs UK).

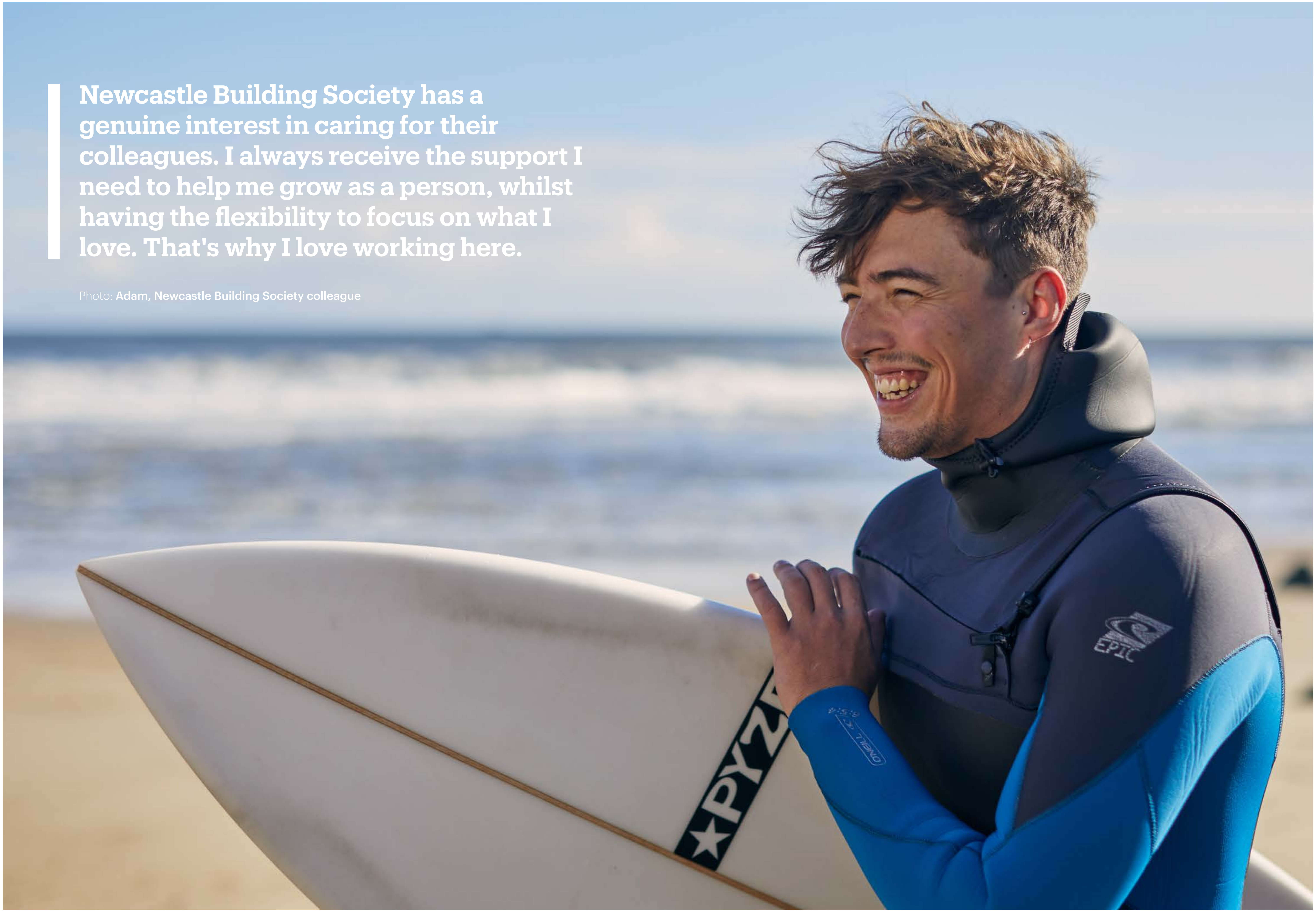
16. Use of this report

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report 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 as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom

2 March 2023



> **Newcastle Building Society has a genuine interest in caring for their colleagues. I always receive the support I need to help me grow as a person, whilst having the flexibility to focus on what I love. That's why I love working here.**

Photo: **Adam, Newcastle Building Society colleague**

Income Statements for the year ended 31 December 2022

	Note(s)	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Interest receivable and similar income					
Interest income calculated using effective interest rate	2	**116.6**	92.0	**117.8**	92.4
Interest income recognised in respect of insurance contracts	2	**11.1**	11.9	**11.1**	11.9
Net income / (expense) on derivatives hedging mortgage assets	2	**3.1**	(13.1)	**2.2**	(13.1)
Total interest receivable and similar income	2	**130.8**	90.8	**131.1**	91.2
Interest payable and similar charges	3	**(55.4)**	(31.8)	**(55.4)**	(31.7)
Net interest income		**75.4**	59.0	**75.7**	59.5
Other income	4	**45.5**	46.1	**12.6**	12.4
Other charges	4	**(0.3)**	(0.5)	**(0.2)**	(0.5)
Fair value gains less losses on financial instruments and hedge accounting	37	**(1.1)**	(5.2)	**1.0**	(5.2)
Income from dividends	4	**0.2**	0.1	**1.6**	1.0
Total operating income		**119.7**	99.5	**90.7**	67.2
Administrative expenses	6	**(83.5)**	(65.8)	**(57.8)**	(41.7)
Depreciation and amortisation	16,18	**(5.7)**	(5.2)	**(2.4)**	(2.4)
Operating profit before impairments and provisions		**30.5**	28.5	**30.5**	23.1
Impairment reversals on loans and advances to customers	12	**1.6**	2.8	**1.6**	2.8
Impairment of tangible and intangible assets	16,18	**(0.3)**	(2.0)	**(0.3)**	(0.2)
Impairment charges of intercompany investment in subsidiaries	15	**-**	-	**-**	(0.1)
Provisions for liabilities and charges	25	**(0.1)**	(0.2)	**-**	(0.1)
Profit for the year before taxation		**31.7**	29.1	**31.8**	25.5
Taxation	8	**(5.7)**	(5.2)	**(6.3)**	(4.5)
Profit after taxation for the financial year		**26.0**	23.9	**25.5**	21.0

The notes on pages 88 to 154 form part of these Accounts.

Statements of Comprehensive Income for the year ended 31 December 2022

	Note	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Profit for the financial year		**26.0**	23.9	**25.5**	21.0
Other comprehensive income					
Items that may be reclassified to income statement					
Cash flow hedges					
Fair value movements recognised in equity		**(3.7)**	-	**(3.7)**	-
Amounts transferred to the income statement		**0.1**	-	**0.1**	-
Tax on net amounts recognised in equity	19	**0.9**	-	**0.9**	-
Financial assets measured at fair value through other comprehensive income					
Fair value changes recognised in equity		**(2.1)**	(0.2)	**(2.1)**	(0.2)
Amounts transferred to the income statement		**0.1**	-	**0.1**	-
Tax on net amounts recognised in equity	19	**0.5**	0.3	**0.5**	0.3
Total items that may be reclassified to income statement		**(4.2)**	0.1	**(4.2)**	0.1
Items that will not be reclassified to income statement					
Other non-classified items		**-**	-	**-**	(0.1)
Total items that will not be reclassified to income statement		**-**	-	**-**	(0.1)
Total comprehensive income for the financial year		**21.8**	24.0	**21.3**	21.0

The notes on pages 88 to 154 form part of these Accounts.

	Note	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Assets					
Cash and balances with the Bank of England		**421.9**	382.2	**421.9**	382.2
Loans and advances to credit institutions	10	**104.8**	183.5	**88.2**	170.7
Debt securities	11	**433.0**	390.7	**433.0**	390.7
Derivative financial instruments	35	**90.4**	14.5	**73.3**	13.9
Loans and advances to customers	12	**4,259.5**	3,794.5	**4,258.7**	3,793.6
Deemed loan asset	14	**-**	-	**22.9**	2.3
Fair value adjustments for hedged risk	37	**(60.9)**	62.1	**(60.9)**	62.1
Non-current assets available for sale	17	**0.2**	2.4	**0.2**	2.4
Other assets	21	**17.1**	17.5	**8.1**	8.4
Investments	15	**2.1**	3.9	**38.6**	43.8
Intangible assets	16	**10.2**	7.5	**1.1**	1.3
Property, plant and equipment	18	**29.1**	31.0	**10.0**	12.2
Deferred tax assets	19	**5.0**	4.6	**5.0**	4.2
Current tax assets		**0.1**	-	**0.4**	-
Total assets		**5,312.5**	4,894.4	**5,300.5**	4,887.8

The notes on pages 88 to 154 form part of these Accounts.

	Note	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Liabilities					
Due to Members	22	**4,220.8**	3,731.8	**4,220.8**	3,731.8
Fair value adjustment for hedged risk	37	**0.3**	-	**0.3**	-
Due to other customers	23	**175.8**	159.1	**175.8**	162.6
Deposits from credit institutions	24	**577.1**	587.6	**577.1**	587.6
Derivative financial instruments	35	**52.5**	147.6	**52.5**	146.7
Current tax liabilities		**-**	0.6	**-**	0.3
Other liabilities	25	**18.9**	22.2	**16.7**	22.3
Deferred tax liabilities	19	**1.2**	1.4	**-**	0.5
Subscribed capital	26	**20.0**	20.0	**20.0**	20.0
Reserves		**245.9**	224.1	**237.3**	216.0
Total Members' interest, equity and liabilities		**5,312.5**	4,894.4	**5,300.5**	4,887.8

Notes 1 to 45 to the financial statements form an integral part of these financial statements.

These accounts were approved by the Board of Directors on 2 March 2023 and signed on its behalf by

James Ramsbotham, Chair of the Board
Andrew Haigh, Chief Executive
Mick Thompson, Chair of Audit Committee

The notes on pages 88 to 154 form part of these Accounts.

Statements of Movements in Members' Interests for the year ended 31 December 2022

Group

	General Reserve £m	Fair Value Through Other Comprehensive Income £m	Cash flow Hedge Reserve £m	Total Reserves £m
At 1 January 2022	222.2	1.9	-	224.1
Profit for the year	26.0	-	-	26.0
Net movement in fair value through other comprehensive income	-	(1.5)		(1.5)
Net movement in cash flow hedge reserve	-	-	(2.7)	(2.7)
At 31 December 2022	**248.2**	**0.4**	**(2.7)**	**245.9**

	General Reserve £m	Fair Value Through Comprehensive Income £m	Cash flow Hedge Reserve £m	Total Reserves £m
At 1 January 2021	198.3	1.8	-	200.1
Profit for the year	23.9	-	-	23.9
Net movement in fair value through other comprehensive income	-	0.1	-	0.1
At 31 December 2021	**222.2**	**1.9**	**-**	**224.1**

Society

	General Reserve £m	Fair Value Through Other Comprehensive Income £m	Cash flow Hedge Reserve £m	Total Reserves £m
At 1 January 2022	214.1	1.9	-	216.0
Profit for the year	25.5	-	-	25.5
Net movement in fair value through other comprehensive income	-	(1.5)	-	(1.5)
Net movement in cash flow hedge reserve -	-	-	(2.7)	(2.7)
At 31 December 2022	**239.6**	**0.4**	**(2.7)**	**237.3**

	General Reserve £m	Fair Value Through Other Comprehensive Income £m	Cash flow Hedge Reserve £m	Total Reserves £m
At 1 January 2021	193.2	1.8	-	195.0
Profit for the year	21.0	-	-	21.0
Net movement in fair value through other comprehensive income	-	0.1	-	0.1
Net remeasurement of defined benefit obligations	(0.1)	-	-	(0.1)
At 31 December 2021	**214.1**	**1.9**	**-**	**216.0**

Movement in the year reflects changes disclosed in the Statements of Comprehensive Income, net of tax.

The notes on pages 88 to 154 form part of these Accounts.

Cash Flow Statements for the year ended 31 December 2022

	Note	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Net cash inflows / (outflows) from operating activities	28	**102.6**	(62.8)	**92.7**	(59.2)
Corporation tax paid		**(4.6)**	(4.4)	**(4.4)**	(4.4)
Net cash inflows / (outflows) from operating activities		**98.0**	(67.2)	**88.3**	(63.6)
Cash (outflows) / inflows from investing activities					
Purchase of property, plant and equipment	18	**(2.1)**	(3.7)	**(0.3)**	(0.6)
Purchase of intangible assets	16	**(5.0)**	(4.0)	**(0.4)**	(0.9)
Sale of property, plant and equipment		**2.4**	4.9	**2.4**	-
Purchase of equity investments	32	**(0.3)**	-	**-**	-
Additional loans to subsidiary undertakings	15	**-**	-	**(1.2)**	(3.9)
Repayment of loans to subsidiary undertakings	15	**-**	-	**0.4**	1.9
Purchase of investment securities		**(275.1)**	(106.6)	**(275.1)**	(106.6)
Sale and maturity of investment securities		**229.8**	84.6	**229.8**	84.6
Net cash (outflows) / inflows from investing activities		**(50.3)**	(24.8)	**(44.4)**	(25.5)
Cash outflows from financing activities					
Interest paid on subscribed capital	28	**(2.3)**	(2.3)	**(2.3)**	(2.3)
Capital payment for lease arrangements	28	**(1.1)**	(1.0)	**(1.1)**	(1.0)
Net cash outflows from financing activities		**(3.4)**	(3.3)	**(3.4)**	(3.3)
Net increase / (decrease) in cash		**44.3**	(95.3)	**40.5**	(92.4)
Cash and cash equivalents at start of year		**395.0**	490.3	**382.2**	474.6
Cash and cash equivalents at end of year	28	**439.3**	395.0	**422.7**	382.2

The notes on pages 88 to 154 form part of these Accounts.

1 Significant accounting policies

Basis of preparation

The Annual Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the UK and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and in accordance with the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998 as applicable to building societies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments measured at fair value at the end of each reporting period.

The Board has reviewed medium and long term plans with particular emphasis on examining the Group's liquidity, capital and profitability, using a variety of stress testing scenarios to determine the risk that long term plans cannot be achieved. As a result, the Directors are satisfied that the Society and the Group have adequate resources to continue in business and meet their liabilities throughout the period of assessment.

Accordingly, the financial statements of the Society and the Group have been prepared on a going concern basis with no material uncertainties that the going concern basis of accounting is appropriate.

The Group has chosen to present the financial statements in Pound Sterling, which aligns with the Group's primary functional currency.

A summary of the Group's principal accounting policies is set out below.

Basis of consolidation

The Group Accounts include the results of the Society, its subsidiary undertakings and other entities which it is deemed to control all of which have accounting periods ending 31 December. Subsidiaries and other controlled entities are entities over which the Society has the power to control financial and operating policies so as to obtain benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Upon consolidation, inter-company transactions, balances and unrealised gains on transactions are eliminated. The accounting policies of subsidiaries are consistent with Group accounting policies.

Income recognition

Interest income and expense

Interest receivable and interest payable for all interest-bearing financial instruments are recognised within 'Interest receivable and similar income' and 'Interest payable and similar charges' in the consolidated income statements, using the effective interest rate method (EIRM).

EIRM is used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument. In calculating the effective interest rate, all contractual terms of the financial instrument are taken into account. Historical and forecast mortgage redemption data and management judgement are used to estimate the expected lives of mortgage assets.

Fees and commissions income and charges

Fees and commissions relating to creating loans and advances to customers are deferred and spread using the EIRM and included in interest income. Other fees and commissions are recognised as 'Other income' on the accruals basis as services are provided.

Other income

Other income relates to property income recognised under IFRS 16 and income from contracts with customers recognised under IFRS 15. Revenue is recognised when the Group transfers control over a product or service to its customer. It is measured as the fair value of consideration specified in the contract with a customer. The Group recognises revenue at both point in time and over time depending on the nature of the performance obligations in the contract with the customer.

IFRS 15 introduced asset and liability categories, "contract assets" and "contract liabilities". Contract assets exist when the Group has a right to consideration in exchange for goods or services already transferred to a customer but not yet billed. Contract liabilities exist when the Group has an obligation to transfer goods or services to a customer for which the Group has already received consideration.

Please see note 5 for details on income from contracts with customers.

Financial assets

In accordance with IFRS 9 Financial Instruments: Recognition and Measurement, the Group classifies its financial assets into the following categories:

Financial assets held at amortised cost

Under IFRS 9, assets may be held at amortised cost, where the asset's contractual cash flow reflect solely payments of principal and interest on the principal amount outstanding (SPPI) and the business model is to hold the asset to collect the contractual cash flows. In this case, income is recognised under the EIRM.

In assessing the business model applicable to its financial assets, the Society has considered how financial asset performance is evaluated and reported to senior management, the key risks affecting this performance, how these are managed, and how managers of the business are compensated in respect of asset performance.

Loans and advances to customers

The Society's mortgage lending, other than insurance contracts, meets the definition of SPPI and the Group originates the mortgages with the intention to hold the asset until maturity, collecting contractual cash flows. Mortgage assets are recognised on the Balance Sheet as 'Loans and Advances to Customers'. Interest is recognised in accordance with the EIRM.

Loans and advances to credit institutions

The Society's non-mortgage lending, typically loans and advances to credit institutions, is similarly undertaken with a view to recovery of contractual cash flows and with interest charged that meets the SPPI requirements.

Cash

The Society's cash balances, where interest generative, are held to collect contractual interest flows and to ensure appropriate liquidity is available to meet the Society's liabilities as they fall due.

Trade receivables

The Society's trade receivables, whether due from third parties or intra-group companies, are held to collect the contractual cash balances as they fall due. The Society does not engage in debt factoring activities.

Financial assets held at fair value through other comprehensive income

Under IFRS 9, where the contractual cash flow characteristics of an asset reflect SPPI, an asset may be classified at 'fair value through comprehensive income', whether the assets are held for sale or to collect contractual cash flows. In this case, the fair value of the asset is recognised on the Balance Sheet, whilst the fair value movement is recognised in other comprehensive income. Interest received on these assets continues to be recognised in the Income Statement using the effective interest rate method.

Debt securities

Whilst the Group does not trade in financial instruments, it holds a portfolio of debt securities for liquidity management purposes, primarily consisting of covered bonds, residential mortgage backed securities (RMBS) and government gilts. The instruments meet the definition of SPPI, but may be sold if liquidity is required. They are therefore held at fair value through other comprehensive income.

Financial assets held at fair value through profit and loss

Under IFRS 9, where the contractual cash flow characteristics of an asset do not reflect SPPI, or where assets are neither held for sale or to collect contractual cash flows, the asset is classified at 'fair value through profit or loss', with fair value movements recognised through the Income Statement.

Equity investments

The Group has a small portfolio of equity investments. As return on these assets are not SPPI, they have to be held at fair value on the balance sheet, with fair value changes and any dividends recognised in the income statement. Equity investments are included in 'Investments' on the Balance Sheet.

Derivative financial instruments

The Group enters into derivative financial instruments to hedge its exposures relating to interest rates. Derivatives are recognised at fair value on the date the derivative contract is entered into, and subsequently re-measured at their fair value on a monthly basis. Changes in fair values are recognised through the Income Statement. In accordance with the Group's Treasury Policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes. The need for credit valuation adjustments is considered in the determination of the fair value of derivatives.

Fair value hedge accounting

Derivatives may be designated in formal accounting hedge relationships. At the balance sheet date, this included micro fair value hedges accounted for under IFRS 9 and portfolio (macro) fair value hedges accounted for under IAS 39.

The fair value of the hedged risk is included on the balance sheet under the heading "Fair value adjustments for hedged risk". Any gain or loss arising from hedge ineffectiveness is recognised immediately in the Income Statements under the heading "Fair value gains less losses on financial instruments and hedge accounting".

Micro fair value hedges are assessed before the hedge is incepted and regularly thereafter, ensuring there continues to be an economic relationship between the hedged item and the hedging derivative and that value changes are not primarily due to credit risk, as required by IFRS 9.

The hedge effectiveness of macro hedges is assessed both pro- and retrospectively. In accordance with IAS 39, only highly effective hedges are incepted or continued.

When a hedging instrument expires, is sold, or no longer meets the criteria for hedge accounting, then hedge accounting is discontinued and any cumulative gain or loss is recognised in the Income Statements.

Cash flow hedge accounting

Derivatives may also be designated into formal cash flow hedge relationships under IFRS 9. The effective portion of changes in the fair value of designated derivatives and other designated qualifying hedging instruments are recognised in other comprehensive income and accumulated in the cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. Hedge effectiveness is measured by comparing the fair value movement of the hedging instrument to the fair value movement of a hypothetical derivative representing the hedged risk. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'Fair value gains less losses on financial instruments and hedge accounting' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss are included in 'Fair value gains less losses on financial instruments and hedge accounting' line. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Society expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Society discontinues cash flow hedge accounting if when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated, exercised or where it is designated in a different type of accounting hedge. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

Insurance contracts

The Group's equity release mortgage assets are accounted for under IFRS 4 Insurance Contracts, as they contain no-negative equity guarantees that meet the IFRS 4 criteria for classification as insurance contracts, as they expose the Society to insurance risk. Equity release mortgage assets are held at fair value through profit and loss.

Fair value is the present value of the forecast portfolio cash flows less the value of the no-negative equity guarantee, which is calculated using an option pricing model. Where possible inputs are market driven or where no market driven data is available, based on management judgement informed by observable data to the extent possible. Movements in the fair value of the equity release mortgage assets are included in Fair value gains less losses on financial instruments and hedge accounting.

Interest on equity release mortgage assets are recognised in accordance with the effective interest rate method, and based on contractual interest rates. Included in the equity release mortgage assets is a fixed reversion book. For this book, the repayment amount is determined at completion, but the timing of redemption is uncertain. Interest on fixed reversion loans is recognised based on the interest rate implicit in the mortgage contract.

1 Significant accounting policies (continued)

The Group recognises all insurance obligations arising from no-negative equity guarantees. As such, the Group is not required, and has not elected to 'unbundle' the insurance and deposit components of its equity release mortgages, with the mortgages therefore accounted in full under IFRS 4. The Group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities is sufficient to cover current estimates of future cash flows. See note 13 to the accounts for further information.

Cash and cash equivalents

For the purpose of the Cash Flow Statements, 'Cash and cash equivalents' comprises cash in hand, balances with the credit institutions of England, loans and advances to banks available on demand or with original maturities of three months or less and investment securities with a maturity period of three months or less i.e. highly liquid assets readily convertible into cash. For operational purposes, the Group's debt security portfolio is maintained for liquidity purposes with the assets therein demonstrably convertible into cash regardless of maturity. The Group does not include encumbered assets in its cash and cash equivalents.

The Group does not consider the timing of derivative collateral inflows to be sufficiently reliably estimated to include such collateral placed with counterparties as a liquid asset for cash flow presentation.

Impairment of financial assets

Loss allowances for expected credit losses are recognised on all financial assets held at either amortised cost, in which case loss allowances impact the Income Statement, or at fair value through other comprehensive income, in which case loss allowances impact other comprehensive income and become reserves reductions.

The Group provides for expected credit losses across applicable financial assets based on whether there has been a significant increase in credit risk since the asset's origination. Internal provisioning models are used to determine expected credit losses for each individual asset, based on four different economic scenarios (base, upside, downside, stressed downside). The four scenarios are assigned a probability weighting to determine the loss allowance recognised.

Where an asset has not seen a significant increase in credit risk since its origination ('Stage 1 assets'), 12 month expected credit losses are recognised as a loss allowance. These are the portion of lifetime expected credit losses that result from default events on the asset expected within the 12 months after the reporting date.

Where an asset has seen a significant increase in credit risk since origination, but there is no objective evidence of impairment at the reporting date ('Stage 2 assets'), lifetime expected credit losses are recognised.

Where an asset has seen significant increase in credit risk since origination and there is objective evidence of impairment at the reporting date ('Stage 3 assets'), lifetime expected credit losses are recognised and interest income is to be calculated against the net carrying amount of the financial asset, rather than the gross amount.

A simplified approach is adopted for trade receivables and contract assets. These are not classified into different stages and lifetime expected credit losses are recognised.

See note 40 for more details on the Group's provisioning methodology

Securitisations

The Group securitises mortgage loans by transferring the beneficial ownership of a mortgage pool to a Special Purpose Vehicle (SPV), which issues debt secured on the transferred mortgage loans. The Society is deemed to control the SPV, and therefore the SPV is fully consolidated into the Group accounts under IFRS 10 - Consolidated Financial Statements.

Since the Society is entitled to any residual profits or losses of the SPV, it retains substantively all risks and rewards of holding the mortgage loans. As a result, the transfer of the beneficial ownership of the mortgage loans to the SPV does not meet the criteria for derecognising the mortgages from the Society's Balance Sheet under IFRS 9. The Society therefore continues to recognise the securitised mortgages on its balance sheet. The proceeds received by the Society from the transfer are accounted for as a deemed loan from the SPV. Any loan notes retained by the Society are netted off the deemed loan.

The securitisations includes an interest rate hedging structure to the effect that the mortgage cash flows transferred to the SPV are based on a floating interest rate.

Financial liabilities

All financial liabilities are initially measured at fair value, being the issue proceeds, net of premia, discounts and transaction costs incurred. Derivative financial liabilities remain accounted for at fair value on the balance sheet date. Hedged risk fair value adjustments are also held on the balance sheet at fair value. The remaining Group financial liabilities including shares, deposits, debt securities and Permanent Interest Bearing Shares are subsequently measured at amortised cost, using the EIRM.

Intangible assets

Intangible assets relate to computer software purchased from third parties, development costs for internally generated software, and customer lists acquired from third parties. Computer software and development costs are initially recognised at cost, which includes the original purchase price of the asset and the costs directly attributable to acquiring the asset and bringing it into working condition for its intended use. Customer lists are initially recognised at fair value. Subsequently, intangible assets are recognised at their initial value less accumulated amortisation and any provisions for impairment.

Research expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is also charged to the income statement, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. Where all capitalisation criteria specified in IAS 38 Intangible Assets are met, the expenditure directly attributable to a project is capitalised.

Amortisation of intangible assets commences when they are ready for their intended use and is provided at rates calculated to write down the assets to their estimated residual values over the course of their anticipated useful lives, on the following bases:

Computer software	- 20% per annum, straight line
Development costs	- 20% per annum, straight line
Customer lists	- 20% per annum, straight line

At each balance sheet date, the Group reviews the carrying value of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable value of the asset is estimated to determine the extent of the impairment loss (if any). If the recoverable value of an asset is estimated to be less than the current carrying value, the carrying value of the asset is reduced to its recoverable value. Where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable value.

Freehold property and equipment

Freehold property and equipment are stated at cost less accumulated depreciation and any provisions for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation on assets commences when they are ready for their intended use and is provided at rates calculated to write down the assets to their estimated residual values over the course of their anticipated useful lives, on the following bases:

Freehold buildings

Freehold buildings	- 2% per annum, straight line

Equipment, fixtures and fittings and motor vehicles

Refurbishment expenditure	- 6.67% to 10% per annum, straight line
Equipment, fixtures & fittings	- 10% per annum, straight line
Motor vehicles	- 20% per annum, straight line
Computer equipment	- 20% to 33% per annum, straight line

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount of the asset and are included in the income statement in the period in which they arise.

Leasehold property

Leased property and equipment is accounted for in accordance with IFRS 16 Leases. The standard requires the lessee to recognise a right of use asset and a corresponding liability on the balance sheet for all leases, with the exception of short term leases or leases of a low value asset. The liability is initially measured by discounting variable and fixed lease payments, as well as other payments inherent to the lease, to its present value. Where possible, the discount rate used is the rate implicit in the lease. However, where this cannot be readily determined, the Group's incremental borrowing rate is used. The incremental borrowing rate is set using the Society's base funding cost and the costs of any asset buffers required. The right of use asset is initially measured at cost, including the amount of the initial measurement of the lease liability, any lease payments made before the commencement date of the lease, less any incentives received, any initial direct costs and any restoration costs. Where a change to lease payments is agreed, the lease liability is re-measured and a corresponding adjustment is made to the right of use asset.

Leasehold buildings are depreciated on the following basis:

Leasehold with terms greater than 50 years	- 2% per annum, straight line
Other leasehold buildings	- over the term of the lease

Interest charged on the lease liability are calculated based on the rate used as discount factor to calculate the lease liability and is included in interest payable and similar charges.

Investment property

The Group's investment properties reflect purchased or leased properties that are rented out in full or part to external tenants. All of the Group's investment properties have been elected to be held at their depreciated cost in line with IAS 40. Cost includes the purchase price of the assets and any directly attributable expenditure, primarily legal fees associated with the purchases. Depreciation commenced when the properties were purchased and is provided for over a 50 year term on the same basis as properties used by the business.

Impairments of Property and Equipment

At each balance sheet date, the Group reviews the carrying value of its Plant and Equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable value of the asset is estimated to determine the extent of the impairment loss (if any). If the recoverable value of an asset is estimated to be less than the current carrying value, the carrying value of the asset is reduced to its recoverable value. Where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable value.

Non-current assets held for sale

In accordance with IFRS 5, non-current assets are classified as held for sale where management is committed to a plan to sell the asset and it is unlikely that the plan will be significantly changed or withdrawn, the asset is available for immediate sale at a sales price reasonable in relation to the asset's fair value, an active programme to locate a buyer is initiated, and a sale within 12 months is highly probable.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured and resulting adjustments are recognised in accordance with the applicable accounting standard. Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A gain for any subsequent increase in fair value less costs to sell of an asset can be recognised in the income statement to the extent that it is not in excess of the cumulative impairment loss that has been recognised in respect to the asset. No depreciation is charged for non-current assets held for sale.

Taxation

Corporation tax is charged on profits adjusted for tax purposes. Deferred tax on temporary differences arising between the tax bases and carrying amounts of assets and liabilities is provided in full, using the liability method. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Pension scheme costs

The Society operates a defined contribution scheme on behalf of executive directors and colleagues. For the defined contribution scheme, contributions are charged to the Income Statements, as they become payable, in accordance with the rules of the Scheme.

The Society historically operated a defined benefit scheme; this was closed to future accrual from 30 November 2010, and was funded by contributions partly from colleagues and partly from the Society at rates determined by an independent actuary. These contributions are invested separately from the Group's assets.

Under IAS 19, the Scheme assets are measured at bid value at each Balance Sheet date and the obligations are measured by an independent actuary using the projected unit valuation method, discounted using a high quality corporate bond rate.

The Group does not recognise IAS 19 pensions surpluses on its Balance Sheet as the Society does not have an unconditional contractual right to benefit economically from the surplus. IAS 19 pension deficits are recognised immediately with relevant actuarial re-measurements recognised in the Statement of Comprehensive Income. IAS 19 service costs are recognised in the Income Statements.

1 Significant accounting policies (continued)

Provisions

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. The amount recognised as a provision is the best estimated of the net present value of the consideration required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation.

Contingent liabilities have not been recognised. A contingent liability is a possible obligation which is not probable or not reliably measureable.

Segment information

The operating segments disclosed (Member business and Solutions business) are those used in the Group's management and internal reporting structures (for the Chief Operating Decision Maker) in accordance with IFRS 8. No segment information is presented on geographical lines, because substantially all of the Group's activities are in the United Kingdom.

Accounting developments

At the date of approval of these financial statements there are no amendments to International Financial Reporting Standards relevant to these accounts that are mandatory for the first time for the financial year beginning 1 January 2022.

Developments not effective at 31 December 2022

There are a number of new or amended standards which become effective in 2023, and beyond. Early adoption is permitted, but the Society does not intend to adopt the standards before their mandatory date.

Amendments to IAS 1, Presentation of financial statements' on classification of liabilities are effective from 1 January 2023.

Amendments to IFRS 3, Reference to the Conceptual Framework are effective from 1 January 2023.

Amendments to IAS 16, Property, Plant and Equipment – Proceeds before intended use are effective from 1 January 2023.

Amendments to IAS 37, Onerous Contracts – Cost of Fulfilling a Contract are effective from 1 January 2023.

Amendments to IAS 8, Definition of Accounting Estimates are effective from 1 January 2023.

Amendments to IAS 12, Deferred Tax relating to Assets and Liabilities arising from a single transaction, are effective from 1 January 2023.

IFRS 17, Insurance Contracts replaces IFRS4, Insurance Contracts, on 1 January 2023, which is currently applied to the Society's legacy equity release assets. On transition, the Society will have a policy choice to transition to either IFRS 17 or IFRS 9. The Society intends to adopt IFRS 9. Due to the change in accounting policy in the prior year, to fair value accounting, the impact of adopting IFRS 9 will be immaterial as that option will remain available upon transition.

Critical accounting estimates and judgements in applying accounting policies

The Group has to make judgements in applying its accounting policies, which affect the amounts recognised in the Annual Accounts. These judgements are based on management's best knowledge but the eventual outcome may differ from them. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following year. The most significant areas where judgements and estimates are made are as follows.

Estimates

Fair value of the equity release mortgage assets

The valuation of the Group's Equity Release Mortgage asset depends on a range of assumptions, including the most appropriate discount rate and property price growth rates and volatility. Key assumptions and sensitivity analysis are outlined in note 32.

Impairment of financial assets

The impairment of mortgage assets is determined by a weighted average of the expected credit losses of four different possible economic scenarios. Each scenario is based on a range of assumptions, including property price growth rates and unemployment rates. The scenario weightings are based on management's current expectation about the future probability of each economic scenario. Further details and sensitivity analysis are provided in notes 39 and 40.

Pensions

In estimating the value of the pension scheme surplus or deficit, management rely on a range of assumptions including the most appropriate discount rate and mortality rates, inflation, take up of the Pension Increase Exchange offer and future salary increases. The Board receives independent external advice from actuarial consultants in arriving at the scheme assumptions, which are outlined together with sensitivity analysis in Note 20 to the Annual Accounts.

Judgements

Fair value of derivatives and financial assets

Fair Values are determined in line with the three level valuation hierarchy as defined within IFRS 7. Judgement can be required to determine the classification of valuations into the different levels, further details are provided in Note 32.

Impairment of financial assets

The modelling of impairment of mortgage assets includes a range of management judgements, including the Society's definitions of default, significant increase in credit risk and the use of post model adjustments. Further detail is provided in note 39.

Securitised assets

The mortgage assets sold to the Group's securitisation vehicle have not been de-recognised from the Society's balance sheet. As the Society continues to be exposed to the risks and rewards of cash flows associated with the mortgages, they do not meet the criteria for de-recognition.

2 Interest receivable and similar income

	GROUP		SOCIETY	
	2022 £m	2021 £m	**2022 £m**	2021 £m
On loans and advances to customers	**101.3**	88.9	**102.7**	89.3
On debt securities				
- interest and other income	**7.6**	2.5	**7.5**	2.5
- profits net of losses on realisation	**0.1**	0.1	**0.1**	0.1
On other liquid assets				
- interest and other income	**7.6**	0.5	**7.5**	0.5
Interest recognised in respect to insurance contracts	**11.1**	11.9	**11.1**	11.9
Net income / (expense) on derivatives hedging assets	**3.1**	(13.1)	**2.2**	(13.1)
	130.8	90.8	**131.1**	91.2

Interest receivable and other income includes **£1.5m** (2021: £0.7m) from fixed income securities.

3 Interest payable and similar charges

	GROUP		SOCIETY	
	2022 £m	2021 £m	**2022 £m**	2021 £m
On amounts due to Members	**44.1**	28.3	**44.1**	28.3
On subscribed capital	**2.3**	2.3	**2.3**	2.3
On deposits and other borrowings	**9.6**	1.0	**9.6**	0.9
On finance leases	**0.1**	0.2	**0.1**	0.2
Net income on derivatives hedging liabilities	**(0.7)**	-	**(0.7)**	-
	55.4	31.8	**55.4**	31.7

4 Other income and charges

	GROUP		SOCIETY	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Other income				
Fee and commission income	**7.6**	7.1	**1.6**	1.7
Other operating income	**37.9**	39.0	**11.0**	10.7
	45.5	46.1	**12.6**	12.4

	GROUP		SOCIETY	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Other charges				
Fee and commission expense	**0.3**	0.5	**0.2**	0.5

	GROUP		SOCIETY	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Dividend income				
Received from equity investments	**0.2**	0.1	**-**	-
Received from subsidiary undertakings	-	-	**1.6**	1.0
	0.2	0.1	**1.6**	1.0

Other income includes income from contracts with customers of **£44.6m** (2021: £40.1m) is recognised under IFRS 15 and further information is included in note 5.

5 Revenue from contracts with customers

1. Disaggregation of revenue from contracts with customers

The Group and Society derive revenue from the transfer of services at a point in time and over time in the following business segments and service areas, excluding intagroup income.

	GROUP		SOCIETY	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Solutions business				
Savings management services recognised over time	**35.4**	32.6	**-**	-
Savings management project and change services recognised over time	**0.9**	0.9	**-**	-
IT services recognised over time	**0.7**	0.6	**-**	-
	37.0	34.1	**-**	-
Member business				
Regulated advice services recognised at a point in time	**4.9**	4.2	**-**	-
Regulated advice services recognised over time	**1.2**	1.2	**-**	-
Third party services recognised at a point in time	**1.4**	0.5	**1.4**	0.5
Other services recognised over time	**0.1**	0.1	**0.1**	0.1
	7.6	6.0	**1.5**	0.6
Total revenue from contracts with customers	**44.6**	40.1	**1.5**	0.6

In accordance with IFRS 8, 'Operating Segments', the Group reports the following segments; Member business and Solutions business. When the Group prepares financial information for management, it disaggregates revenue by segment and service type. Revenue from contracts with customers generated by the Solutions business and the Member business is included in 'Other income and charges' within the Segment information note.

Details of intercompany income for the Society are included in the Related parties note 29.

2. Unsatisfied long-term service contracts

The following table shows partially unsatisfied performance obligations resulting from fixed-price long-term contracts as at 31 December 2022 where the contract ends after the balance sheet date:

	GROUP	
	2022 £m	2021 £m
Aggregate amount of transaction price allocated to long-term savings management contracts	**7.5**	4.2
Aggregate amount of transaction price allocated to long-term IT services	**1.2**	1.8
	8.7	6.0

In relation to savings management contracts, the Group expects to recognise approximately £1.6m of the unearned amount in 2023, and £5.9m thereafter. In relation to IT contracts, the Group expects to recognise approximately £1.1m of the unearned amount in 2023, and £0.1m thereafter.

3. Assets and liabilities related to contracts with customers

No contract assets or liabilities have been recognised by the Group (2021: £nil) due to the timing of payments and receipts associated with on-going contracts.

5 Revenue from contracts with customers Continued

4. Descriptions of different types of income from contracts with customers

Savings management services, and savings management project and change services

Savings management and savings management project and change services are provided by the Society's subsidiary, Newcastle Strategic Solutions Limited (NSSL).

NSSL provide outsourced savings management services to the Society and other financial institutions. This includes managing retail savings on behalf of the Society and third parties. Revenue relating to this is recognised as savings management services.

Significant work may be required to implement the requirements of a new customer, to implement changes required by existing customers or to decommission NSSL's services. Revenue relating to such services are recognised as savings management project and change services.

Revenue for implementation, project and change services is recognised over time. Each milestone has a corresponding transaction price which represents the portion of the service provided to the customer at that point in time.

Revenue for savings management services is recognised over time in discrete monthly amounts which are calculated based on actual work completed by NSSL in the relevant month. Revenue for providing an ongoing savings management service is recognised monthly in line with the time elapsed in each individual contract. The amount of revenue recognised for ongoing savings management is spread evenly throughout the contractual term, consistent with the pattern of transfer of the service to the customer.

IT services

NSSL provide managed IT services to the Group and external customers, which includes managed IT solutions for savings management and client account systems and data storage services. Revenue for all services is recognised monthly in line with the time elapsed in each individual contract. The amount of revenue recognised for savings management systems and data storage services is spread evenly throughout the contractual term, consistent with the pattern of transfer of the service to the customer. The amount of revenue recognised for client account systems is calculated based on the actual asset balance held by a customer in the relevant month in line with the customer contract.

Regulated advice services

Regulated advice services are provided by the Society's subsidiary, Newcastle Financial Advisers Limited (NFAL). All services derive from the company's principal activity, the provision of financial planning services, and include regulated advice, ongoing advice and life protection plans. The company is an appointed representative of Openwork Limited, and provides services on behalf of Openwork Limited. For the purposes of IFRS 15, Openwork Limited is the sole customer of the company and all consideration for the services provided by the company is received from Openwork Limited.

Revenue for regulated advice and protection plans is recognised when confirmation of the investment or plan is received by Openwork Limited and the service is complete. Revenue for ongoing advice is recognised on a straight-line basis at the end of each month the service is in place. Consideration for regulated advice and protection plans is calculated using contractually stated and agreed rates, on an ad valorem basis for regulated advice, and dependent upon specific product lines for protection plans. Consideration for ongoing service is calculated on an annual basis as a percentage of an investment portfolio.

Third party services

Third party services are provided by the Society through its branch network and online. The Society introduces customers to third parties who provide estate management services, and general insurance. The Society is the principal in the relationship with each third party provider and has no contractual relationship for the third party service with the customer.

The service provided by the Society of introducing or referring customers to a third party is complete once the third party provider has agreed a sale with the customer. Revenue for all services is recognised when cash is received, which in all instances is in line with, or shortly after, completion of the third party contract in line with contractual payment terms. Consideration for all services is calculated based on discrete, and contractually agreed, transaction prices which are noted as a commission amount to the Society. The Society receives consideration based on an invoicing schedule agreed with each third party and all payments received relate to performance completed up to the invoice date.

All services

Due to the nature of services provided, IFRS 15 is more material to NSSL and NFAL than to the Society. Details of transactions which are not material to the Group, but are material to the individual companies, can be found in the specific company's annual report and accounts.

The transaction prices for all services provided by the Group are calculated using contractually stated and agreed rates. There are no elements of variable consideration, no significant payment terms and no critical judgements in allocating the transaction price. There is little judgement in the recognition of this revenue as transaction prices are agreed upfront, the timing and scope of work is agreed as part of each customers contract.

The Group measures impairment losses on receivable balances as of the end of the reporting period at an amount equal to lifetime expected credit losses in accordance with IFRS 9, 'Financial Instruments'. Provisions held against receivable balances at 31 December 2022 are not material.

6 Administrative expenses

	Note	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Staff costs	7	**59.5**	47.5	**36.0**	25.1
Short term leases for land and buildings					
- payable to third parties		**0.3**	0.7	**0.2**	0.1
Other administrative expenses		**22.9**	17.6	**20.8**	16.5
Transaction costs		**0.8**	-	**0.8**	-
		83.5	65.8	**57.8**	41.7

During the year the Group and Society obtained the following services from the Society's external auditor and these are included in other administrative expenses.

	GROUP 2022 £'000	GROUP 2021 £'000	SOCIETY 2022 £'000	SOCIETY 2021 £'000
Fees payable to the Society's external auditor for the audit of Society and consolidated financial statements	**617**	406	**617**	406
Fees payable for the audit of subsidiaries	**70**	62	**-**	-
Fees payable for the other audit related assurance services	**53**	48	**53**	48
Fees payable for non-audit services	**72**	-	**72**	-
	812	516	**742**	454

Audit fees are inclusive of VAT.

Other audit related assurance service primarily consist of the half year review and client money assurance engagements.

Non-audit services relate to accounting advice linked to merger with Manchester Building Society.

7 Staff costs

	Note	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Wages and salaries		**48.0**	38.5	**29.8**	20.3
Social security costs		**5.4**	4.1	**2.7**	2.0
Pension costs for defined contribution scheme		**6.1**	4.9	**3.5**	2.8
	6	**59.5**	47.5	**36.0**	25.1

Directors' emoluments are disclosed in the Remuneration Committee Report.

The monthly average number of persons employed, including Executive Directors, during the year was:

	GROUP 2022	GROUP 2021	SOCIETY 2022	SOCIETY 2021
Full time	**1,120**	1,032	**495**	443
Part time	**273**	252	**154**	157
	1,393	1,284	**649**	600
Head Office	**1,177**	1,083	**456**	420
Branches	**216**	201	**193**	180
	1,393	1,284	**649**	600

8 Tax expenses

	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Current tax				
Current year	**6.4**	4.9	**6.2**	4.6
Adjustments in respect of previous years	**(1.3)**	0.8	**-**	0.7
Total current tax	**5.1**	5.7	**6.2**	5.3
Deferred tax				
Current year	**0.1**	1.0	**0.3**	0.4
Adjustments in respect of prior years	**0.8**	(1.1)	**(0.2)**	(0.7)
Effect of changes in tax rates	**(0.3)**	(0.4)	**-**	(0.5)
Total deferred tax	**0.6**	(0.5)	**0.1**	(0.8)
Total taxation expense in Income Statements	**5.7**	5.2	**6.3**	4.5

Analysis of taxation for the year

The tax on the Group and Society profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits as follows:

	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Analysis of taxation for the year				
Profit for the year before taxation	**31.7**	29.1	**31.8**	25.5
Profit before taxation at the standard rate of corporation tax in the UK of **19%** (2021: 19%)	**6.0**	5.5	**6.0**	4.8
Effects of:				
Non-taxable dividend income received	**-**	-	**(0.2)**	(0.2)
Banking surcharge	**0.4**	-	**0.4**	-
Expenses not deductable for tax	**0.1**	-	**0.1**	-
Transfer pricing adjustment	**-**	-	**0.2**	0.2
Timing differences	**-**	0.4	**-**	0.2
Change in forward tax rates	**(0.3)**	(0.4)	**-**	(0.5)
Adjustments in respect of previous years	**(0.5)**	(0.3)	**(0.2)**	-
Total taxation expense	**5.7**	5.2	**6.3**	4.5

Factors affecting future tax charges

The Society has brought forward trading losses for tax purposes which are expected to affect future taxable profits (see further details in note 19).

9 Segment information

The chief operating decision maker has been identified as the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors. The operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The 'Member business' segment provides mortgage, savings, investment and insurance products to Members and customers. The 'Solutions business' segment (also referred to as Newcastle Strategic Solutions Limited (NSSL)) provides business to business services through people, processes and technology. The Board assesses performance based on profit before tax after the allocation of all central costs. Operating profit before impairments and provisions is also assessed as this provides information on underlying business performance.

Income and directly attributable costs are allocated to each segment and support costs are apportioned, based on direct salary costs and detailed allocations by budget holders.

Revised commercial arrangements were entered into during 2022 to reflect increasing technology and support service charges provided to the Member business. The revised commercial arrangements have increased other income and charges received by Solutions from the Member business and decreased the administration paid by Solutions in 2022. The December 2021 comparative for Solutions' other income and charges reflecting the cost allocation exercise would have been £44.8m, administration charges of £37.0m and profit for the year ended 31 December 2021 of £4.0m.

Year to 31 December 2022	**Member business £m**	**Solutions business £m**	**Total £m**
Net interest income / (expense)	76.4	(1.0)	75.4
Other income and charges	(5.3)	50.7	45.4
Fair value gains less losses on financial instruments and hedge accounting	(1.1)	-	(1.1)
Administrative expenses	(38.3)	(45.2)	(83.5)
Depreciation and amortisation	(2.4)	(3.3)	(5.7)
Operating profit before impairments and provisions	**29.3**	**1.2**	**30.5**
Impairment reversals on loans and advances to customers	1.6	-	1.6
Provisions for liabilities and charges	-	(0.1)	(0.1)
	30.9	**1.1**	**32.0**
Impairment charges on tangible and intangible assets			(0.3)
Profit before taxation			**31.7**
Taxation expense			(5.7)
Profit after taxation for the financial period			**26.0**

Year to 31 December 2021	**Member business £m**	**Solutions business £m**	**Total £m**
Net interest income / (expense)	60.1	(1.1)	59.0
Other income and charges	4.1	41.6	45.7
Fair value gains less losses on financial instruments and hedge accounting	(5.2)	-	(5.2)
Administrative expenses	(28.4)	(37.4)	(65.8)
Depreciation and amortisation	(2.6)	(2.6)	(5.2)
Operating profit before impairments and provisions	**28.0**	**0.5**	**28.5**
Impairment reversals on loans and advances to customers	2.8	-	2.8
Provisions for liabilities and charges	(0.1)	(0.1)	(0.2)
	30.7	**0.4**	**31.1**
Impairment charges on tangible and intangible assets			(2.0)
Profit before taxation			**29.1**
Taxation expense			(5.2)
Profit after taxation for the financial period			**23.9**

Notes to the Accounts for the year ended 31 December 2022

10 Loans and advances to credit institutions

Repayable from the date of the Balance Sheets in the ordinary course of business as follows:

	GROUP 2022 £m	GROUP 2021 £m	**SOCIETY 2022 £m**	SOCIETY 2021 £m
On demand	**17.4**	12.8	**0.8**	-
In not more than three months	**87.4**	170.7	**87.4**	170.7
	104.8	183.5	**88.2**	170.7

No provisions are held against loans and advances to credit institutions (2021: £nil). Included within loans and advances to credit institutions is collateral of **£87.4m** (2021: £170.7m).

11 Debt securities

Transferable debt securities	**GROUP and SOCIETY 2022 £m**	2021 £m
Issued by public bodies – listed	**88.2**	36.2
Issued by other borrowers – unlisted	**344.8**	354.5
	433.0	390.7

In addition to the securities above, the Society has retained notes issued by Tyne Funding No.1 PLC, an entity controlled by the Group. These are presented net of the deemed loan from the issuing special purpose vehicle. See note 14 Deemed loan for details. The carrying amount of debt securities includes a fair value ledge adjustment of **£2.3m** (2021: £nil).

The Directors consider that the primary purpose of holding securities is to comply with prudential requirements. All transferrable debt securities are held with the intention of use on a continuing basis in the Group's activities. They are designated by management on initial recognition as assets held at fair value with changes recognised in other comprehensive income.

Unlisted debt securities are AAA rated holdings of residential mortgage backed securities and covered bonds.

No provisions are held against debt securities (2021: £nil).

12 Loans and advances to customers

	GROUP		SOCIETY	
	2022 **£m**	2021 £m	**2022** **£m**	2021 £m
Loans fully secured on residential property	**4,237.8**	3,769.4	**4,237.0**	3,768.6
Loans fully secured on land	**26.8**	32.0	**26.8**	32.0
Other loans	**1.5**	1.6	**1.5**	1.5
Gross loans and advances	**4,266.1**	3,803.0	**4,265.3**	3,802.1
Less: allowance for losses on loans and advances	**(6.6)**	(8.5)	**(6.6)**	(8.5)
	4,259.5	3,794.5	**4,258.7**	3,793.6

Impairment provisions for loans and advances to customers

GROUP and SOCIETY

	Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m
Balance at 1 January 2022	**3.4**	**5.1**	**8.5**
Charge / (credit) for the year	0.4	(2.0)	(1.6)
Utilised during the year	(0.3)	-	(0.3)
Balance at 31 December 2022	**3.5**	**3.1**	**6.6**

GROUP and SOCIETY

	Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m
Balance at 1 January 2021	**5.2**	**9.5**	**14.7**
Credit for the year	(0.3)	(2.5)	(2.8)
Utilised during the year	(1.5)	(2.1)	(3.6)
Interest suspended adjustment	-	0.2	0.2
Balance at 31 December 2021	**3.4**	**5.1**	**8.5**

Equity release mortgage assets

Included in loans and advances to customers secured on residential property is a balance of **£166.3m** (2021: £232.6m) relating to equity release mortgages. Equity release mortgages are held at fair value, which includes a provision for insurance liabilities. Details on the balances and valuation of the equity release portfolio are included in notes 13 and 32.

Loans and advances to customers – Securitisation

In the prior year, the Society transferred beneficial ownership of a pool of mortgages of £282.7m to Tyne Funding No.1 PLC, a securitisation vehicle. The Society continues to be exposed to all risk and rewards of ownership of these mortgages and therefore the mortgages continue to be recognised on the Society's Balance Sheet. See note 14 for details on the securitisation.

No loans and securities were transferred to securitisation vehicles in the current period.

13 Insurance contracts

The Group's equity release mortgage assets are accounted for as insurance contracts under IFRS 4. The mortgages were advanced as indeterminate length fixed interest rate contracts, to be repaid in full at maturity through sale of the mortgaged properties. Most equity release contracts contain a no-negative-equity guarantee; that is, where the value of a mortgaged property at the point of sale falls short of the contractual amount due to the Group, the shortfall is written off. Equity release mortgages are presented on Balance Sheet as part of the Group's loans and advances to customers at fair value. The fair value includes an allowance for any anticipated recovery shortfall identified through IFRS 4 liability adequacy testing.

	Gross mortgage balances £m	Fair value uplift £m	Fair value presented on balance sheet £m
31 December 2022	**160.6**	**5.7**	**166.3**
31 December 2021	169.1	63.5	232.6

The gross mortgage balances above reflect the Group's maximum pre collateral exposure to credit risk at 31 December. The Group typically expects its equity release mortgages to be repaid through sale of the underlying properties. In all instances the Group holds the contractual right to sales proceeds required to repay a borrower's mortgage at the time of sale. Property collateral of **£429.6m** (2021: £433.5m) is held against the Group's equity release exposures. By their nature, equity release mortgages are not considered to hold a pre-determined maturity date.

The fair value is the present value of the forecast portfolio cash flows less the value of the no-negative equity guarantee, which is calculated using an option pricing model. See note 32 for details.

In the current year, the fair value uplift reduced by £57.8m. This was largely netted off by the £55.6m fair value increase of the interest rate derivatives used to hedge the equity release portfolio. See note 37 for more details.

Against equity release assets the following income and charges have been recognised through the income statements:

	Interest income £m	Fair value change £m
31 December 2022	**11.1**	**(57.8)**
31 December 2021	11.9	(23.3)

The Group recognises interest income on a per asset basis using the effective interest rate method. For equity release mortgages, the effective interest rate is considered to be the contractual fixed rate of interest detailed in the mortgage contracts. The gross mortgage balances, as presented above, reflect the amortised cost of the Group's equity release mortgages. Changes in the fair value are included in profit and loss within Fair value gains less losses on financial instruments, further details are given in note 37. For fixed reversion contracts, the effective interest rate is considered to be the rate implicit in the mortgage contract.

The balances recognised in respect to fixed reversion mortgages included in the total above are as follows:

	Reversion value £m	Book value £m	Interest income £m
31 December 2022	**17.5**	**15.0**	**0.9**
31 December 2021	21.7	18.2	1.2

The Group's equity release books are closed to new entrants with limited further advances available to existing customers at the discretion of the Group. The Group's equity release lending was conducted at low loan to values, protecting the Group from adverse movements in originally expected mortality and house price growth.

14 Deemed loan

In 2021, the Society securitised a pool of mortgage loans with a book value of £282.7m, by transferring their beneficial ownership at net book value to Tyne Funding No.1 PLC. Tyne Funding No. 1 PLC issued debt securities with a total value of £282.7m secured on the transferred mortgage loans. All notes have been purchased by the Society and are available as security for repurchase agreements with the Bank of England or third parties. Since the securitised mortgage loans do not meet the criteria for de-recognition from the Society's Balance Sheet, they continue to be held on the Society's Balance Sheet. The consideration received from Tyne Funding No.1 PLC is accounted for as a deemed loan. As permissible under IFRS 9, the Society has elected to present the deemed loan net of the retained loan notes issued by Tyne Funding No.1 PLC, as the notes constitute essentially the same asset as the transferred mortgages and presenting them gross results effectively in presenting the same assets twice on the Society's Balance Sheet. The carrying value of the notes reduces as coupon is paid on a quarterly basis whilst the consideration received for transfer of mortgages is repaid on a daily basis.

The net deemed loan asset presented on the Balance Sheet consists of the following items:

Society

	2022 £m	2021 £m
Retained loan notes	**248.0**	282.7
Consideration received for transfer of mortgages	**(241.7)**	(280.1)
Net value of derivatives integral to the transaction	**16.6**	(0.3)
	22.9	2.3

At the balance sheet date, the securitised mortgage loans had a book value of £241.7m. Class A notes have a coupon rate of SONIA + 58bp and a call date of 25 November 2026. In the group accounts, any derivatives associated with the transaction are presented gross in assets and liabilities within derivative financial instruments.

15 Investments

	GROUP		SOCIETY	
	2022 £m	2021 £m	2022 £m	2021 £m
Equities	**2.1**	3.9	**0.2**	0.2
Subsidiaries	**-**	-	**38.4**	43.6
	2.1	3.9	**38.6**	43.8

Investments in equities

Equity investments relate to the Society's holdings in Abrdn PLC after demutualisation of Standard Life, and Newcastle Financial Advisers Limited's holding in units in Openwork LLP, a network of independent financial advisers, under the licence of which it operates. Equity investments are held at fair value through profit and loss. See note 32 for more details.

Investments in subsidiaries

Society

Investments in subsidiary undertakings	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2022	13.0	33.7	46.7
Additions	-	1.2	1.2
Repayments received	-	(0.4)	(0.4)
Return of investment	(9.1)	-	(9.1)
At 31 December 2022	**3.9**	**34.5**	**38.4**
Provisions at 31 December 2022			
At 1 January 2022	3.1	-	3.1
Return of investment	(3.1)	-	(3.1)
At 31 December 2022	**-**	**-**	**-**
Net book amount at 31 December 2022	**3.9**	**34.5**	**38.4**

15 Investments Continued

Investments in subsidiary undertakings	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2021	13.0	31.5	44.5
Additions	-	4.1	4.1
Repayments received	-	(1.9)	(1.9)
At 31 December 2021	**13.0**	**33.7**	**46.7**
At 1 January 2021	2.9	-	2.9
Impairment in intercompany investment	0.2	-	0.2
At 31 December 2021	**3.1**	**-**	**3.1**
Net book amount at 31 December 2021	**9.9**	**33.7**	**43.6**

The Society directly holds 100% of the issued ordinary share capital of all its subsidiary undertakings.
The Directors believe that the carrying value of the investments in subsidiary undertakings is supported by their underlying net assets.

Name of principal subsidiary undertakings	Principal activity
Newcastle Financial Advisers Limited	Provision of financial services
Newcastle Mortgage Loans (Jersey) Limited	Mortgage lending
Newcastle Portland House Limited	The company has not been trading after Portland House, formerly the Group's head office, was sold to a third party in 2021. The process of winding up the company begun during 2022.
Newcastle Strategic Solutions Limited	Provision of specialised savings management and IT services
Newcastle Systems Management Limited	The company has not been trading since its assets were transferred into Newcastle Strategic Solutions Limited in 2019, and the company was dissolved in January 2023.

Newcastle Mortgage Loans (Jersey) Limited is incorporated and operates in Jersey. All other of the above subsidiary undertakings are incorporated in England and Wales and operate in the United Kingdom.

Further information on transactions between Group entities can be found in Note 29 Related Parties.

During the year the Society received dividends from subsidiary undertakings totalling £7.6m. Of this amount, £6.0m has been treated as return of capital and £1.6m has been treated as income from dividends in profit and loss.

Other controlled entities

The following entity is deemed to be controlled by the Society. Although the Society does not have a controlling shareholding, it has the right of variable returns from the entity and is able to influence these returns. In substance, the entity is therefore no different than if it was wholly-owned by the Society. As a result, it is consolidated into the Group accounts. The carrying value of the entity in the Society's Balance Sheet is £nil.

Tyne Funding No.1 PLC

Tyne Funding No.1 PLC was incorporated on 30 September 2021. It is a special purpose vehicle (SPV) to facilitate the securitisation of a mortgage pool previously owned by the Society (see note 14 for more details). The entity's financial period end date is 31 December. Its registered office is 1 Bartholomew Lane, London, EC2N 2AX.

16 Intangible assets

Group

	Purchased software £m	Internally developed software: Work in progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2022	11.5	1.2	3.8	0.4	16.9
Additions	0.9	4.1	-	-	5.0
Transfers	-	(2.8)	2.8	-	-
Disposals	(0.7)	-	(0.4)	-	(1.1)
At 31 December 2022	**11.7**	**2.5**	**6.2**	**0.4**	**20.8**
Accumulated depreciation					
At 1 January 2022	8.3	-	0.9	0.2	9.4
Charge for the year	0.9	-	1.0	0.1	2.0
Impairment	0.3	-	-	-	0.3
Disposals	(0.7)	-	(0.4)	-	(1.1)
At 31 December 2022	**8.8**	**-**	**1.5**	**0.3**	**10.6**
Net book amount at 31 December 2022	**2.9**	**2.5**	**4.7**	**0.1**	**10.2**

Group

	Purchased software £m	Internally developed software: Work in progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2021	10.4	1.2	0.9	0.4	12.9
Additions	1.1	2.9	-	-	4.0
Transfers	-	(2.9)	2.9	-	-
At 31 December 2021	**11.5**	**1.2**	**3.8**	**0.4**	**16.9**
Accumulated depreciation					
At 1 January 2021	7.0	-	0.1	0.1	7.2
Charge for the year	1.0	-	0.4	0.1	1.5
Impairment	0.3	-	0.4	-	0.7
At 31 December 2021	**8.3**	**-**	**0.9**	**0.2**	**9.4**
Net book amount at 31 December 2021	**3.2**	**1.2**	**2.9**	**0.2**	**7.5**

Society

	Purchased software £m	Internally developed software: Work in progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2022	3.4	-	-	-	3.4
Additions	0.4	-	-	-	0.4
At 31 December 2022	**3.8**	**-**	**-**	**-**	**3.8**
Accumulated depreciation					
At 1 January 2022	2.1	-	-	-	2.1
Charge for the year	0.3	-	-	-	0.3
Impairment	0.3	-	-	-	0.3
At 31 December 2022	**2.7**	**-**	**-**	**-**	**2.7**
Net book amount at 31 December 2022	**1.1**	**-**	**-**	**-**	**1.1**

16 Intangible assets Continued

Society

	Purchased software £m	Internally developed software: Work in progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2021	2.5	-	-	-	2.5
Additions	0.9	-	-	-	0.9
At 31 December 2021	**3.4**	**-**	**-**	**-**	**3.4**
Accumulated depreciation					
At 1 January 2021	1.9	-	-	-	1.9
Charge for the year	0.2	-	-	-	0.2
At 31 December 2021	**2.1**	**-**	**-**	**-**	**2.1**
Net book amount at 31 December 2021	**1.3**	**-**	**-**	**-**	**1.3**

Purchased software

Purchased software relates to IT systems purchased from external providers, with a useful economic life longer than one year.

Internally developed software

Internally developed software relates to capitalised staff costs for developing new IT systems or enhancing the functionality of existing ones. The software is either used by the Group or licenses are sold to third parties. Internally developed software assets are classified as work in progress until the software is ready to use. Once it is ready to use, it is reclassified as internally developed software in use and amortised over its useful economic life.

Acquired customer lists

Acquired customer lists relate to customer lists acquired by Newcastle Financial Advisers Limited. In 2019, Newcastle Financial Advisers bought Fidelis Financial Solutions Limited and integrated its trade and assets into its own operations. In 2020, the customer list of Carter James Associates Limited was acquired and integrated into Newcastle Financial Advisers Limited.

17 Non-current assets held for sale

	GROUP		SOCIETY	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Fixtures and fittings	**-**	0.1	**-**	0.1
Freehold land and buildings	**0.2**	2.3	**0.2**	2.3
	0.2	2.4	**0.2**	2.4

The balance recognised in respect to the prior year relates to a property in Newcastle owned by the Society and previously classified as an investment property. In 2021, the Board decided to sell the property and a buyer was identified. Contracts were exchanged in January 2022 and completion of the sale took place in February 2022. The assets held for sale at December 2021 were sold for £2.4m and no profit or loss was recognised on the assets. The balance recognised in the current year relates to a property owned by the Society previously classified within freehold buildings. In 2022, the decision was made to sell the property and a buyer identified.

18 Property, plant and equipment

Group

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Investment property £m	Total £m
Cost					
At 1 January 2022	3.0	23.0	26.0	1.1	53.1
Additions	-	0.2	1.9	-	2.1
Transfer to non-current assets held for sale	(0.3)	-	-	-	(0.3)
Disposals	-	(0.3)	(0.5)	-	(0.8)
At 31 December 2022	**2.7**	**22.9**	**27.4**	**1.1**	**54.1**
Accumulated depreciation					
At 1 January 2022	0.9	3.9	16.4	0.9	22.1
Charge for the year	0.1	1.4	2.1	0.1	3.7
Transfer to non-current assets held for sale	(0.1)	-	-	-	(0.1)
Disposals	-	(0.2)	(0.5)	-	(0.7)
At 31 December 2022	**0.9**	**5.1**	**18.0**	**1.0**	**25.0**
Net book amount at 31 December 2022	**1.8**	**17.8**	**9.4**	**0.1**	**29.1**

Group

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Investment property £m	Total £m
Cost					
At 1 January 2021	3.0	22.8	23.2	4.1	53.1
Additions	-	0.2	3.5	-	3.7
Transfer to non-current assets held for sale	-	-	(0.7)	(3.0)	(3.7)
At 31 December 2021	**3.0**	**23.0**	**26.0**	**1.1**	**53.1**
Accumulated depreciation					
At 1 January 2021	0.8	2.5	13.9	1.1	18.3
Charge for the year	0.1	1.4	2.1	0.1	3.7
Impairment	-	-	1.0	0.4	1.4
Transfer to non-current assets held for sale	-	-	(0.6)	(0.7)	(1.3)
At 31 December 2021	**0.9**	**3.9**	**16.4**	**0.9**	**22.1**
Net book amount at 31 December 2021	**2.1**	**19.1**	**9.6**	**0.2**	**31.0**

18 Property, plant and equipment Continued

Society

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Investment property £m	Total £m
Cost					
At 1 January 2022	3.0	8.1	12.0	1.1	24.2
Additions	-	-	0.3	-	0.3
Transfer to non-current assets held for sale	(0.3)	-	-	-	(0.3)
Disposals	-	(0.3)	(0.1)	-	(0.4)
At 31 December 2022	**2.7**	**7.8**	**12.2**	**1.1**	**23.8**
Accumulated depreciation					
At 1 January 2022	1.0	2.9	7.2	0.9	12.0
Charge for the year	0.1	1.0	0.9	0.1	2.1
Transfer to non-current assets held for sale	(0.1)	-	-	-	(0.1)
Disposals	-	(0.1)	(0.1)	-	(0.2)
At 31 December 2022	**1.0**	**3.8**	**8.0**	**1.0**	**13.8**
Net book amount at 31 December 2022	**1.7**	**4.0**	**4.2**	**0.1**	**10.0**

Society

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Investment property £m	Total £m
Cost					
At 1 January 2021	3.0	7.9	12.3	4.1	27.3
Additions	-	0.2	0.4	-	0.6
Transfer to non-current assets held for sale	-	-	(0.7)	(3.0)	(3.7)
At 31 December 2021	**3.0**	**8.1**	**12.0**	**1.1**	**24.2**
Accumulated depreciation					
At 1 January 2021	0.9	1.8	6.9	1.1	10.7
Charge for the year	0.1	1.1	0.9	0.1	2.2
Impairment	-	-	-	0.4	0.4
Transfer to non-current assets held for sale	-	-	(0.6)	(0.7)	(1.3)
At 31 December 2021	**1.0**	**2.9**	**7.2**	**0.9**	**12.0**
Net book amount at 31 December 2021	**2.0**	**5.2**	**4.8**	**0.2**	**12.2**

18 Property, plant and equipment Continued

Leases

The right of use assets recognised for leases is included in the table above as "Leasehold land and buildings".
The corresponding lease liability is included in Other liabilities (Note 25).

Lease liabilities are expected to amortise as follows:

	GROUP		SOCIETY	
	2022 £m	2021 £m	2022 £m	2021 £m
Within one year	**1.1**	1.1	**1.1**	1.1
In one to five years	**2.5**	3.4	**2.4**	3.4
In more than five years	**1.2**	1.5	**1.2**	1.5
	4.8	6.0	**4.7**	6.0

The following charges are included in the income statement in respect to leases:

	GROUP		SOCIETY	
	2022 £m	2021 £m	2022 £m	2021 £m
Depreciation of right of use assets included in administrative expenses	**1.1**	1.4	**1.0**	1.1
Interest charges on lease liabilities (note 3)	**0.1**	0.2	**0.1**	0.2
Expenses relating to short term and low value leases included in administrative expenses				
- payable to third parties	**0.1**	0.7	**0.1**	0.1
	1.3	2.3	**1.2**	1.4

There is no expense recognised in the income statement in respect of variable lease payments that are not included in the measurement of the lease liabilities.

Investment property

Included within Investment property are freehold and leasehold commercial buildings, which are owned by the Group and Society held to earn rental income. The transfer relates to a property which was held for sale at the balance sheet date (see note 17).

Management consider the purchase price less depreciation to represent a fair value for properties held. No formal third party valuation of the Society or Group investment property holdings was undertaken during 2022 with the properties managed to facilitate continued operation (via rental to third parties or otherwise) and not towards view of speculative sale.

During 2022 rental income from investment properties of £0.1m (2021: £0.2m) was recognised by the Group and Society. Directly attributable operating expenses to investment property are not measured as both Group and third parties occupy the properties.

19 Deferred tax

The movement on the deferred tax account is shown below.

	GROUP		SOCIETY	
	2022 £m	2021 £m	2022 £m	2021 £m
At 1 January	**3.2**	2.5	**3.7**	2.7
Income Statement expense	**(0.1)**	(1.0)	**(0.3)**	(0.4)
Previous year adjustment	**(0.8)**	1.1	**0.2**	0.7
Effect of change in tax rates	**0.3**	0.4	**-**	0.5
Credited on items taken directly through reserves	**1.4**	0.2	**1.4**	0.2
Other	**(0.2)**	-	**-**	-
At 31 December	**3.8**	3.2	**5.0**	3.7
Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	**0.2**	0.9	**0.2**	0.5
Deferred tax asset to be recovered in more than 12 months	**4.8**	3.7	**4.8**	3.7
	5.0	4.6	**5.0**	4.2
Deferred tax liabilities				
Deferred tax liability to be recovered in less than 12 months	**(0.1)**	-	**-**	-
Deferred tax liability to be recovered in more than 12 months	**(1.1)**	(1.4)	**-**	(0.5)
	(1.2)	(1.4)	**-**	(0.5)

For deferred tax assets recognised on the balance sheet, the Group's latest forecast indicate that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax assets.

The table below shows the items deferred tax are attributable to and how movements in the deferred tax assets and liabilities are reflected in the Income Statement and the Statement of Other Comprehensive Income.

Group

	2021 £m	Charge credited to Income Statements £m	Other Comprehensive Income £m	Other £m	2022 £m
Trading losses	1.9	-	-	(0.1)	1.8
Depreciation in excess of capital allowances	0.6	(0.9)	-	-	(0.3)
Adjustments relating to historic changes in accounting policies	2.1	(0.2)	-	-	1.9
Equity investments held at fair value through the Income Statement	(0.9)	0.5	-	(0.1)	(0.5)
Debt securities held at fair value through other comprehensive income	(0.5)	-	0.5	-	-
Cash flow hedge accounting held at fair value through other comprehensive income	-	-	0.9	-	0.9
	3.2	**(0.6)**	**1.4**	**(0.2)**	**3.8**

Society

	2021 £m	Charge credited to Income Statements £m	Other Comprehensive Income £m	Other £m	2022 £m
Trading losses	1.9	-	-	-	1.9
Depreciation in excess of capital allowances	0.2	0.1	-	-	0.3
Adjustments relating to historic changes in accounting policies	2.1	(0.2)	-	-	1.9
Debt securities held at fair value through other comprehensive income	(0.5)	-	0.5	-	-
Cash flow hedge accounting held at fair value through other comprehensive income	-	-	0.9	-	0.9
	3.7	**(0.1)**	**1.4**	**-**	**5.0**

Adjustments relating to historic changes in accounting policies unwind to the income statement over a period of 10 years from the change in accounting policy.

20 Retirement benefit obligations

Group and Society Pension scheme

The Society operates a UK registered trust based pension scheme, Newcastle Building Society Pension and Assurance Scheme that provides defined benefits. The Scheme was closed to new entrants in 2000 and closed to the future accrual of benefits in 2010. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier).

The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that at least one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:

- Deferred members: current and former employees of the Society who are not in receipt of a Scheme pension; and
- Pensioner members: in receipt of Scheme pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit obligations (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The proportion of benefits receive increases linked to inflation (subject to a cap of no more than 5% pa). The valuation method used is known as the Projected Unit Method.
The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2022 was 13 years (2021: 16 years).

Future funding obligation

The Trustees are required to carry out an actuarial valuation every 3 years. The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 30 June 2022. This valuation revealed the Scheme had no funding deficit relative to the Scheme's statutory funding objective and so no deficit reduction contributions are payable. However, the Society has agreed to pay contributions of currently circa £0.4m per annum in respect of Scheme expenses and levies. The Society does not recognise a surplus for the reasons set out in Note 1.

Assumptions

The results of the actuarial valuation as at 30 June 2022 have been updated to 31 December 2022 by a qualified independent actuary. The assumptions used for the IAS 19 year end valuation are as follows:

Significant actuarial assumptions	**2022**	2021
Discount rate	**4.90%**	1.90%
RPI inflation	**3.10%**	3.35%
CPI inflation	**2.10%**	2.35%
Mortality assumptions		
Mortality (post-retirement)	**SAPS 'S3'CMI 2021 [1.25%] (yob)**	SAPS 'S3'CMI 2020 [1.25%] (yob)
Other actuarial assumptions		
RPI pension increases	**3.05%**	3.30%
Pension increases in deferment	**2.40%**	2.60%
Life expectancies (in years)		
For an individual aged 62		
Male	**24.2 years**	24.4 years
Female	**26.9 years**	27.1 years
At age 62 for an individual aged 42 in 2022		
Male	**25.6 years**	25.8 years
Female	**28.4 years**	28.4 years

20 Retirement benefit obligations Continued

Risks

Through the Scheme, the Society is exposed to a number of risks:

- **Asset volatility:** The Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, however the scheme invests in some growth assets. These assets are expected to outperform corporate bonds in the long-term, but provide volatility and risk in the short term.
- **Changes in bond yields:** A decrease in corporate bond yields would increase the Scheme's defined benefit obligations. The Scheme invests in Liability Driven Investment (LDI) assets, which are designed to offset the impact of changes to market yields. Changes in bond yields are therefore not expected to be a significant source of balance sheet volatility other than significant changes in credit spreads.
- **Inflation risk:** A significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place), although the Scheme's LDI holding is expected to offset the impact of inflation rate changes.
- **Mortality risk:** If Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's defined benefit obligation.

The Trustees and Society manage risks in the Scheme through the following strategies:

- **Diversification:** Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- **Investment strategy:** The Trustees are required to review their investment strategy on a regular basis.
- **Liability driven investment (LDI):** The Scheme invests in LDI assets, whose long-term investment returns are expected to partially hedge interest rate and inflation rate movements.
- **Pension increase exchange:** The Trustees currently offer retiring members an option to exchange future pension increases for a higher immediate pension. This has reduced the Scheme liabilities for retired members who have already taken up the option and, based upon the assumption of future take up, for deferred members who will retire in future.

Sensitivity analysis Assumption	Change in assumption	Change in defined benefit obligation
Discount rate	+ / – 0.5%	– 6% / + 6%
Inflation	+ / – 0.5%	+ 3% / – 3%
Assumed life expectancy	+ / – 1 year	+ 3% / – 3%

Limitations of the sensitivity analysis

These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

Asset class at market value

The assets of the Scheme were invested as follows:

	2022 **%**	2021 %
Equities	**7.2**	11.3
Diversified growth funds	**7.2**	10.5
Corporate bonds	**36.5**	30.0
Fixed interest and index linked gilts	**41.8**	44.3
Annuities	**1.3**	-
Cash	**6.0**	3.9
Total	**100.0**	100.0
Actual return on assets over the period (£m)	**(38.3)**	1.0

All assets listed above are held as Legal & General Pooled Investment Vehicles with the exception of the small amount in the Trustees bank account. The Multi Asset class consists of a single diversified fund with underlying assets of equities, bonds, commodities and listed infrastructure, property, private equity and global real estate companies.

The reduction in the market value of the Scheme assets is due to changes in forward interest rates. They were largely netted off by the change in value of the Scheme's liabilities, caused by increased discount rates associated with those forward interest rates, demonstrating that scheme assets and liabilities are well matched.

20 Retirement benefit obligations Continued

Reconciliation to the Balance Sheet

	2022 £m	2021 £m
Total value of assets	**77.8**	121.5
Present value of defined benefit obligation	**(70.6)**	(110.7)
Funded status	**7.2**	10.8
Adjustment in respect of minimum funding requirement	**(7.2)**	(10.8)
Pension asset recognised in the Balance Sheet before allowance for deferred tax	**-**	-

Analysis of changes in the value of the defined benefit obligation over the period

	2022 £m	2021 £m
Value of defined benefit obligations at start of the period	**110.7**	120.1
Interest cost	**2.1**	1.7
Benefits paid	**(5.3)**	(5.9)
Actuarial losses: experience differing from that assumed	**0.5**	1.2
Actuarial gains: changes in demographic assumptions	**(0.5)**	(0.8)
Actuarial gains: changes in financial assumptions	**(36.9)**	(5.6)
Value of defined benefit obligation at end of period	**70.6**	110.7

Analysis of changes in the value of the Scheme assets over the period

	2022 £m	2021 £m
Market value of assets at start of period	**121.5**	125.7
Interest income	**2.3**	1.7
Actual return on assets less interest	**(40.6)**	-*
Employer contributions	**0.3**	0.3
Benefits paid	**(5.3)**	(5.9)
Administration costs	**(0.4)**	(0.3)
Market value of assets at end of period	**77.8**	121.5

*Actual return on assets less interest was (£0.7m) which was offset by £0.7m income in respect of insured death benefits.

Amount recognised in Income Statements

	2022 £m	2021 £m
Administration costs	**0.4**	0.3
Amount charged to Income Statements	**0.4**	0.3

Amounts recognised in Statements of Comprehensive Income

	2022 £m	2021 £m
Actuarial losses on defined benefit obligation	**36.9**	5.2
Actual return on assets less interest	**(40.6)**	-
Limit on recognition of assets less interest	**3.7**	(5.2)
Amounts recognised in Statements of Comprehensive Income	**-**	-

20 Retirement benefit obligations Continued

Guaranteed minimum pension equalisation

On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that Trustees are under a duty to make sure that equal benefits are paid, including where these benefits are in the form of Guaranteed Minimum Pension (GMP). As a result, all schemes with GMP rights will have to act to allow for equalisation of benefits for the effect of unequal GMPs. This is known as GMP equalisation. As a result of this judgment, it is generally expected companies make an allowance for any increase in the defined benefit obligation that they expect as a result of GMP equalisation. As per previous years, an approximate allowance for the impact of GMP equalisation of 0.5% of the defined benefit obligation has been made. This considers current members of the Scheme only.

Past transfers

The 2018 judgment did not consider whether Trustees needed to include past transfers within the perimeter of GMP equalisation. However, this question was addressed in a further judgment handed down on 20 November 2020. This judgment confirmed, broadly, that past individual transfers do need to be included (to the extent they related to relevant GMP benefits), but that actuarially certified bulk transfers do not. The 2020 judgement has resulted in an increase in the Group's estimated scheme liabilities of £0.1m.

Insured members

The pension obligation for some members of the scheme are insured by a third party. The pension liability relating to insured members and the corresponding insurance assets in respect to these members always net to £nil. At 30 June 2022, they were estimated to be £1.0m (2021: £1.4m). They have no effect on any primarily financial statement. The pension liability and pension asset have been presented including the insured pension liability and related insurance asset (previously presented net).

21 Other assets

	GROUP		SOCIETY	
	2022 £m	2021 £m	2022 £m	2021 £m
Receivable from subsidiary undertakings	**-**	-	**1.5**	1.5
Prepayments and accrued income	**12.1**	13.0	**4.1**	5.2
Other receivables	**5.0**	4.5	**2.5**	1.7
	17.1	17.5	**8.1**	8.4

22 Due to Members

	GROUP and SOCIETY	
	2022 £m	2021 £m
Held by individuals	**4,220.7**	3,731.6
Other shares	**0.1**	0.2
	4,220.8	3,731.8

23 Due to other customers

	GROUP		SOCIETY	
	2022 £m	2021 £m	2022 £m	2021 £m
Due to other customers	**175.8**	159.1	**175.8**	162.6
	175.8	159.1	**175.8**	162.6

24 Deposits from credit institutions

	GROUP and SOCIETY 2022 £m	2021 £m
Deposits from credit institutions	**577.1**	587.6
	577.1	587.6

25 Other liabilities

	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Amounts payable to subsidiary undertakings	**-**	-	**2.7**	4.5
Lease liabilities	**4.8**	6.0	**4.7**	6.0
Other creditors	**1.9**	2.0	**1.0**	1.0
Accruals and deferred income	**11.6**	13.4	**7.8**	10.2
Provisions	**0.6**	0.8	**0.5**	0.6
	18.9	22.2	**16.7**	22.3

Provisions for liabilities and charges

	GROUP 2022 £m	GROUP 2021 £m	SOCIETY 2022 £m	SOCIETY 2021 £m
Opening provision at 1 January	**0.8**	0.7	**0.6**	0.6
New provisions for the year	**0.5**	0.3	**0.4**	0.2
Released provisions for the year	**(0.4)**	(0.1)	**(0.4)**	(0.1)
Amounts utilised / transferred during the year	**(0.3)**	(0.1)	**(0.1)**	(0.1)
Closing provision at 31 December	**0.6**	0.8	**0.5**	0.6

Provisions include an estimate of the costs of potential consumer redress costs.

26 Subscribed capital

	GROUP and SOCIETY 2022 £m	2021 £m
12.625% permanent interest bearing shares	**10.0**	10.0
10.750% permanent interest bearing shares	**10.0**	10.0
	20.0	20.0

The 12.625% and 10.750% subscribed capital issues were issued for an indeterminate period and are only repayable in the event of the winding up of the Society.

27 Guarantees, contingent liabilities and commitments

(i) Until 11 June 1996, under Section 22 of the Building Societies Act 1986, the Society had an obligation to discharge the liabilities of its subsidiary undertakings insofar as they were unable to discharge the liabilities out of their own assets.

(ii) Commitments

The Society has no capital commitments for the acquisition of property, plant, and equipment at 31 December 2022.

Commitments in respect to leases classified as short term or small under IFRS 16 are disclosed in note 18.

	GROUP and SOCIETY 2022 £m	2021 £m
Irrevocable undrawn committed loan facilities	**267.6**	227.9

28 Note to the Cash Flow Statements

	GROUP		SOCIETY	
	2022	2021	**2022**	2021
Reconciliation of profit before taxation to net cash inflow	**£m**	£m	**£m**	£m
Profit before taxation	**31.7**	29.1	**31.8**	25.5
Depreciation and amortisation	**5.7**	5.2	**2.4**	2.4
Interest on subscribed capital	**2.3**	2.3	**2.3**	2.3
Increase in derivative financial instruments	**(171.0)**	(81.2)	**(153.6)**	(81.5)
Interest payment for finance lease arrangements	**(0.1)**	(0.2)	**(0.1)**	(0.2)
Other non-cash movements	**(1.2)**	2.4	**1.5**	0.5
Net cash outflows before changes in operating assets and liabilities	**(132.5)**	(42.2)	**(115.7)**	(50.8)
Increase in loans and advances to customers	**(465.0)**	(227.4)	**(465.1)**	(228.6)
Decrease in fair value adjustments for hedged risk	**123.3**	54.0	**123.3**	54.0
Decrease in cash collateral pledged	**83.3**	79.9	**83.3**	79.9
Increase / (decrease) in shares	**489.0**	(44.5)	**489.0**	(44.5)
Increase in amounts due to other customers and deposits from banks	**6.2**	118.7	**2.7**	122.2
Increase in deemed loan	**-**	-	**(20.6)**	(2.3)
Decrease / (increase) in investments, other assets, prepayments and accrued income	**0.4**	(5.9)	**0.3**	7.1
(Decrease) / increase in other liabilities	**(2.1)**	5.1	**(4.4)**	3.8
Net cash inflows / (outflows) from operating activities	**102.6**	(62.8)	**92.7**	(59.2)

Cash and cash equivalents				
Cash and balances with the Bank of England	**421.9**	382.2	**421.9**	382.2
Loans and advances to banks repayable on demand	**17.4**	12.8	**0.8**	-
At 31 December	**439.3**	395.0	**422.7**	382.2

Cash and cash equivalents comprise cash in hand, balances with the Bank of England, loans and advances to banks available on demand or with original maturities of three months or less and investment securities with a maturity period of three months or less i.e. highly liquid assets readily convertible into cash.

IAS 7 "statement of cash flows" requires enhanced disclosures around changes in liabilities from financing activities arising from cash flows and non cash changes.

28 Note to the Cash Flow Statements Continued

Changes of liabilities arising from financing liabilities in the year were as follows:

		Non-cash changes			Cash Flows			
	Balance sheet 31 December 2021	**Initial lease recognition***	**Lease remeasurement***	**Accrued interest/lease charge**	**Interest payment flows**	**Capital repayment flows**	**Other**	**Balance sheet 31 December 2022**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Subscribed capital (PIBS)	**20.4**	**-**	**-**	**2.3**	**(2.3)**	**-**	**-**	**20.4**
Finance lease arrangements	**6.0**	**0.1**	**(0.2)**	**0.1**	**(0.1)**	**(1.1)**	**-**	**4.8**

		Non-cash changes			Cash Flows			
	Balance sheet 31 December 2020	Initial lease recognition*	Lease remeasurement*	Accrued interest/lease charge	Interest payment flows	Capital repayment flows	Other	Balance sheet 31 December 2021
	£m	£m	£m	£m	£m	£m	£m	£m
Subscribed capital (PIBS)	20.2	-	-	2.3	(2.3)	-	0.2	20.4
Finance lease arrangements	7.0	-	-	0.2	(0.2)	(1.0)	-	6.0

Opening and closing balance sheet positions include applicable accrued interest. The Group's financing liabilities are held on balance sheet at their amortised cost under IFRS 9 and are denominated in Sterling. Accordingly, the accounting value of the Group's financing liabilities has not been impacted by changes in fair value or foreign exchange rates during the years to 31 December 2022 or 2021.

* Initial lease recognition adjustment relates to finance lease arrangements on the initial recognition of IFRS16 lease liability on balance sheet for new leases. Lease remeasurements relate to changes in the contractual lease changes due being reflected in the lease liability.

29 Related parties

The Group is controlled by Newcastle Building Society which is registered in England and Wales and operates in the United Kingdom. Further details of subsidiary undertakings are disclosed in Note 15 to these Accounts. The Directors are considered to be the only key management personnel as defined by IAS 24.

Transactions with Directors and their close family members

Directors and their close family members have entered into the following transactions with Newcastle Building Society in the normal course of business.

Loans to Directors and their close family members

	2022 £000	2021 £000
At 31 December	**249**	258

These loans were made on normal commercial terms and a register of them is available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

Deposits and investments held by Directors and their close family members

	2022 £000s	2021 £000s
At 31 December	**393**	261

Amounts deposited by Directors and members of their close families earn interest on the same terms and conditions applicable to other customers. There were no other transactions with Directors or their close family members during 2022 or 2021.

Transactions with other Group undertakings

The Society receives managed IT, property and business support services from Newcastle Strategic Solutions Limited, a wholly owned subsidiary of the Society. The Society provides financial and administrative services to Newcastle Strategic Solutions Limited.

During the year, the following transactions were carried out with related parties:

(a) Sales of financial and administrative services

	2022 £000s	2021 £000s
Newcastle Strategic Solutions Limited	**10,191**	10,148

Sales of services are negotiated with related parties on commercial terms.

(b) Purchases of services:

	2022 £000s	2021 £000s
Business Support Services		
Newcastle Strategic Solutions Limited	**13,391**	6,593

Purchased services are negotiated with related parties on commercial terms.

29 Related parties Continued

At 31 December 2022 the following unsecured balances remained outstanding with related parties:

(c) Outstanding balances:

	Amounts owed to Society		Amounts owed by Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Newcastle Systems Management Limited	**-**	42	**-**	-
Newcastle Strategic Solutions Limited	**1,515**	1,451	**1,465**	769
Newcastle Financial Advisers Limited	**-**	-	**1,232**	792
Newcastle Portland House Limited	**-**	-	**-**	2,900
Newcastle Mortgage Loans (Jersey) Limited	**-**	16	**-**	-

At 31 December 2022 the following borrowings and cash deposits remained outstanding with related parties:

(d) Borrowings/ cash deposits:

	Amounts borrowed from Society		Amounts deposited with Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Newcastle Strategic Solutions Limited	**31,540**	30,735	**-**	-
Newcastle Mortgage Loans (Jersey) Limited	**396**	410	**-**	-
Tyne Funding No. 1 Plc	**2,544**	2,544	**-**	-

	Interest paid to Society		Interest paid by Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Newcastle Strategic Solutions Limited	**1,096**	1,057	**-**	-
Newcastle Mortgage Loans (Jersey) Limited	**26**	59	**-**	-
Tyne Funding No. 1 Plc	**12**	1	**-**	-

The loan between the Society to Newcastle Strategic Solutions Limited is made up of three tranches with each on a rolling basis. The interest rate on the loans is the Society's SVR +1% and SVR -2%.

The loan between the Society and Newcastle Mortgage Loans (Jersey) Limited has an interest rate of Sonia + 11.93bps and will mature when the company's underlying mortgage book redeems.

The loan to Tyne Funding No.1 Plc has an interest rate of 0.5%. The loan is subordinate to all other obligations of Tyne Funding No.1 Plc and repayable at the maturity of the Notes detailed in note 13.

30 Accounting for financial instruments

Disclosures relating to financial instruments and related risks in notes 31 to 43 are given on a Group basis, as the risks of the organisation are managed on a Group basis. The Society basis is not considered to be materially different from the Group basis for any of these disclosures.

Note 1 describes how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following measurement basis acronyms are used throughout this disclosure:

FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss

The Group has financial assets and liabilities for which there is a practical right to offset the recognised amounts and which are settled net in practice. However, the netting arrangements do not result in an offset of balance sheet assets and liabilities for accounting purposes as the right to offset is not unconditional in all circumstances. There are no financial assets or liabilities which are offset with the net amount presented on the balance sheet.

The Group has also reclassified certain equity investments from level 2 to level 3, see note 32 for further details. The Group has not reclassified any other financial assets during the year.

Notes 31-33 provide further information on the classification and valuation of financial instruments.
Notes 34-38 provide further information on the Group's interest rate risk management.
Notes 39-41 provide further information on the Group's credit risk management.
Note 42 provides further information on the Group's liquidity risk management.
Note 43 provides further information on the Group's capital risk management.

The Group does not have exposures to currency risk and has no material exposure to equity risk.

31 Categories of financial instruments

The following table analyses the financial assets and liabilities in the balance sheet by the class of financial instrument to which they are assigned and by the measurement basis.

		Amortised Cost	FVOCI	FVTPL	Total
Group as at 31 December 2022	**Note**	**£m**	**£m**	**£m**	**£m**
Cash in hand and balances with the Bank of England		421.9	-	-	421.9
Loans and advances to credit institutions*	10	104.8	-	-	104.8
Debt securities	11	-	433.0	-	433.0
Derivative financial instruments	35	-	-	90.4	90.4
Loans and advances to customers	12	4,093.2	-	166.3	4,259.5
Fair value adjustments for hedged risk	37	-	-	(60.9)	(60.9)
Investments	15	-	-	2.1	2.1
Other assets, of which financial		6.5	-	-	6.5
Total financial assets		**4,626.4**	**433.0**	**197.9**	**5,257.3**
Financial liabilities					
Due to Members	22	4,220.8	-	-	4,220.8
Fair value adjustments for hedged risk	37	-	-	0.3	0.3
Due to other customers	23	175.8	-	-	175.8
Deposits from credit institutions	24	577.1	-	-	577.1
Derivative financial instruments	35	-	-	52.5	52.5
Subscribed capital	26	20.0	-	-	20.0
Other liabilities, of which financial		2.4	-	-	2.4
Total financial liabilities		**4,996.1**	**-**	**52.8**	**5,048.9**

31 Categories of financial instruments Continued

		Amortised Cost	FVOCI	FVTPL	Total
Group as at 31 December 2021	**Note**	**£m**	**£m**	**£m**	**£m**
Cash in hand and balances with the Bank of England		382.2	-	-	382.2
Loans and advances to credit institutions*	10	183.5	-	-	183.5
Debt securities	11	-	390.7	-	390.7
Derivative financial instruments	35	-	-	14.5	14.5
Loans and advances to customers	12	3,561.9	-	232.6	3,794.5
Fair value adjustments for hedged risk	37	-	-	62.1	62.1
Investments	15	-	-	3.9	3.9
Other assets, of which financial		5.6	-	-	5.6
Total financial assets		**4,133.2**	**390.7**	**313.1**	**4,837.0**
Financial liabilities					
Due to Members	22	3,731.8	-	-	3,731.8
Due to other customers	23	159.1	-	-	159.1
Deposits from credit institutions	24	587.6	-	-	587.6
Derivative financial instruments	35	-	-	147.6	147.6
Subscribed capital	26	20.0	-	-	20.0
Other liabilities, of which financial		7.4	-	-	7.4
Total financial liabilities		**4,505.9**	**-**	**147.6**	**4,653.5**

*Loans and advances to credit institutions includes **£16.6m** (2021: £12.8m) in cash held by the Society's subsidiary entities.

Loans and advances to customers held at FVTPL relates to the Society's legacy equity release portfolio, which is accounted for under IFRS 4 (see notes 13 and 35 for details). All other of the Group's FVTPL financial assets and liabilities are mandatorily measured at fair value under IFRS 9. The Group has not elected to hold at any financial assets or liabilities at FVTPL under IFRS 9 that could otherwise have been held at amortised cost or at FVOCI.

Cash in hand and balances with the Bank of England
Cash held for liquidity and operational purposes.

Loans and advances to credit institutions
Cash lent to financial institutions to generate an interest income return, operational bank accounts and cash collateral placed with derivative counterparties to be repaid to the Society in future periods.

Debt securities
Assets comprising covered bonds, residential mortgage backed securities, and government gilts. Investments made to utilise liquid cash reserves to generate interest income.

Derivative financial instruments
Financial instruments whose value is derived from an underlying asset, index or reference rate it is linked to. The Group does not operate a derivative financial instruments trading book. Derivatives are held for hedging purposes.

Loans and advances to customers
Cash lent to individual Members of the Society, corporates and housing associations.

Fair value adjustments for hedged risk
Adjustments to reflect the fair value of financial instruments that are designated as hedged items as part of the Group's interest rate risk hedging activities.

Investments
Equity investments

Due to Members
Cash deposits made by customers held by the Society.

Due to other customers
Cash deposits made by non-Members of the Society.

Deposits from credit institutions
Deposits made by financial institutions with the Society.

Subscribed capital
Permanent Interest Bearing Shares issued by the Society, with further details given in Note 26.

32 Financial instruments held at fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value hierarchy and summary of assets and liabilities held at fair value

For assets held at fair value, the following table summarises the basis for measuring the fair value, using the three levels defined in IFRS 13:

	Level	**2022 £m**	2021 £m
Financial assets			
Debt securities at FVOCI	1	433.0	390.7
Equity investments	1	0.1	0.2
Derivative financial instruments	2	90.4	14.5
Fair value adjustments for hedged risk	2	(60.9)	62.1
Equity investments*	2	-	3.7
Equity investments*	3	2.0	-
Loans and advances to customers held at fair value	3	166.3	232.6
Financial liabilities			
Derivative financial instruments	2	52.5	147.6
Fair value adjustments for hedged risk	2	0.3	-

Level 1: Unadjusted quoted prices 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 (i.e. as price) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Gains and losses on disposal of assets and liabilities held at fair value

The Society does not trade in financial instruments but is required to demonstrate the liquidity of its debt security holdings for regulatory purposes on a periodic basis. As a result, the Society crystallised gains of £0.1m during the year (2021: £0.1m) through sale of FVOCI debt securities.

Mortgage assets held at fair value

The fair value of the equity release portfolio is calculated using a model that estimates the future cash flows expected from the portfolio. The timing of those cash flows are determined with reference to mortality tables overlaid by expected prepayments. The model discounts these cash flows to their present value, using a discount rate based on interest rates for new equity release mortgages available at the balance sheet date, adjusted for the specific characteristics of the Society's portfolio. The model further calculates a value for the 'no-negative equity guarantee' provided to the customers using an option pricing method.

The valuation uses a number of inputs which require estimation, such as the mortality and prepayment rates, the discount rate, property price volatility and the haircut applied to individual sales prices.

The key estimates used in the model and the basis of estimation are summarised below:

Assumption	Basis of estimation
Discount rate	Interest rates for equity release mortgages available at the balance sheet date, adjusted for specific characteristics of the Society's portfolio
Long-term property price growth	Analysis of historic long-term property price growth
Sales discount on collateral	Analysis of historic sales discounts
Property price volatility	Analysis of historic property price volatility and third party research

32 Financial instruments held at fair value Continued

At 31 December 2022 the fair value of the mortgage assets held at fair value was **£166.3m** (2021: £232.6m). The sensitivity of this value to the estimates shown above is as follows:

Assumption	**Change in Assumption**	**31 December 2022 (Decrease) / Increase in fair value £m 2022**	**31 December 2021 (Decrease) / Increase in fair value £m 2021**
Discount rate	+/- 1.0%	(10.3) / 11.5	(18.0) / 20.6
Long-term property price growth	+/- 2.0%	2.7 / (4.1)	(4.5) / 6.3
Sales discount on collateral	+/- 2.5%	(0.7) / 0.9	(1.1) / 1.1
Property price volatility	+/- 3.0%	2.8 / (3.1)	5.1 / (4.3)

The Society has increased its range of potential discount rates since its half year reporting due to the increase in the underlying interest rate environment

The following table provides a reconciliation of the equity release portfolio's opening and closing fair value.

	2022 £m	2021 £m
As at 1 January	**232.6**	268.8
Interest accrued	11.1	11.9
Redemptions	(19.6)	(24.9)
Changes in property price assumptions – recorded in profit and loss	(2.0)	(8.0)
Changes in discount rate assumptions – recorded in profit and loss	(55.8)	(15.2)
As at 31 December	**166.3**	232.6

The main source of the change in valuation was a change in market interest rates. The Society hedges fair value movements on the equity release portfolio due to market interest rate movements using interest rate swaps. The value of these swaps increased by £55.6m resulting in a net movement of £2.2m in the year included in the income statement (See note 37).

Equity Investments

The fair value of the Group's investment in Openwork units is calculated using a model which discounts the future expected cash flows from the investment. These cash flows relate primarily to the dividends receivable by the Group. These dividends are then discounted to their present value, using a discount rate that estimates the underlying risks associated with an unlisted equity instrument. The valuation uses a number of inputs which require estimation, such as future dividend payout ratios, discount rates, long term dividend growth and the underlying businesses performance.

At 31 December 2022 the fair value of the investments held at fair value was **£2.0m** (2021: £3.7m). The sensitivity of this value to the estimates shown above is as follows, no sensitivities are given for the December 2021 year end due to the change in measurement approach.

Assumption	**Change in assumption**	**31 December 2022 (Decrease) / Increase in fair value £m**
Discount rate	+/- 1%	(0.2) / 0.2
Long term dividend growth rate	+/- 2%	0.3 / (0.2)

The following table provides a reconciliation of the level 3 Equity investments opening and closing fair value:

	2022 £m	2021 £m
As at 1 January	**-**	0.3
Transferred to / (from) Level 3	3.7	(0.3)
Units acquired	0.3	-
Changes in fair value	(2.0)	-
As at 31 December	**2.0**	-

*Equity investments in Openwork LLP were reclassified from level 3 to level 2 in 2021, as a market for these instruments was established during the period. Market prices of equity units are not publicly quoted, but they are observable to members of the LLP. However, the instruments have subsequently been reclassified back to level 3 as the market established has proved not to be a reliable estimate of the value of the equity units due to the market being illiquid during the periods that the market is active.

33 Fair value of assets held at amortised cost

Fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's or Society's balance sheets at their fair value. These assets and liabilities are held at values reflecting their intended use. In all cases, this is via collection of contractual amounts due and not through disposal. This is deemed to also reflect their best use. If the Society's intended use of an asset or liability changes, the accounting adopted for the item is revisited for reclassification. The carrying values below reflect the Group's maximum exposure to counterparty credit risk at 31 December 2022.

Group

			Carrying value		Fair value	
	Note	Level*	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Financial assets						
Cash and balances with the Bank of England		1	**421.9**	382.2	**421.9**	382.2
Loans and advances to credit institutions	10	1	**104.8**	183.5	**104.8**	183.5
Loans and advances to customers	12	3	**4,093.2**	3,561.9	**3,942.7**	3,724.0
Other assets, of which financial	21	1	**6.5**	5.6	**6.5**	5.6
Financial liabilities						
Due to Members	22	3	**4,220.8**	3,731.8	**4,186.5**	3,738.9
Due to other customers	23	3	**175.8**	159.1	**175.3**	159.2
Deposits from credit institutions	24	3	**577.1**	587.6	**577.1**	587.6
Subscribed capital	26	1	**20.0**	20.0	**29.6**	38.7
Other liabilities, of which financial		1	**2.4**	7.4	**2.4**	7.4

*Levels are defined in note 32.

The Group does not trade in financial instruments. Against level three assets there is no expectation that a deferred gain or loss on initial recognition will be recognised in future periods: the transaction price at inception is considered to reflect an appropriate day one fair value. For short-term receivables and payables within other assets and other liabilities, the carrying value of amounts due and owed is considered to approximate the fair value of the amounts due and owed. IFRS 9 based impairment allowances against other assets is not material.

Cash and balances with the Bank of England

The fair value of floating rate and overnight deposits is their carrying amount

Loans and advances to credit institutions

The fair value of floating rate and overnight deposits is their carrying amount. The fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Due to Members and due to other customers

The fair value of shares and balances due to other customers represents the discounted amount of estimated future cash flows paid to shareholders.

Deposits from credit institutions

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Subscribed capital

The fair value of subscribed capital is calculated based on public market prices as at the balance sheet date.

34 Interest rate risk

Interest rate risk is the exposure of the Group's net interest income to movement in interest rates. This is managed using a combination of limits set by the Board and by the use of derivative financial instruments. The sensitivity to interest rate movements is measured using dynamic stress tests for a series of parallel rate shifts over various time periods.

	2022 +2% £m	-2% £m	2021 +2% £m	-2% £m
Next 12 months	3.6	(3.7)	(0.3)	0.3

Please see notes 35-38 for details about instruments used for managing interest rate risk.

The exposure to interest rate risk due to the Group's defined benefit pension scheme is detailed in note 20.

35 Derivative financial instruments

The Group uses interest rate swaps to hedge against interest rate risk. Offsetting collateral is pledged and received in line with underlying Credit Support Annexes (CSA) with the Group's financial counterparties. The table below shows the fair value of the Group's derivative portfolios and the collateral pledged/received against these.

Group as at 31 December 2022

	Gross Amount £m	Master netting arrangements £m	Financial collateral £m	Net amount £m
Financial assets				
Interest rate swaps	90.4	(23.2)	(48.7)	18.5
Financial liabilities				
Interest rate swaps	(52.5)	23.2	29.2	(0.1)

Society as at 31 December 2022

	Gross Amount £m	Master netting arrangements £m	Financial collateral £m	Net amount £m
Financial assets				
Interest rate swaps	73.3	(23.2)	(48.7)	1.4
Financial liabilities				
Interest rate swaps	(52.5)	23.2	29.2	(0.1)

Group as at 31 December 2021

	Gross Amount £m	Master netting arrangements £m	Financial collateral £m	Net amount £m
Financial assets				
Interest rate swaps	14.5	(13.9)	-	0.6
Financial liabilities				
Interest rate swaps	(147.6)	13.9	137.7	(4.0)

Society as at 31 December 2021

	Gross Amount £m	Master netting arrangements £m	Financial collateral £m	Net amount £m
Financial assets				
Interest rate swaps	13.9	(13.9)	-	-
Financial liabilities				
Interest rate swaps	(146.7)	13.9	137.7	(4.0)

Cash collateral is posted and received on a daily basis to minimise the Group's and the counterparty's credit risk. Collateral posted is measured against counterparty mark-to-market values and may not reflect the Society's internal valuation of its financial instruments.

The Society has entered into International Swaps and Derivatives Association (ISDA) Master agreements with financial counterparties in line with standard industry practice. Netting agreements contained within are not alone considered sufficient to satisfy the offsetting criteria of IAS 32. The netting agreements are intended to protect the Society against fair value loss in the unlikely future event of counterparty default.

The Society has continued to make use of the London Clearing House (LCH), minimising its exposure to non-LCH counterparties. The protected manner of LCH collateral placements mitigates counterparty credit risk with respect to collateral that would otherwise be pledged to non-centralised derivative counterparties.

35 Derivative financial instruments Continued

Financial collateral of **£56.5m** (2021: £33.0m) has been placed with LCH with respect to 'initial margin': an amount calculated by central counterparties to protect against potential future exposures that could arise from valuation changes. This is in addition to the 'variation margin', covering LCH's current net exposure to the Society. The Society's collateral pledged against initial margin requirements is not included in the collateral column above, but it is included in note 36.

The Society has a one way collaterisation swap agreement as part of the securitisation program, the exposure under this agreement is £17.1m The remaining under-collateralisation of **£1.3m** (2021: under-collateralisation of £0.6m) relates to differences between internal valuations used for reporting purposes and counterparty valuations which collateral is based on, changes in the valuation since the last margin call and thresholds to minimum margin calls.

Where the Society holds multiple financial assets and liabilities with a single counterparty, and a Master netting agreement is in effect, the net fair value exposure for each counterparty is calculated. Net exposures placed with counterparties are consolidated into the financial assets disclosure above, net exposures received from counterparties are similarly consolidated into the financial liabilities.

36 Encumbered assets

Some of the Society's assets are used as security for funding with the Bank of England or other third parties. Alternatively, assets may be used as collateral in line with Credit Support Annexes relating to derivatives, as detailed in Note 35. Assets that are used for such purposes are classified as encumbered and cannot be used for other purposes.

The following table provides an overview of the Group's encumbered and un-encumbered financial assets.

Group as at 31 December 2022	Encumbered assets		Unencumbered assets				Consolidation	Total
	With counterparties other than central banks	With central banks	Prepositioned with central banks	Readily available as security	Available as security in principle	Not available as security		
	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances with the Bank of England	-	11.4	-	410.5	-	-	-	**421.9**
Loans and advances to banks	87.7	-	-	-	-	17.1	-	**104.8**
Debt securities	-	-	348.4	82.6	-	2.0	-	**433.0**
Retained loan notes securitised on the Society's loans and advances to customers*	-	-	-	215.3	-	32.7	(248.0)	**-**
Loans and advances to customers*	241.7	846.5	-	-	3,171.3	-	-	**4,259.5**
Derivative financial instruments	-	-	-	-	-	90.4	-	**90.4**
Other assets	-	-	-	-	-	6.5	-	**6.5**
Total	**329.4**	**857.9**	**348.4**	**708.4**	**3,171.3**	**148.8**	**(248.0)**	**5,316.2**

* Loans and advances to customers encumbered with counterparties other than central banks relate to mortgage assets used as a security in the Society's securitisation programme. Loan notes secured on these mortgage assets totalling **£248.0m** (2021: £282.7m) have been retained by the Group and are included in loans and advances to customers. These notes are not presented on the Group Balance sheet, but are available as securities to the Group. See note 14 for details on the Society's Securitisation programme.

36 Encumbered assets Continued

Group as at 31 December 2021	Encumbered assets		Unencumbered assets				Consolidation	Total
	With counterparties other than central banks	With central banks	Prepositioned with central banks	Readily available as security	Available as security in principle	Not available as security		
	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances with the Bank of England	-	10.1	-	372.1	-	-	-	**382.2**
Loans and advances to banks	170.7	-	-	12.8	-	-	-	**183.5**
Debt securities	-	-	319.9	38.7	-	32.1	-	**390.7**
Retained loan notes securitised on the Society's loans and advances to customers*	-	-	-	250.0	-	32.7	(282.7)	**-**
Loans and advances to customers*	280.2	872.2	165.2	-	2,476.9	-	-	**3,794.5**
Derivative financial instruments	-	-	-	-	-	14.5	-	**14.5**
Other assets	-	-	-	-	-	5.6	-	**5.6**
Total	**450.9**	**882.3**	**485.1**	**673.6**	**2,476.9**	**84.9**	**(282.7)**	**4,771.0**

Encumbered assets are assets pledged as collateral for credit or derivative liabilities with either the Bank of England or a different counterparty.

Unencumbered assets prepositioned with central banks are loan pools or debt securities that have already been placed with the Bank of England, which enables the Society to draw down funds under one of the Bank's schemes where required.

Unencumbered assets readily available as security are highly liquid assets, such as cash and publicly traded debt securities that have not been prepositioned with the Bank of England. Loans and advances to customers are included in this category where they have been securitised and the resulting notes have been retained by the Society and can therefore pledge them as collateral.

Unencumbered assets available as security in principle are assets that are not highly liquid, but could be turned into collateral where required. This includes loans and advances to customers that are not securitised and are not prepositioned with the Bank of England or a different counterparty.

Unencumbered assets not available as security are assets that are not usually used as collateral by the Society.

37 Hedge accounting

The Group is exposed to interest rate risk across its fixed interest rate financial assets and liabilities.

The Society's core business is to provide competitive mortgage and savings products to its Members. Deposits by Members fund the Society's mortgage lending, with the Society paying an interest charge in return for deposited funds, and borrowers pay to the Society an interest income in return for the funds they have borrowed.

Mortgage contracts attracting a fixed rate of interest are typically the most popular of the Society's mortgage offerings, with a fixed rate usually agreed for a term of two to five years. By contrast, most of the Society's deposits are made under short-term agreements, with deposits often repayable 'on demand'. This introduces 'interest rate risk' to the Society's business, as when market-wide interest rates move, the return received on mortgage assets adjusts more slowly than the return paid on Member deposits.

To address this risk, the Society enters into interest rate swap agreements with external counterparties. These contracts protect against interest rate risk by 'swapping' a portion of the Society's fixed interest rate exposure to a variable rate: the Society agrees to pay a fixed rate to a financial counterparty for a period of time in exchange for receipt of a variable interest rate against a notional balance. The resulting variable rate interest income moves in line with the Society's variable interest expense, locking in interest margin.

Derivative financial instruments, including interest rate swaps, are held at fair value, which changes when market interest rates change; and this change is reflected in the Income Statement. However, most of the fixed rate exposures are used to hedge are held at amortised cost, and thus their value on the Society's balance sheet does not change in line with market interest rates. The Society applies fair value hedge accounting and cash flow hedge accounting to address this mismatch. Hedge accounting allows the Society to post an adjustment for the value change in the hedged risk; and the movement of this adjustment is reflected in the Income Statement. If the hedge is effective, the adjustment in relation to swaps' fair value change and the hedged risks' fair value change net off.

The Society also uses swap contracts in order to hedge exposures that are not yet on its Balance Sheet, for example fixed rate mortgages that have been offered but have not yet completed. To avoid volatility in the Society's Income Statement as a result of this hedging activity, the Society has adopted cash flow hedge accounting in 2022.

Cash flow hedge accounting allows fair value adjustments to derivatives designated in a cash flow hedge to be posted through Other Comprehensive Income rather than the Income statement to the extent the hedge is effective. Hedge effectiveness is measured by comparing the derivative fair value movement to that of a hypothetical derivative representing the hedged risk. The fair value movement represented in Other Comprehensive Income is restricted to the cumulative fair value movement of the hypothetical derivative. Hedge ineffectiveness is recognised in the Income Statement where fair value movements in the hedging instrument exceed those in the hypothetical derivative.

The Society makes use of the following different types of accounting hedges:-

- The hedged item in a fair value micro hedge is a specific mortgage contract or a specific group of such contracts. It can also be a specified treasury asset (e.g. a fixed rate gilt) or treasury liability;-
- The hedged item in a fair value macro hedge is a defined portion of a mortgage or savings book, but this portion is re-designated on a regular basis to reflect changes in the hedged portfolio, such as mortgage prepayments or new mortgage contracts; and
- The hedged item in a cash flow hedge is usually a forecast floating rate liability, such as Term Funding Scheme or future securitisation funding. This is primarily used to hedge wholesale funding that will economically hedge the mortgage pipeline and swaps that have been transacted during the month. These swaps are designated into a macro fair value hedge at the beginning of the month following the drawdown of the hedged loans.

The Society enters into derivative contracts for hedging purposes only. However, not all interest rate swaps may be designated in accounting hedge relationships. This could be the case if the hedged item is held at fair value, and there is therefore no mismatch to be addressed by hedge accounting, or if the restrictive accounting rules do not allow for a hedge to be designated or make it impractical to do so.

37 Hedge accounting Continued

Maturity analysis of hedging instruments

The maturity profile of the Group's hedging instruments as at 31 December 2022 is as follows:

	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Interest rate swaps designated in macro fair value hedge relationships					
Nominal amount £m	60.0	500.5	747.5	15.0	1,323.0
Average fixed interest rate	0.39%	1.85%	1.65%	4.47%	1.70%
Fair value of assets	0.5	9.0	60.8	-	70.3
Fair value of liabilities	-	-	(1.2)	(0.5)	(1.7)
Interest rate swaps designated in micro fair value hedge relationships					
Nominal amount £m	3.0	13.0	60.9	100.8	177.7
Average fixed interest rate	4.73%	3.80%	3.09%	4.57%	4.01%
Fair value of assets	-	-	2.3	-	2.3
Fair value of liabilities	-	(0.1)	(0.3)	(12.8)	(13.2)
Interest rate swaps designated in cash flow hedge relationships					
Nominal amount £m	-	-	93.0	52.0	145.0
Average fixed interest rate	-	-	4.41%	4.52%	4.45%
Fair value of assets	-	-	0.4	-	0.4
Fair value of liabilities	-	-	(0.6)	(1.2)	(1.8)
Interest rate swaps utilised in securitisations					
Nominal asset amount £m	-	-	-	244.7	244.7
Average fixed interest rate	-	-	-	1.49%	1.49%
Nominal liability amount £m	-	-	-	(244.7)	(244.7)
Average fixed interest rate	-	-	-	1.54%	1.54%
Fair value of assets	-	-	-	17.1	17.1
Fair value of liabilities	-	-	-	(17.4)	(17.4)
Interest swaps in economic hedge relationships but not designated in accounting hedge relationships					
Nominal amount £m	35.0	-	-	151.8	186.8
Average fixed interest rate	0.36%	-	-	5.03%	4.16%
Fair value of assets	0.3	-	-	-	0.3
Fair value of liabilities	-	-	-	(18.4)	(18.4)
Total					
Nominal amount £m	98.0	513.5	901.4	564.3	2,077.2
Average fixed interest rate	1.10%	1.13%	1.83%	4.02%	3.16%
Fair value of assets	0.8	9.0	63.5	17.1	90.4
Fair value of liabilities	-	(0.1)	(2.1)	(50.3)	(52.5)

37 Hedge accounting Continued

The maturity profile of the Group's hedging instruments as at 31 December 2021 is as follows:

	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Interest rate swaps designated in macro fair value hedge relationships					
Nominal amount £m	145.0	334.5	894.0	10.0	1,383.5
Average fixed interest rate	0.32%	0.34%	0.41%	0.85%	0.39%
Fair value of assets	-	0.6	13.0	0.1	13.7
Fair value of liabilities	-	(0.2)	(0.3)	-	(0.5)
Interest rate swaps designated in micro fair value hedge relationships					
Nominal amount £m	-	9.1	83.8	114.8	207.7
Average fixed interest rate	-	5.59%	3.45%	4.61%	4.18%
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	(0.3)	(5.5)	(67.1)	(72.9)
Interest rate swaps designated in cash flow hedge relationships					
Nominal amount £m	-	-	-	-	-
Average fixed interest rate	-	-	-	-	-
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	-	-	-	-
Interest rate swaps utilised in securitisations					
Nominal asset amount £m	-	-	-	279.7	279.7
Average fixed interest rate	-	-	-	1.49%	1.49%
Nominal liability amount £m	-	-	-	(279.7)	(279.7)
Average fixed interest rate	-	-	-	1.54%	1.54%
Fair value of assets	-	-	-	0.6	0.6
Fair value of liabilities	-	-	-	(0.8)	(0.8)
Interest swaps in economic hedge relationships but not designated in accounting hedge relationships					
Nominal amount £m	-	-	10.0	163.3	173.3
Average fixed interest rate	-	-	0.83%	4.78%	4.55%
Fair value of assets	-	-	0.1	0.1	0.2
Fair value of liabilities	-	-	-	(73.4)	(73.4)
Total					
Nominal amount £m	145.0	343.6	987.8	567.8	2,044.2
Average fixed interest rate	0.32%	0.48%	0.67%	4.58%	1.24%
Fair value of assets	-	0.6	13.1	0.8	14.5
Fair value of liabilities	-	(0.5)	(5.8)	(141.3)	(147.6)

Swap assets and liabilities are held at their fair value on balance sheet as 'derivative financial instruments'.

37 Hedge accounting Continued

Summary of hedged items in designated hedge relationships

Fair value hedges Interest rate risk	2022 Carrying amount of hedged items: Assets £m	2022 Carrying amount of hedged items: Liabilities £m	2022 Accumulated amount of fair value adjustments on the hedged item £m	2022 Change in fair value of hedged items in the year used for ineffectiveness measurement £m	2021 Carrying amount of hedged items: Assets £m	2021 Carrying amount of hedged items: Liabilities £m	2021 Accumulated amount of fair value adjustments on the hedged item £m	2021 Change in fair value of hedged items in the year used for ineffectiveness measurement £m
Fixed rate mortgages	1,128.8	-	(60.9)	(48.9)	1,225.5	-	(12.1)	(19.4)
Fixed rate customer deposits	-	137.8	(0.3)	(0.2)	-	-	-	-
Fixed rate customer loans individually hedged	139.8	-	12.8	(60.8)	247.9	-	73.6	(32.4)
Fixed rate FVOCI debt instruments	28.7	-	(2.3)	(2.9)	36.1	-	0.6	(2.3)

Cash flow hedges Interest rate risk	2022 Change in fair value of hedged item in the year used for hedge ineffectiveness measurement £m	2022 Cash flow hedge reserve: Continuing hedges £m	2022 Cash flow hedge reserve: Discontinued hedges £m	2021 Change in fair value of hedged item in the year used for hedge ineffectiveness measurement £m	2021 Cash flow hedge reserve: Continuing hedges £m	2021 Cash flow hedge reserve: Discontinued hedges £m
Gross floating rate assets and gross floating rate liabilities*	3.7	(1.3)	(2.3)	-	-	-

Cash flow hedges Interest rate risk	2022 Hedge ineffectiveness recognised in income statement £m	2022 Effective portion recognised in other comprehensive income £m	2022 Reclassified into income statement: Net interest income £m	2022 Reclassified into income statement: Non-interest income £m	2021 Hedge ineffectiveness recognised in income statement £m	2021 Effective portion recognised in other comprehensive income £m	2021 Reclassified into income statement: Net interest income £m	2021 Reclassified into income statement: Non-interest income £m
Gross floating rate assets and gross floating rate liabilities*	-	3.7	-	(0.1)	-	-	-	-

*Highly probable future cash flows arising from forecasting floating rate wholesale funding.

37 Hedge accounting Continued

Hedge Ineffectiveness

By design, the Society's hedges are expected to be economically effective, with notional balances, durations and rates on interest rate swaps agreed only where they are expected to be a good fit to the same characteristics of the underlying assets that are to be hedged. Hedge ineffectiveness can nonetheless arise from early asset repayments, imperfectly matched key terms, differences in the timing of cash flows of hedged items and hedging instruments, different interest rate curves applied to discount the hedged items and hedging instruments and the effect of changes in counterparties' credit risk on the fair values of hedging instruments. The table below provides details of the hedge ineffectiveness during the year.

	2022 £m	2021 £m
Gains on micro hedging instruments		
Interest rate swaps	**62.4**	34.5
Losses on micro hedged items		
Mortgage assets (loans and advances to customers)	**(63.7)**	(34.7)
Losses on cash flow hedge instruments		
Interest rate swaps	**(3.7)**	-
Gains on cash flow hedge items		
Floating rate liabilities	**3.6**	-
Gains on macro hedging instruments		
Interest rate swaps	**54.8**	20.6
Losses on macro hedged items		
Mortgage assets (loans and advances to customers)	**(49.1)**	(19.4)
Total ineffectiveness recognised in the income statement	**4.3**	1.0

Hedging gains and losses are recognised in the income statement within 'gains less losses on financial instruments and hedge accounting'. There were no unexpected sources of hedge ineffectiveness during the year.

Fair value gains less losses on financial instruments and hedge accounting recognised in the income statement

	Group		Society	
	2022 £m	2021 £m	2022 £m	2021 £m
Fair value movement on loans and advances to customers held at FVTP	**(57.8)**	(23.3)	**(57.9)**	(23.3)
Fair value movement on derivative financial instruments in economic relationship with loans and advances to customers held at FVTP but not in accounting hedge relationships	**55.6**	25.4	**55.7**	25.4
Fair value movement on derivative financial instruments in economic but not in accounting hedge relationships	**4.5**	-	**4.5**	-
Amounts recycled to profit and loss from cash flow hedges	**(0.1)**	-	**(0.1)**	-
Interest expense on derivatives in economic but not in accounting hedge relationships	**(5.6)**	(8.4)	**(5.6)**	(8.4)
Gains crystallised on sale of assets held at FVOCI	**0.1**	0.1	**0.1**	0.1
Hedge ineffectiveness on accounting hedges	**4.3**	1.0	**4.3**	1.0
Revaluation loss on equity investments	**(2.1)**	-	**-**	-
	(1.1)	(5.2)	**1.0**	(5.2)

Cash flow hedging reserve	**Total £m**
Balance at 1 January 2022	-
Reclassification of hedging losses to income statement	0.1
Revaluation of interest rate cash flow hedges in other comprehensive income	(3.7)
Deferred tax on cash flow hedges	0.9
Balance at 31 December 2022	(2.7)

All transactions and balances included within the cash flow hedging reserve are related to interest rate swaps.

38 Interest rate benchmark reform

Following the financial crisis, the replacement of benchmark interest rates such as LIBOR and other interbank offers rates ('IBORs') became a priority for global regulators, with the transaction period to move to a new benchmark ending on 31 December 2021.

The Society's exposure to LIBOR

As of 31 December 2022, the Society has successfully transitioned all LIBOR positions apart from a small number of legacy loans that have subsequently moved to Synthetic LIBOR.

The Society does not have exposures to interbank offer rates other than LIBOR.

The table below summarises the remaining exposure to LIBOR linked financial instruments.

Instrument	31 December 2022		31 December 2021	
	No of contracts	Notional value £m	No of contracts	Notional value £m
Loans secured on commercial property	-	-	18	150.0
Investments in RMBS and Covered Bonds	-	-	2	11
Other loans	63	0.7	96	1.8

39 Credit risk: Impairment methodologies

Credit risk is the risk that a customer or counterparty is unable to honour their repayment of obligations as they fall due. The Group Risk Committee, as detailed in the Risk Management Report, maintain oversight of the Credit Risk Committee, which is involved in the monitoring of the credit risk within the Group's assets. With IFRS 9 introducing forward looking requirements to model credit risk across long term horizons, a Model Risk Committee also operates charged, with oversight of the Group's IFRS 9 models and assessment and approval of its key model inputs. Through 2022 the Model Risk Committee met regularly, coinciding with key dates in the Society's reporting calendar.

Credit risk mainly arises from commercial and customer loans and advances and loan commitments arising from such lending activities but also arises from the Group's investment in debt securities and exposure to third party (financial and non-financial) debtors.

The Group's policy with respect to accounting for impairment of financial assets is given in Note 1. This note describes the practical application of this policy.

Provisioning methodology

Under IFRS 9, the Group conducts a forward looking assessment of impairment. Expected credit losses are recognised across applicable financial assets based on whether there has been a significant increase in credit risk since the asset's origination. Assets with no significant increase in credit risk since origination are denoted as 'stage 1 assets', assets which have suffered a significant increase in credit risk but have not defaulted are denoted as 'stage 2 assets' and assets that have defaulted are denoted as 'stage 3 assets'.

When assessing movement in credit risk, the change in the risk of default is considered not the change in the amount of any expected credit loss.

Assets are assessed on an individual basis with a forward looking assessment undertaken to support the recognition of future expected losses. While losses are provided for, assets are only formally written off when the Society no longer holds any expectation of subsequent receipt, typically at the conclusion of a negotiation or sale.

Residential and Buy-to-let mortgages

Significant increase in credit risk since origination

At the application stage, a prospective borrower's credit risk is assessed. The Society does not lend to high risk customers but will lend to 'prime customers' who can fall under a range of 'application scores'- based on a wide variety of factors including affordability, credit history and committed monthly spend. A borrower's application score gives a quantified assessment of borrower risk – a 'risk score'.

On a quarterly basis, the Group receives borrower credit scores from Experian, an industry leader in the provisioning of consolidated credit scoring information. This data is mapped internally to a new borrower risk score – allowing continuous assessment of the movement in borrower risk since origination.

Where a borrower's risk score is suitably consistent between origination and the reporting date, a borrower is categorised as a 'stage 1' borrower.

Where a borrower's risk score increases past pre-defined internal thresholds, but a borrower has not otherwise defaulted, the borrower is categorised as a 'stage 2' borrower. A borrower who has fallen into >1 month's arrears is automatically considered to be a stage 2 borrower.

A borrower who has defaulted, (assessed against a range of internal qualitative and quantitative criteria) is categorised as a 'stage 3' borrower. A borrower who has fallen into >3 month's arrears is automatically considered to be a stage 3 borrower.

Impairment calculation

The Society calculates for each mortgage exposure a forward view as to how likely that mortgage is to default at some point over its expected life. For stage 1 assets, the Society provides for losses resulting from events that may occur in the following 12 months. For stage 2 and stage 3 assets, the Society provides for losses that may occur at any time in the life of the mortgage.

12 months and lifetime expected credit losses are calculated by the Society as the discrete losses that would likely be incurred (considering mortgage exposure vs. the expected sale value of the mortgaged property) if a mortgage defaulted on any of a large range of future dates. Each discrete provision needs to be assigned a probability of default weighting in order to calculate one overall 'lifetime' expected credit loss. As such, a continuous forward view to the probability of default is calculated.

39 Credit risk: Impairment methodologies Continued

Residential and Buy-to-let mortgages Continued

Key impairment model inputs, assumptions and estimation techniques

The Society calculates its probability of default as follows:

- The Society has undertaken a detailed assessment of more than 12 years of its internal credit risk data to determine the core factors that lead to borrower default.
- Default indicators identified included granting of forbearance, evidence of mortgage fraud, borrowers falling into > 3 months arrears, borrower insolvency or bankruptcy and voluntary repossession of property. These are used in the staging assessment above to assist in the classification of borrowers as stage 1, stage 2 or stage 3.
- The Society's assessment also considered 'wider' patterns of default, analysing historic borrower defaults by their maturity (how long a mortgage had been held by the Society), vintage (during which original time period the Society lent to a borrower) and considering 'exogenous' factors in play at the time of default (external factors including the interest rate environment, unemployment rates, UK (nominal) GDP, House Price Index, etc.).
- The exogenous, maturity and vintage (EMV) factors are used to derive point in time and forward looking probability of default curves: projecting historical information about defaults suffered under known 'EMV conditions' forward in combination with the Society forward views on the wider macro-economic environment (as this will influence the forward view on how exogenous factors may develop over time). In combination, these curves form the Society's forward looking probability of default curve, as calculated under the 'EMV' model.

The Society calculates its exposure at default (EAD) as follows:

- The Society projects mortgage balances forward to give an estimate of each borrower's mortgage balance over time. This factors in forecast interest additions and expected borrower payments alongside an estimate of the value of each borrower's property collateral throughout a long-term forecast. An adjustment is made to uplift the Society's exposure to borrowers to simulate a typical borrower default of 3 missed monthly payments plus typical fees associated with arrears.
- The output is a per-mortgage forward projection of mortgage balances.

The Society calculates its expected loss given default (LGD) as follows:

- The Society calculates a per-mortgage 'loss given default' (LGD), an estimate of the proportion of each mortgage loan exposure that is believed to be at risk if the borrower defaults on their obligation to repay the outstanding capital and interest and the property is subsequently possessed and sold.
- LGD is calculated as the probability of possession given the default of a borrower (PPD) which estimates the likelihood of possession following default multiplied by the expected shortfall on each mortgage: an estimation of the difference between the exposure at default (as discussed above) and the sale price of the property, net of relevant sales costs.

The Society calculates expected credit loss provisions as PD * EAD * LGD

- The Group calculates a final provision for each mortgage as the probability of default multiplied by the amount the Group expects to lose in the event of a default.
- As discussed above, this is not 'static' or a 'point in time' loss: the Group calculates PD, EAD and LGD across a continuous forward planning horizon. The final provision number is not a singular PD*EAD*LGD, it reflects the discounted overall expected loss that could be incurred over the life of each mortgage: a weighted average of multiple possible future loss events.

Multiple economic scenarios

IFRS 9 expects more than one scenario to be considered when calculating expected credit losses. The Society applies this principle by assessing the provisions required under four separate macro-economic forecasts. These macro-economic forecasts feed into the exogenous component of the Society's EMV models.

The Society runs:

- Base scenario – uses as a reference the average HM Treasury short term forecast for the UK economy over the first two years and then the Medium term forecasts for 2024 onwards
- Upside scenario – uses as a reference the most positive HM Treasury short and medium term forecasts for the UK economy
- Downside scenario – uses the most negative short and medium term HM Treasury forecasts, and
- Stress scenario: a severely negative scenario, developed with reference to the Bank of England's annual concurrent stress test scenarios for the largest UK banks and building societies.

The Society's final expected credit losses are the losses calculated under each discrete scenario, multiplied by a 'likelihood factor', or 'scenario weighting'. The weightings as at 31 December 2022 were as follows:

Scenario weightings	Upside	Base	Downside	Stress
2022	10%	40%	40%	10%
2021	5%	35%	40%	20%

39 Credit risk: Impairment methodologies Continued

Note that the scenarios for 2021 had been developed before the arrival of the Omicron variant of Covid-19 towards the end of 2021. The arrival of the new variant introduced additional economic risks to the UK economy that could impact borrower's ability to make contractual repayments and could negatively influence property prices. To reflect this additional risk that had not been present when the scenarios were designed, the scenario weightings for 2021 were adjusted towards the downside and stress scenarios.

Key macro-economic information

The Society considers the following to be the key macro-economic and forward view inputs to its impairment models:

- UK unemployment rate
- UK house price index
- UK household income
- Bank of England base rate
- UK nominal gross domestic product

The Society's assessments as to which variables are key has not changed in the current year. Quarterly updates to the variables themselves to reflect the most recent market information have been reflected in the Society's impairment results.

Changes to economic scenarios

Against the uncertainty in the UK economy specifically the high inflationary environment and the expected cost of living crisis, the Group have developed new economic scenarios for the credit loss provision model, using the most recent industry data, forecasts and benchmarks available at the time of development.

The Society's IFRS 9 model is most sensitive to forecasted house price growth and unemployment, which are summarised below.

				31 December 2022			
Scenario	**Economic measure**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Upside	Unemployment rate, %	3.5%	4.2%	3.6%	3.6%	3.6%	3.7%
	House price growth, % pa	12.0%	(0.3)%	(0.7)%	(0.7)%	4.8%	2.0%
Base	Unemployment rate, %	3.7%	5.2%	5.1%	4.9%	5.0%	5.0%
	House price growth, % pa	8.4%	(4.9)%	(3.2)%	1.1%	2.2%	2.0%
Downside	Unemployment rate, %	4.1%	6.3%	6.4%	6.2%	6.6%	6.5%
	House price growth, % pa	(6.8)%	(9.5)%	(8.4)%	(4.0)%	(3.7)%	0.0%
Severe downside	Unemployment rate, %	4.0%	5.2%	8.5%	8.0%	7.4%	7.4%
	House price growth, % pa	(3.6)%	(7.1)%	(19.4)%	13.0%	3.8%	0.0%
Weighted*	Unemployment rate, %	3.9%	5.5%	5.8%	5.6%	5.7%	5.7%
	House price growth, % pa	6.9%	(7.5)%	(6.6)%	0.4%	0.2%	1.0%

				31 December 2021			
Scenario	**Economic measure**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Upside	Unemployment rate, %	4.6%	4.2%	3.6%	3.6%	3.8%	3.8%
	House price growth, % pa	11.2%	5.0%	1.3%	1.3%	2.5%	2.5%
Base	Unemployment rate, %	4.9%	4.8%	4.4%	4.3%	4.2%	4.2%
	House price growth, % pa	6.6%	1.6%	0.4%	0.6%	1.5%	1.5%
Downside	Unemployment rate, %	5.7%	6.4%	7.5%	7.5%	6.0%	6.0%
	House price growth, % pa	3.0%	(14.2)%	1.6%	1.3%	1.3%	1.3%
Severe downside	Unemployment rate, %	5.7%	8.9%	11.0%	10.0%	6.5%	6.5%
	House price growth, % pa	3.0%	(26.5)%	(2.5)%	5.5%	5.5%	5.5%
Weighted*	Unemployment rate, %	5.4%	6.2%	6.9%	6.7%	5.4%	5.4%
	House price growth, % pa	4.7%	(10.2)%	0.3%	1.9%	2.3%	2.3%

*ECLs are calculated for each loan in each scenario and are then probability weighted, so the weighted figure presented above is for illustrative purposes only.

39 Credit risk: Impairment methodologies Continued

Post model adjustments

Fire safety and cladding risk

The Society has a small number of loans secured on properties with unsuitable cladding or other fire safety risks. A review of high risk properties has been performed and as the marketability of such properties is currently uncertain, a post model adjustment of £0.5m (December 2021: £0.6m) has been recognised.

Interest only accounts

Historically, the Society has booked a post model adjustment against risk of default from interest only accounts that are close to maturity and where no suitable repayment vehicle is in place (December 2021: £0.1m). This has now been integrated into the model and as a result, no post model adjustment is required anymore.

As part of the integration, the Society also adjusted its staging policy for such loans. Whereas previously interest only accounts were classified as stage 3 where no credible repayment option was in place and the account had less than 5 years to maturity, it was considered more appropriate to treat such accounts as stage 2. The change has resulted in a balance of £9.0m being reclassified from stage 3 to stage 2.

Affordability

The Society has not seen increases in non-performing loans in 2022. However, the high levels of inflation currently observed may have a negative impact on some borrowers' ability to service their loans, resulting in higher levels of default. The Society's provisioning model indirectly reflects the impact of high inflation levels by linking increasing or increased base rates to higher probabilities of default, with higher base rates being correlated to high inflation. However, there is a lag between inflation rising and base rate increases, which is not reflected in the Society's model. In addition, the data used to train the Society's provisioning model does not include a period of inflation as high as that in 2022 and expected for 2023. To reflect the risk from inflation in 2023 that is not already accommodated by the model a post model adjustment for £0.2m has been booked (December 2021: £nil). Inflation is expected to reduce and wage inflation rise meaning the future affordability gap will reduce in addition, the loan book will season reducing the impact of the affordability gap therefore, management have concluded that no post model adjustment is required for periods after 2023. The adjustment has been determined by classifying borrowers most at risk from increased mortgage interest rates as stage 2 resulting in higher probabilities of default and recognition of lifetime expected credit losses.

A number of risk indicators outside of the core provisioning model have been considered as part of the provisioning process such as the impact of climate change. No further material post model adjustments have been identified.

Commercial and other legacy books

Commercial and other legacy books are managed by the Commercial Lending department and includes properties secured on commercial property, buy-to-let customers which would now be outside of the Society's lending policy and loans secured on serviced apartments.

Significant increase in credit risk since origination

Specialist internal departments assess the risk of loss against the Group's legacy mortgage books on a case by case basis. Across the Society's highest risk exposures, this includes the annual completion of a tailored risk grade scorecard designed to encompass the key characteristics contributing to underlying risk.

Each of the scorecard risks are weighted to provide a final 'weighted risk score' for the loan, which categorises the loan in terms of likelihood of failure in a moderate or severe recessionary scenario. The risks that carry the highest weightings relate to tenant failure and serviceability.

Due to the low number of remaining commercial borrowers, all borrowers are closely monitored. All payments due are monitored on a real-time basis. In the event of a late payment, the position is reviewed immediately and appropriate action taken.

Where a borrower's risk score is suitably consistent between origination and the reporting date, a borrower is categorised as a 'stage 1' borrower.

Where a borrower's risk score increases past pre-defined internal thresholds, or where the specialist commercial lending department flags that credit risk has increased significantly, but a borrower has not otherwise 'defaulted', the borrower is categorised as a 'stage 2' borrower. A borrower who has fallen into over 1 month's, arrears is automatically considered to be a stage 2 borrower.

A borrower who has defaulted, (assessed against a range of internal qualitative and quantitative criteria) is categorised as a 'stage 3' borrower. A borrower who has fallen into over 3 month's arrears is automatically considered to be a stage 3 borrower.

Impairment calculation and key impairment model inputs

The calculation used to determine the provisions for legacy mortgage contracts is similar to that used for the prime residential book. Provisions are determined as probability of default (PD) * exposure at default (EAD) * loss given default (LGD). Please see explanations of each of these terms above.

The main difference between the prime residential and the legacy books consists in the way model inputs are determined. Due to the nature and the small size of the legacy books, the most significant model inputs are determined manually on a mortgage by mortgage basis or for small groups of mortgages.

Thus, for each mortgage contract, the Society uses its expertise, knowledge of the customer and the property, as well as its understanding of the sector to determine a forward view as to how likely that mortgage is to default at some point over its expected life for stage 2 mortgages, or due to events occurring in the following 12 months in the case of stage 1 accounts.

Loss given default is calculated based on a sector specific discount to the property's current indexed valuation. The discount reflects management's confidence about the sector's prospects in the current and projected future economic environment. The valuation takes into account the individual property's circumstance and the local market conditions.

39 Credit risk: Impairment methodologies Continued

Economic scenarios

The provisions booked in respect to commercial and other legacy books are based on four economic scenarios, consistent with those scenarios used for residential provisioning.

The impairment provision is most sensitive to the borrower specific probability of default and the sector or property specific discount to indexed valuations at the time of disposal.

Future commercial property prices are highly uncertain and depend on the future prosperity of the UK in general, the individual sector the property can be used for, local economic conditions, the remaining duration of the current lease agreement, and the strength of the current tenant.

For loans secured on Legacy Buy to Let and Commercial properties, the following reductions/increases to valuations as at 30 November 2022 (the Society does not assume that valuations as at 31 December 2022 are materially different):

Sector	Upside	Base	Downside	Stress
Retail	90%	80%	70%	40%
Distribution	120%	100%	90%	80%
Leisure	60%	50%	45%	35%
Residential	103%	94%	86%	73%

A separate model has been designed to accommodate the specific circumstances of the Serviced Apartments portfolio, where property values are exposed to the profitability of the London hotel market. For this portfolio, the following reductions/increases to 2022 property values have been assumed:

Sector	Upside	Base	Downside	Stress
Serviced Apartments	106%	85%	70%	40%

Housing associations

Housing associations are monitored and managed by the Commercial Lending Department with a range of management information used to assess the Society's ongoing exposure (which while of extremely high credit quality remains of significant size). An open dialogue is maintained with borrowers, with the Society appraised of their status, financial results and position, and numerous other financial and risk metrics. Quarterly management information is also reviewed including business plans. Lending is contingent on compliance with a number of financial commitments and covenants. The Society actively monitors for potential breaches of contractual positions.

Whilst the Society has never experienced any arrears or suffered losses, due to the scale and nature of long term exposures, borrowers' credit risk is measured through a bespoke risk grade scorecard which charts financial performance, covenant compliance, asset cover, stock location/demand and regulatory feedback.

Housing associations are historically a nil loss, nil default sector and are widely considered to be government backed in the case of financial stress. The strength of a 'nil-default sector' should not be understated: housing association exposures have proven to be of the lowest credit risk throughout a volatile and extended recession period. The Society has no internal history of loss to draw on with respect to housing association exposures and cannot supplement its own data with loss data of its peers.

The combined effect of a well collateralized set of exposures, in an environment where the demand for housing is only increasing, with no history of default on the part of any borrower and a sincere expectation that any theoretical default would be addressed by the jurisdictional government, leads to a conclusion that no material impairment of housing association exposures is plausibly expected.

Debt securities

The Society monitors the external credit ratings applied to its debt security investments on a daily basis.

The Society's debt security holdings are all of 'investment grade' or higher. The Society has therefore assessed that the credit risk on its debt security exposures has not increased significantly since initial recognition.

The Society's treasury risk department runs very severe annual stressed scenarios over the Society's residential mortgage backed securities (RMBS). The Society's policy to allow only investment grade and senior secured exposures leaves the Society highly insensitive to stressed scenarios as the 'waterfall structure' of RMBS payments ensures continued Society receipt of contractual cash flows even through significantly stressed scenarios.

The Society's covered bond exposures are similarly resilient: the Society is only exposed to regulated UK covered bonds with the regulations providing for the full segregation of covered bond asset pools from the bond issuer. The regulations introduce numerous investor protections including mandatory over-collateralisation, an extensive initial application process and regular regulatory stress testing and supervisory monitoring.

39 Credit risk: Impairment methodologies Continued

Other financial assets

The Society has elected to take advantage of IFRS 9's practical expedient when assessing the accounting impairment applied to its trade receivables. Lifetime expected credit losses are therefore provided against all trade receivables. A provisions matrix approach, where provisions against receivables are calculated as an increasing percentage of the receivable balance, rising as receivables fall further overdue, has been adopted.

Assessment of the appropriate provision percentages has been made in line with the Group's historic trade receivable recovery. Where appropriate, forward looking views to recovery are also being incorporated.

Modifications

The Society grants forbearance to commercial borrowers in the form of extending the loan term on maturity, capitalising arrears as part of a wider exercise to get a borrower back on track with a revised debt repayment plan, and adjusting the interest rate to aid serviceability particularly where a fixed rate has expired. Generally the Society expects commercial investment loans to be repaid on maturity given the stated strategy of winding down the portfolio, but the Society will grant forbearance when this is also in the best interests of the Society, e.g. providing the borrower with more time to sell the security property following a tenant renewal.

The Society occasionally grants forbearance to other borrowers (in similar forms to commercial) where this is expected to improve the ultimate recovery on loans advanced.

The requirement to grant forbearance is considered an objective indicator that an asset has suffered a significant increase in credit risk since origination. As such, while forbearance may mitigate a selection of the Society's other indications of default, the granting of forbearance will not result in a preferential staging (Stage 1 or 2) being applied to any forborne asset. While benefitting from any revised terms that forbearance may bring, an asset is not able to move to a lower staging. Only once forbearance has been lifted can an asset qualify for a reduced staging with the Society operating a 6 month 'curing' policy: deferring the reduction in staging until a 6 month period has passed in which no other indicators of default or heightened credit risk have presented themselves.

40 Credit risk: Expected credit losses

In 2020, the Society significantly increased its loan loss provisions, given the increased risk of a significant economic downturn or stress as a result of the pandemic and associated lockdowns. The most significant risks to the Society's lending business are rising unemployment rates and falling property prices. Despite the pandemic, both of these measures initially improved in 2020 and 2021, supported by fiscal and monetary policy. In addition, the Society, in line with other lenders, supported temporarily struggling customers with measures such as payment holidays. This led to low levels of losses on the mortgage books crystallising in these years. Nonetheless, in 2022 inflation started to rise, and towards the end of the year property price rises tailed off, with rising costs and increasing interest rates bringing the expectation of an economic downturn closer.

As the Society has already provisioned for an economic downturn in 2020 and 2021, no significant increases to provisions are expected as a result of the current economic development.

Residential and Buy to let

In 2022, provisions of £1.4m were booked on residential and buy to let mortgages newly originated in the year, reflecting the significant growth of the mortgage book, including some higher loan-to-value mortgages. In addition to the natural churn of the book, over the year, the Society succeeded in winding down a number of the more highly provisioned loans, overall resulting in a £1.0m reduction of the provision balance. The Society further released £0.6m in respect to residential and buy to let loans that had been originated before 2022. This is the result of significant property price growth in the year resulting in lower losses in case of default in combination with the historic trend that the probability of default for loans reduces for seasoned books. The latter is particularly visible in the significant movement of balances and provisions from stage 2 to stage 1 in the residential book.

The 2022 provisions also include an allowance relating to the cost of living and borrowing.

The net impact of writing new high quality loans and winding down some older riskier loans as well as the maturing of the Society's back book was a net reduction in mortgage loss provision coverage ratios from 0.11% to 0.09%.

The cost of living post model adjustment described in Note 39 has resulted in a reclassification of accounts from stage 1 into stage 2 where borrowers may be particularly effected by high inflation and interest rates, resulting in an increased number of stage 2 customers. The cladding post model adjustment has not affected the staging of loans.

The change in provisioning methodology relating to interest only accounts described in note 39 has resulted in accounts with a total balance of £9m with provisions of £16,100 being reclassified from stage 3 to stage 2.

Legacy books

The Society also successfully continued winding down legacy portfolios, seeing the redemption of or capital repayments against some highly provisioned loans. Provisions on legacy books therefore reduced by £1.7m in total. The Society also saw a reduction in the risk profile against some legacy loans that resulted in a further net reduction in provisions of £0.3m, despite more severe economic assumptions used in the provisioning model.

40 Credit risk: Expected credit losses Continued

Quantitative impairment impact

Reconciliation table	Loss allowance at 1 January 2022	Increases due to origination and acquisition	Decreases due to derecognition	Transition between stages	Changes in credit risk	Changes due to change in the provisioning methodology	Loss allowance at 31 December 2022
	£000	£000	£000	£000	£000	£000	£000
Prime residential							
Stage 1	392.3	259.9	(50.4)	337.0	(497.6)	-	441.2
Stage 2	1,019.8	1,129.7	(91.3)	(350.7)	(36.1)	9.1	1,680.5
Stage 3	1,368.3	19.0	(710.1)	13.7	191.7	(9.1)	873.5
Total	**2,780.4**	**1,408.6**	**(851.8)**	-	**(342.0)**	**-**	**2,995.2**
Buy-to-let							
Stage 1	479.4	17.7	(23.0)	(44.9)	(297.6)	-	131.6
Stage 2	110.5	26.5	(1.5)	49.0	32.3	7.0	223.8
Stage 3	154.5	-	(101.9)	(4.1)	52.9	(7.0)	94.4
Total	**744.4**	**44.2**	**(126.4)**	-	**(212.4)**	**-**	**449.8**
Legacy Buy-to-let							
Stage 1	7.3	-	-	-	32.3	-	39.6
Stage 2	966.6	-	(966.6)	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**973.9**	**-**	**(966.6)**	**-**	**32.3**	**-**	**39.6**
Commercial							
Stage 1	118.7	-	(79.5)	-	-	-	39.2
Stage 2	749.2	-	(150.9)	-	(68.7)	-	529.6
Stage 3	2,602.5	-	(672.2)	-	(103.3)	-	1,826.9
Total	**3,470.4**	**-**	**(902.6)**	**-**	**(172.0)**	**-**	**2,395.7**
Housing Association							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Serviced Apartments							
Stage 1	35.9	-	-	(0.4)	(23.7)	-	11.8
Stage 2	512.7	-	(28.3)	0.4	(45.4)	-	439.4
Stage 3	249.1	-	-	-	54.2	-	303.3
Total	**797.7**	**-**	**(28.3)**	**-**	**(14.9)**	**-**	**754.5**
Policy Loans							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total							
Stage 1	**1,033.6**	**277.6**	**(152.9)**	**291.7**	**(786.6)**	**-**	**663.4**
Stage 2	**3,358.8**	**1,156.2**	**(1,238.6)**	**(301.3)**	**(117.9)**	**16.1**	**2,873.3**
Stage 3	**4,374.4**	**19.0**	**(1,484.3)**	**(9.6)**	**195.5**	**(16.1)**	**3,098.1**
Total	**8,766.8**	**1,452.8**	**(2,875.8)**	**-**	**(709.0)**	**-**	**6,634.8**

40 Credit risk: Expected credit losses Continued

Quantitative impairment impact

Reconciliation table	Gross exposure at 1 January 2022	Increases due to origination and acquisition	Decreases due to derecognition	Transition between stages	Changes due to change in the provisioning methodology	Gross exposure at 31 December 2022
	£m	£m	£m	£m	£m	£m
Prime residential						
Stage 1	2,421.6	845.8	(407.2)	(39.9)	-	2,818.7
Stage 2	329.0	195.8	(35.1)	33.5	8.4	531.6
Stage 3	35.1	0.6	(8.1)	8.0	(8.4)	27.2
Total	**2,785.7**	**1,042.2**	**(450.4)**	**-**	**-**	**3,377.5**
Buy-to-let						
Stage 1	367.0	39.1	(48.9)	(28.5)	-	328.7
Stage 2	28.4	8.5	(1.3)	29.0	0.6	65.2
Stage 3	4.2	-	(0.7)	(0.5)	(0.6)	2.4
Total	**399.6**	**47.6**	**(50.9)**	**-**	**-**	**396.3**
Legacy Buy-to-let						
Stage 1	15.7	-	(7.2)	5.5	-	14.0
Stage 2	12.0	-	(6.5)	(5.5)	-	-
Stage 3	-	-	-	-	-	-
Total	**27.7**	**-**	**(13.7)**	**-**	**-**	**14.0**
Commercial						
Stage 1	6.5	-	(3.4)	-	-	3.1
Stage 2	2.9	-	(0.2)	-	-	2.7
Stage 3	5.5	-	(0.7)	-	-	4.8
Total	**14.9**	**-**	**(4.3)**	**-**	**-**	**10.6**
Housing Association						
Stage 1	323.4	-	(52.5)	-	-	270.9
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**323.4**	**-**	**(52.5)**	**-**	**-**	**270.9**
Serviced Apartments						
Stage 1	12.6	-	(0.7)	(0.1)	-	11.8
Stage 2	3.6	-	(0.2)	0.1	-	3.5
Stage 3	1.3	-	-	-	-	1.3
Total	**17.5**	**-**	**(0.9)**	**-**	**-**	**16.6**
Policy Loans						
Stage 1	1.6	-	(0.1)	-	-	1.5
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**1.6**	**-**	**(0.1)**	**-**	**-**	**1.5**
Total						
Stage 1	**3,148.4**	**884.9**	**(520.0)**	**(63.0)**	**-**	**3,450.3**
Stage 2	**375.9**	**204.3**	**(43.3)**	**57.1**	**9.0**	**603.0**
Stage 3	**46.1**	**0.6**	**(9.5)**	**5.9**	**(9.0)**	**34.1**
Total	**3,570.4**	**1,089.8**	**(572.8)**	**-**	**-**	**4,087.4**

*The carrying value of Housing associations excludes micro fair value hedge asset adjustments of **£12.8m** (2021: £nil).

40 Credit risk: Expected credit losses Continued

Quantitative impairment impact

Reconciliation table	Loss allowance at 1 January 2021	Increases due to origination and acquisition	Decreases due to derecognition	Transition between stages	Changes in credit risk	Changes due to change in the provisioning methodology	Loss allowance at 31 December 2021
	£000	£000	£000	£000	£000	£000	£000
Prime residential							
Stage 1	328.2	120.1	(40.0)	(829.0)	813.0	-	392.3
Stage 2	1,859.4	578.5	(164.7)	808.5	(2,061.9)	-	1,019.8
Stage 3	911.6	127.8	(40.7)	20.5	349.2	-	1,368.3
Total	**3,099.2**	**826.4**	**(245.4)**	**-**	**(899.7)**	**-**	**2,780.5**
Buy-to-let							
Stage 1	95.2	7.8	(3.7)	(68.0)	448.1	-	479.4
Stage 2	236.3	26.0	(13.3)	130.6	(269.1)	-	110.5
Stage 3	357.6	1.9	-	(62.6)	(142.4)	-	154.5
Total	**689.1**	**35.7**	**(17.0)**	**-**	**36.6**	**-**	**744.4**
Legacy Buy-to-let							
Stage 1	-	-	-	-	7.3	-	7.3
Stage 2	908.8	-	-	-	57.8	-	966.6
Stage 3	2,059.2	-	(2,059.2)	-	-	-	-
Total	**2,968.0**	**-**	**(2,059.2)**	**-**	**65.1**	**-**	**973.9**
Commercial							
Stage 1	-	-	-	8.5	110.2	-	118.7
Stage 2	460.3	-	(287.7)	1,444.8	(868.2)	-	749.2
Stage 3	5,182.6	-	(979.2)	(1,453.3)	(147.6)	-	2,602.5
Total	**5,642.9**	**-**	**(1,266.9)**	**-**	**(905.6)**	**-**	**3,470.4**
Housing Association							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Serviced Apartments							
Stage 1	141.2	-	(11.2)	38.2	(132.3)	-	35.9
Stage 2	531.0	-	(49.7)	(138.4)	169.8	-	512.7
Stage 3	177.7	-	(50.2)	100.2	21.4	-	249.1
Total	**849.9**	**-**	**(111.1)**	**-**	**58.9**	**-**	**797.7**
Policy Loans							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total							
Stage 1	**564.6**	**127.9**	**(54.9)**	**(850.3)**	**(1,246.3)**	**-**	**1,033.6**
Stage 2	**3,995.8**	**604.5**	**(515.4)**	**2,245.5**	**(2,971.6)**	**-**	**3,358.8**
Stage 3	**8,688.7**	**129.7**	**(3,129.3)**	**(1,395.2)**	**804.4**	**-**	**4,374.3**
Total	**13,249.1**	**862.1**	**(3,699.6)**	**-**	**(1,644.7)**	**-**	**8,766.7**

40 Credit risk: Expected credit losses Continued

Quantitative impairment impact

Reconciliation table	Gross exposure at 1 January 2021	Increases due to origination and acquisition	Decreases due to derecognition	Transition between stages	Changes due to change in the provisioning methodology	Gross exposure at 31 December 2021
	£m	£m	£m	£m	£m	£m
Prime residential						
Stage 1	2,177.3	623.3	(434.3)	55.3	-	2,421.6
Stage 2	295.4	141.0	(37.7)	(69.7)	-	329.0
Stage 3	24.8	25.5	(29.6)	14.4	-	33.7
Total	**2,497.5**	**789.8**	**(501.6)**	**-**	**-**	**2,785.7**
Buy-to-let						
Stage 1	322.3	71.0	(24.2)	(2.1)	-	367.0
Stage 2	28.0	7.5	(11.5)	4.4	-	28.4
Stage 3	1.7	4.8	-	(2.3)	-	4.2
Total	**352.0**	**83.3**	**(35.7)**	**-**	**-**	**399.6**
Legacy Buy-to-let						
Stage 1	20.7	-	(0.5)	(4.5)	-	15.7
Stage 2	7.8	-	(0.3)	4.5	-	12.0
Stage 3	3.5	-	(3.5)	-	-	-
Total	**32.0**	**-**	**(4.3)**	**-**	**-**	**27.7**
Commercial						
Stage 1	10.2	-	(4.1)	0.4	-	6.5
Stage 2	3.0	-	(0.2)	0.1	-	2.9
Stage 3	8.6	-	(2.6)	(0.5)	-	5.5
Total	**21.8**	**-**	**(6.9)**	**-**	**-**	**14.9**
Housing Association						
Stage 1	381.4	-	(58.0)	-	-	323.4
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**381.4**	**-**	**(58.0)**	**-**	**-**	**323.4**
Serviced Apartments						
Stage 1	14.0	-	(0.5)	(0.9)	-	12.6
Stage 2	3.5	-	-	0.1	-	3.6
Stage 3	0.5	-	-	0.8	-	1.3
Total	**18.0**	**-**	**(0.5)**	**-**	**-**	**17.5**
Policy Loans						
Stage 1	1.9	-	(0.3)	-	-	1.6
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**1.9**	**-**	**(0.3)**	**-**	**-**	**1.6**
Total						
Stage 1	**2,927.8**	**694.3**	**(521.9)**	**48.2**	**-**	**3,148.4**
Stage 2	**337.7**	**148.5**	**(49.7)**	**(60.6)**	**-**	**375.9**
Stage 3	**39.1**	**30.3**	**(35.7)**	**12.4**	**-**	**46.1**
Total	**3,304.6**	**873.1**	**(607.3)**	**-**	**-**	**3,570.4**

The gross carrying values above reflect the Group's maximum exposure to credit risk as at 31 December 2022 and 31 December 2021 without taking into account any collateral held or provisions made against expected losses.

The Society did not purchase or originate any financial assets that were considered to be credit impaired during 2022 or 2021.

There has been no material movement in loss allowances held against other financial assets during 2022. Debt securities held remain of very high credit quality at 31 December 2022 and the Group is not exposed to any significant value or volume of overdue trade receivables.

No collateral is held against the Group's debt security or other financial asset exposures.

40 Credit risk: Expected credit losses Continued

Risk exposures by credit grade for residential lending

Across the Society's prime residential and buy-to-let mortgage exposures, provisions may be disaggregated by detailed probability of default ranges as follows:

2022	Exposure			Provision			Provision Coverage Ratio		
Lifetime PD %	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 1 £000	Stage 2 £000	Stage 3 £000	Stage 1 %	Stage 2 %	Stage 3 %
0% - 1%	125.4	2.5	-	4.9	13.3	-	-	0.53	-
1% - 2%	1,327.3	67.0	-	147.5	89.9	-	0.01	0.13	-
2% - 3%	1,167.8	55.1	-	204.1	91.2	-	0.02	0.17	-
3% - 4%	96.2	6.1	-	25.2	6.4	-	0.03	0.10	-
4% - 5%	339.8	7.8	-	124.0	34.8	-	0.04	0.45	-
5% - 6%	3.3	0.2	-	-	-	-	-	-	-
6% - 7%	1.6	-	-	0.1	-	-	0.01	-	-
7% - 8%	1.8	2.1	-	-	-	-	-	-	-
8% - 9%	0.5	2.1	-	-	0.2	-	-	0.01	-
9% - 10%	2.7	9.3	-	0.1	2.8	-	-	0.03	-
10% - 100%	79.4	444.6	29.6	66.9	1,665.7	235.5	0.08	0.37	0.80
Total	**3,145.8**	**596.8**	**29.6**	**572.8**	**1,904.3**	**235.5**	**0.02**	**0.32**	**0.80**

*The table above excludes a total balance of £1.6m, with a provision of £0.7m, for which no lifetime probability of default is available.

2021	Exposure			Provision			Provision Coverage Ratio		
Lifetime PD %	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 1 £000	Stage 2 £000	Stage 3 £000	Stage 1 %	Stage 2 %	Stage 3 %
0% - 1%	62.3	-	0.1	0.2	-	-	-	-	-
1% - 2%	1,197.2	-	-	425.0	-	-	0.04	-	-
2% - 3%	925.9	-	-	225.5	-	-	0.02	-	-
3% - 4%	213.6	-	-	19.9	-	-	0.01	-	-
4% - 5%	283.9	-	-	127.1	-	-	0.04	-	-
5% - 6%	70.5	-	-	41.4	-	-	0.06	-	-
6% - 7%	2.3	-	-	-	-	-	-	-	-
7% - 8%	1.3	0.5	-	0.2	-	-	0.11	-	-
8% - 9%	0.8	2.3	-	-	0.1	-	-	-	-
9% - 10%	1.0	2.0	-	-	-	-	-	-	-
10% - 100%	30.9	352.5	37.8	32.1	1,130.3	486.1	0.11	0.32	1.28
Total*	**2,787.7**	**357.3**	**37.9**	**871.4**	**1,130.4**	**486.1**	**0.03**	**0.32**	**1.28**

*The table above excludes a total balance of £2.1m, with a provision of £0.9m, for which no lifetime probability of default is available.

Lifetime probability of default indicates the percentage change that a loan will trigger any of the stage 3 indicators, as detailed above, over the life of the loan and does not alone indicate a likeliness that the default will result in any significant loss to the Group.

The comparatively small provisions coverage reflects the capacity for property collateral to effectively mitigate the Society's ultimate exposure to loss.

Provisions against other financial assets are not considered to be sufficiently material to warrant further detailed analysis.

Provisions against commercial and legacy Buy to Let mortgages are not presented by risk grade as legacy exposures are assessed for impairment on an individual basis by the specialist commercial lending department.

40 Credit risk: Expected credit losses Continued

Sensitivity of the credit loss provisions to key assumptions

The Group's mortgage provisions reflect probability weighted scenarios run across its mortgage books and are sensitive to the probabilities applied accordingly. Provisions are most sensitive to increases in the downside and stress scenarios probabilities:

2022	Residential and Buy to let £m	Commercial and Legacy Buy to let £m	Serviced apartments £m
Actual (weighted average)	3.4	2.3	0.8
Upside	1.5	1.0	-
Base	2.0	2.0	0.4
Downside	3.2	2.6	1.0
Stress	4.8	3.9	2.4

2021	Residential and Buy to let £m	Commercial and Legacy Buy to let £m	Serviced apartments £m
Actual (weighted average)	3.5	4.4	0.8
Upside	2.0	2.0	-
Base	2.2	3.6	-
Downside	3.7	4.6	0.8
Stress	6.0	6.3	2.3

Equity release portfolio

The Society's equity release portfolio is accounted for under IFRS 4: insurance contracts. Its fair value includes any allowances for credit risk. Further information on the fair value of the equity release valuation, including sensitivity analysis is included in notes 13 and 32.

41 Credit quality

The Group's mortgage lending is all secured with a first charge registered against the collateral property. While not in scope of IFRS 9, this includes the Group's equity release mortgages. The average loan to value of the Group's loan portfolios at 31 December 2022 is 67.7% (2021: 65.8%) as detailed in the Strategic Report. Quarterly regional Halifax House Price Index data is used to monitor the value of residential collateral. The contractual capacity to recover defaulted mortgage contracts through the sale of property collateral acts significantly to reduce the Group's risk of loss.

The credit quality of the Group's residential loans is considered to be excellent with the loans continuing to perform and arrears being below industry averages. At 31 December 2022 there were 32 loans in 12 months arrears or more with balances of **£4.0m** (2021: 25 loans totalling £3.0m).

The Group's non-impaired commercial loan assets are also considered to be of a good credit quality.

Further specifics by type of mortgage lending are as follows:

Prime residential mortgage book

The Prime residential mortgage book consists of traditional residential loans. No sub-prime or self-certification lending has been undertaken.

Loan to value (indexed)	2022 £m	2022 %	2021 £m	2021 %
<70%	**2,250.0**	**66.6**	1,819.5	65.3
70% - <80%	**493.0**	**14.6**	744.6	26.8
80% - <90%	**405.6**	**12.0**	154.0	5.5
>90%	**228.9**	**6.8**	67.6	2.4
	3,377.5	**100.0**	2,785.7	100.0

Payment status

	2022 £m	2022 %	2021 £m	2021 %
Not past due	**3,349.1**	**99.2**	2,754.9	99.1
Past due up to 3 months	**18.0**	**0.5**	12.5	0.4
3 to 6 months past due	**4.5**	**0.1**	4.8	0.2
Over 6 months past due	**5.9**	**0.2**	6.3	0.2
	3,377.5	**100.0**	2,778.5	100.0

The Society continued to experience a low level of possessions on residential loans and Law of Property Act receiver appointments. At the end of 2022 the Society had no possession property in relation to owner occupied loans.

Against past due cases, **£65.7m** (2021: £57.2m) collateral is held. No loans that would be past due or impaired have had their terms renegotiated.

No loans that would be past due or impaired have had their terms renegotiated.

The Society offers a range of forbearance measures to customers such as payment breaks and reductions, transfers to interest only products and other support. The Society granted forbearance against 91 residential loans in 2022, with no alteration made to the contractual rates of interest and balances totalling £7.7m at 31 December 2022, this did not lead to any modification gain or loss a result of short-term forbearance granted. Provisions of £0.1m are held against residential mortgages that were granted forbearance during the year.

41 Credit quality Continued

Retail buy-to-let mortgage book

The Retail Buy-to-let (BTL) mortgage book consists of buy-to-let to individuals <£1m.

Loan to value (indexed)	2022 £m	2022 %	2021 £m	2021 %
<70%	**363.7**	**91.8**	349.1	87.3
70% - <80%	**29.7**	**7.5**	49.9	12.5
80% - <90%	**2.9**	**0.7**	0.3	0.1
>90%	**-**	**-**	0.3	0.1
	396.3	**100.0**	399.6	100.0

Payment status

	2022 £m	2022 %	2021 £m	2021 %
Not past due	**392.5**	**99.0**	395.7	99.0
Past due up to 3 months	**2.1**	**0.5**	2.2	0.6
3 to 6 months past due	**1.2**	**0.3**	-	-
Over 6 months past due	**0.4**	**0.1**	1.6	0.4
LPA receivership	**0.1**	**-**	0.1	-
	396.3	**100.0**	399.6	100.0

At the end of 2022 the Society had no BTL possession properties, whose exposure was being managed by a Law of Property Act receiver.

Against past due and possession cases, **£6.5m** (2021: £6.6m) collateral is held. No loans that would be past due or impaired have had their terms renegotiated. The Society offers a range of forbearance measures to customers such as payment breaks and reductions, transfers to interest only products and other support.

The Society granted forbearance against 1 retail BTL loan in 2022. With no alteration made to the contractual rates of interest and balances totalling £0.3m at 31 December 2022 leading to no modification gain or loss recorded as a result of short-term forbearance granted. No provisions are held against BTL mortgages that were grated forbearance during the year.

41 Credit quality Continued

Equity release mortgages

The below analysis includes equity release mortgage lending that is not within the scope of the IFRS 9 credit risk disclosures provided in the tables below and excludes the fair value adjustments detailed in note 13.

Loan to valued (indexed)	2022	2022	2021	2021
	£m	%	£m	%
<70%	157.3	98.0	166.1	98.1
70% - <80%	2.3	1.4	2.3	1.3
80% - <90%	0.7	0.4	0.6	0.4
>90%	0.3	0.2	0.3	0.2
	160.6	100.0	169.3	100.0

Payment status	2022	2022	2021	2021
	£m	%	£m	%
Neither past due nor in default	160.6	100.0	169.3	100.0
	160.6	100.0	169.3	100.0

At the end of 2022 the Society had no equity release possession properties.

Legacy lending books

The legacy lending books comprise the following:

	2022 £m	2022 %	2021 £m	2021 %
Loans secured on commercial property	10.6	3.4	14.9	3.9
Loans secured on Serviced Apartments	16.6	5.3	17.5	4.1
Specialist Buy to Let	14.0	4.5	27.7	7.4
Loans to Housing Associations	270.9	86.8	323.4	84.6
	312.1	100.0	383.5	100.0

41 Credit quality Continued

Loans secured on commercial property

Loan to value (unindexed)	2022 £m	2022 %	2021 £m	2021 %
<70%	5.8	54.7	10.2	68.5
70% - <80%	3.5	33.0	-	-
>90%	1.3	12.3	4.7	31.5
	10.6	100.0	14.9	100.0

Payment status	2022 £m	2022 %	2021 £m	2021 %
Not past due	10.6	100.0	14.9	100.0
	10.6	100.0	14.9	100.0

Diversification by industry type	2022 £m	2022 %	2021 £m	2021 %
Retail	8.5	80.2	11.2	74.6
Office	-	-	0.8	5.3
Industrial	0.5	4.7	1.0	6.4
Hotel / leisure	1.6	15.1	1.7	11.6
Other	-	-	0.2	2.1
	10.6	100.0	14.9	100.0

At 31 December 2022, the Society had no commercial investment loans in arrears of 3 months or more (2021: none). One loan that would be past due or impaired have had their terms renegotiated.

The Society had no commercial loans in possession or subject to LPA receivership at the end of 2022 (2021: none).The Society did not grant forbearance against any loans secured on commercial property in 2022 (2021: none).

Loans secured on serviced apartments

Loan to value (indexed)	2022 £m	2022 %	2021 £m	2021 %
<70%	2.6	15.7	2.8	18.1
70% - <80%	8.4	50.6	9.6	49.0
80% - <90%	5.6	33.7	5.1	32.9
	16.6	100.0	17.5	100.0

Payment status	2022 £m	2022 %	2021 £m	2021 %
Not past due	16.1	97.0	17.5	100.0
LPA receivership	0.5	3.0	-	-
	16.6	100.0	17.5	100.0

Against cases where an LPA appointment has been made, £0.6m collateral is held.

The Society did not grant forbearance against any loans for serviced apartments during the year.

41 Credit quality Continued

Legacy buy-to-let

The legacy residential mortgage book consists of residential investment loans, loans secured on buy-to-let properties to corporates, and loans secured on buy-to-let properties to individuals, where the Society's exposure to the borrower is larger than £1m.

Loan to value (unindexed)	2022 £m	2022 %	2021 £m	2021 %
<70%	**14.0**	**100.0**	20.0	72.2
80% - <90%	**-**	**-**	7.7	27.8
	14.0	100.0	27.7	100.0

Payment status	2022 £m	2022 %	2021 £m	2021 %
Not past due	**14.0**	**100.0**	27.7	100.0
	14.0	**100.0**	27.7	100.0

There are no past due or possession cases in 2022. For 2022, no collateral (2021: £nil) was held against past due and in possession cases.

At 31 December 2022, the Society had no specialist buy to let loans in arrears of 3 months or more (2021: none). No loans that would be past due or impaired have had their terms renegotiated.

The Society did not grant forbearance against any loans secured on specialist buy to let property in 2022 (2021: £3.0m).

Loans to housing associations

Loan to value (unindexed)	2022 £m	2022 %	2021 £m	2021 %
<70%	**178.5**	**65.9**	176.5	54.4
70% - <80%	**92.4**	**34.1**	61.9	19.2
80% - <90%	**-**	**-**	85.0	26.4
	270.9	**100.0**	323.4	100.0

Loans to Housing Associations are secured on residential property. No Housing Association loans are past due or impaired.

42 Liquidity risk

Liquidity risk is the risk that the Group has insufficient funds to meet its obligations as they fall due. This risk is managed on a Group basis (including all subsidiary entities) with day-to-day responsibility delegated to the Group's Treasury department with oversight by the Assets and Liabilities Committee, the Group Risk Committee and the Board.

Management of liquidity risk

The Group ensures it holds sufficient quality and quantity of liquidity to remain a going concern after a severe but plausible stress. Cash flow forecasts are used to forecast liquidity, ensuring future compliance with limits set by the Board. Wherever appropriate, the Group ensures it takes any necessary steps to ensure it has access to any available Bank of England Schemes designed to support financial institutions.

Liquidity resources

The Group's liquidity resources include funds in cash accounts held in the Bank of England reserve account and other easily marketable assets and contingent liquidity. The Group monitors compliance against Liquidity Coverage Ratio (LCR) requirements on a weekly basis above the regulatory minimum of 100% throughout the year.

Contractual maturity profile of financial assets and liabilities

The table below analyses the carrying value of financial assets and financial liabilities based on the remaining contractual life to the maturity date. The contractual maturity will differ to actual payments; for example, most on demand customer deposits will be repaid later than the earliest date on which repayment can be requested and mortgages may be repaid ahead of their contractual maturity. Derivative financial instruments' cash flows are based on discounted amounts and are allocated into maturity buckets on the basis of each derivative's contractual maturity.

At 31 December 2022	Repayable on demand £m	Upto 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Assets						
Cash and balances with the bank of England	421.9	-	-	-	-	**421.9**
Loans and advances to credit institutions	17.4	87.4	-	-	-	**104.8**
Debt securities	1.6	63.1	93.8	268.6	5.9	**433.0**
Derivative financial investments	-	0.8	9.0	63.5	17.1	**90.4**
Loans and advances to customers	2.9	35.6	86.1	469.2	3,665.7	**4,259.5**
Fair value adjustments for hedged risks	-	(3.2)	(17.1)	(30.0)	(10.6)	**(60.9)**
Other financial assets	-	6.6	-	-	-	**6.6**
Total financial assets	**443.8**	**190.3**	**171.8**	**771.3**	**3,678.1**	**5,255.3**
Liabilities						
Due to members	3,100.4	495.1	295.8	327.4	2.1	**4,220.8**
Fair value adjustments for hedged risks	-	0.3	-	-	-	**0.3**
Due to other customers	48.6	92.9	34.3	-	-	**175.8**
Deposits from credit institutions	3.6	57.9	0.5	515.1	-	**577.1**
Derivative financial instruments	-	-	0.1	2.1	50.3	**52.5**
Other financial liabilities	-	2.4	-	-	-	**2.4**
Total financial liabilities	**3,152.6**	**648.6**	**330.7**	**844.6**	**52.4**	**5,028.9**
Net liquidity gap (contractual)	**(2,708.8)**	**(458.4)**	**(158.8)**	**(73.3)**	**3,625.7**	**226.4**

42 Liquidity risk

Contractual maturity profile of financial assets and liability Continued

At 31 December 2021

	Repayable on demand £m	Upto 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Assets						
Cash and balances with the bank of England	382.2	-	-	-	-	**382.2**
Loans and advances to credit institutions	183.5	-	-	-	-	**183.5**
Debt securities	-	24.8	35.2	328.7	2.0	**390.7**
Derivative financial investments	-	-	0.6	13.1	0.8	**14.5**
Loans and advances to customers	3.1	30.2	84.4	407.2	3,269.6	**3,794.5**
Fair value adjustments for hedged risks	0.1	0.5	1.4	6.7	53.4	**62.1**
Total financial assets	**568.9**	**55.5**	**121.6**	**755.7**	**3,325.8**	**4,827.5**
Liabilities						
Due to members	2,881.8	374.7	208.8	263.8	2.7	**3,731.8**
Due to other customers	9.5	76.5	73.1	-	-	**159.1**
Deposits from credit institutions	1.9	70.2	0.5	515.0	-	**587.6**
Derivative financial instruments	-	-	0.5	5.8	141.3	**147.6**
Total financial liabilities	**2,893.2**	**521.4**	**286.4**	**784.6**	**144.0**	**4,626.1**
Net liquidity gap (contractual)	**(2,324.3)**	**(465.9)**	**(164.8)**	**(28.9)**	**3,181.8**	**201.4**

Liquidity risk outlook

The Group has **£518m** (2021: £575.0m) of TFS and TFSME drawings which are due to be repaid during 2024. The Group's plans to replace these funds are well advanced and have seen the Group extend its range of wholesale funding.

Further details on the Group's liquidity risk management are included in the Pillar 3 report published alongside the Annual Report and Accounts.

43 Capital risk

Capital risk is the risk that the Group is or becomes inadequately capitalised to address the risks to which it is exposed.

Management of capital

Day to day capital management is delegated to the Chief Financial Officer with oversight by the Assets & Liabilities Committee, the Group Risk Committee and the Board.

The Society assesses its capital position and risks through an annual Internal Capital Adequacy Assessment Process (ICAAP) in line with the regulatory requirements. The ICAAP consider the key capital risks and the amount of capital it should retain. These requirements are assessed against the current position and throughout any forward planning. The PRA sets and monitors capital requirements for the Group. Capital adequacy is measured by comparing both current and forecast capital resources to capital requirements.

Capital stress testing is performed as part of the ICAAP and makes sure that the Group is resilient to a range of stresses, assessing whether capital requirements would be met under severe but plausible stress scenarios and considers what mitigating actions are available to management.

The Group's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain the future growth of the Society. The Group has complied with all externally imposed capital requirements and internally set limits throughout the year.

44 Post balance sheet events

On 21st February, the Boards of the Society and Manchester Building Society agreed heads of terms to merge by way of a transfer of Manchester Building Society's engagement into the Society. The Boards believes it is in Members' best interests to complete the merger as members will benefit from an enlarged and expanding Building Society. The transaction is still subject to resolutions by the Boards of both building societies as well as regulatory approval. As such, the financial impact of the transfer of engagements on the Society's financial position is uncertain and has not been included in these financial statements.

45 Country-by-Country Reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations.

Newcastle Building Society is the biggest building society in the North East and the 8th largest in the UK with assets c. **£5.3** billion (2021: £4.9 billion).

As a mutual organisation, the Society's primary focus is its Members and it aims to provide mortgage, savings and insurance products supported by excellent customer service. Additionally, the Society offers financial advice, as an appointed representative of Openwork, through Newcastle Financial Advisers Limited. Outsourcing of financial services and Information Technology services are provided through Newcastle Strategic Solutions Limited.

The consolidated financial statements of the Newcastle Building Society Group include the audited results of the Society and its subsidiary undertakings. The consolidated entities, their principal activities and countries of incorporation, are detailed in Note 15 to the Annual Report and Accounts.

Basis of preparation

a) Country

All of the consolidated entities were incorporated in the United Kingdom, with the exception of Newcastle Mortgage Loans (Jersey) Limited, which is incorporated and operates with no employees in Jersey.

b) Total operating income and profit before tax

Total operating income and profit before tax are compiled from the Newcastle Building Society Group consolidated financial statements for the year ended 31 December 2022, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). Total operating income represents the sum of the Group's net interest income, other income, other charges and gains less losses on financial instruments and hedge accounting. Group total operating income was **£119.7m** (2021: £99.5m), the proportion not arising from UK-based activity is not considered material for the purpose of this disclosure.

c) Corporation tax paid

Corporation tax paid represents the net cash taxes paid to the tax authority, HMRC, during 2022. Corporation tax paid is reported on a cash basis and will normally differ from the tax expense recorded for accounting purposes due to:

- Timing differences in the accrual of tax charge. The Group makes quarterly payments on account to HMRC. Payments are made in July, October, January, and April. As the Group's accounting year runs from January to December, payments made in any financial year will not align with tax due in that financial year.
- The Society brought forward into 2022 tax losses from previous years that were used to extinguish a portion of its taxable profits in 2022.
- Other differences between when income and expenses are accounted for under IFRSs and when they become taxable.

During 2022 the Group paid **£4.6m** in corporation tax. (2021: £4.4m).

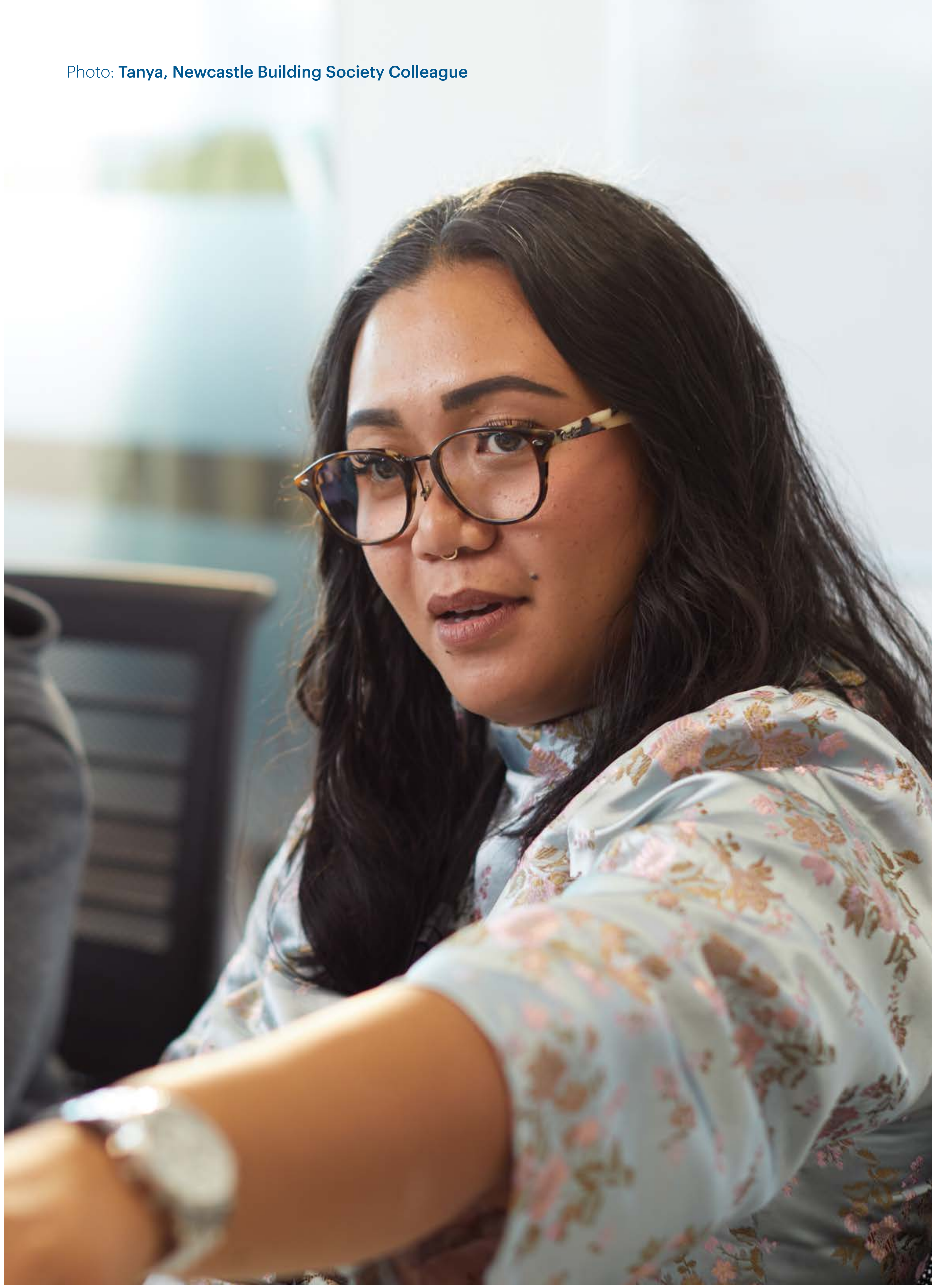
d) Full-time equivalent employees ("FTEs")

The average number of Group full time equivalent employees was **1,297.4** (2021: 1,196.1) all of which were employed in the UK.

e) Group profit before tax

Group profit before tax was **£31.7m** (2021: £29.1m) with tax a charge of **£5.7m** (2021: £5.2m). The profit before tax and the tax charged relates to UK-based activity and the UK tax jurisdiction..

Photo: **Tanya, Newcastle Building Society Colleague**




Millennium Bridge, Newcastle/Gateshead Quayside

Annual Business Statement

for the year ended 31 December 2022

1 Statutory percentages

	2022 %	Statutory %
Lending limit	**1.5**	25.00
Funding limit	**15.1**	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986. Lending limit is calculated excluding fair value adjustments for derivative values.

The lending limit measures the proportion of business assets not in the form of loans secured on residential property.

Business assets are the total assets of the Group plus allowances for losses on loans and advances less liquid assets, investment properties and property, plant and equipment as shown in the Group balance sheet.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are fully secured on residential property and are funded substantially by its Members.

2 Other percentages

As a percentage of shares and borrowings:	2022 %	2021 %
Gross capital	**5.35**	5.45
Free capital	**4.65**	4.71
Liquid assets	**19.29**	21.36
Result for the year as a percentage of mean total assets	**0.51**	0.49
Management expenses as a percentage of mean total assets	**1.75**	1.45

The above percentages have been prepared from the Annual Accounts.

Gross capital represents the aggregate of the general reserve, available for sale reserve and subscribed capital.

Free capital represents gross capital less property, plant and equipment, investment property and non-current assets held for sale.

Liquid assets are as shown in the Group Balance Sheets but exclude liquid assets pledged under repo agreements and includes collateral.

Shares and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Management expenses represent the aggregate of administrative expenses and depreciation, and includes expenses relation to the Group's Solutions business.

Mean total assets are the average of the 2022 and 2021 total assets.

Directors at 31 December 2022

	Date of Birth	Date of Appointment	Business Occupation
GA Bennett MA	**10.02.61**	**24.04.19**	**Non Executive Director**
	Other Directorships: Newcastle Portland House Limited; Darkwood Croft Management Company Limited; MAM Properties Limited.		
MJ Faull FCCA	**24.11.60**	**23.08.21**	**Non Executive Director**
	Other Directorships: IQUW Syndicate Management Limited. The Line Art Walk; The Line Public Art Walk CIC.		
BP Glover LLB, ACIB	**03.07.60**	**11.08.17**	**Company Director**
	Other Directorships: Credit Asset Management Limited; Professions Funding Limited; Property & Funding Solutions Ltd; Recognise Bank Limited.		
AS Haigh BSc	**26.01.63**	**27.01.14**	**Building Society Chief Executive Officer**
	Other Directorships: Community Foundation serving Tyne & Wear and Northumberland; North East England Chamber of Commerce.		
K Ingham	**20.02.65**	**04.09.14**	**Vice President, Global Partner Success**
	Other Directorships: Newcastle Strategic Solutions Limited; Vice President, Global Partner Success (Europe Middle East and Africa at Expedia Inc.); Ramsdons Holdings PLC.		
A Laverack BA **(Business name: Anne Shiels)**	**08.06.61**	**17.07.17**	**Company Director**
	Other Directorships: Newcastle Financial Advisers Limited; Anne Shiels Consulting Limited; LNT Care Developments Group Limited.		
SL Lynn	**10.05.60**	**22.04.20**	**Non Executive Director**
	Other Directorships: Newcastle Strategic Solutions Limited; Stuart Lynn Limited; Whitley Bay Golf Club Limited.		
S Miller BSc, ACIB	**16.10.70**	**16.01.18**	**Building Society Customer Director**
	Other Directorships: Newcastle Financial Advisers Limited.		
JDA Ramsbotham CBE, DL	**30.08.59**	**23.08.21**	**Non Executive Director**
	Other Directorships: Newcastle Financial Advisers Limited; Newcastle Strategic Solutions Limited; Hargreaves Land Limited; High Doctor Pasture Caravan Park Limited; Altruism Limited.		
DA Samper BA, CA	**21.12.74**	**20.12.18**	**Building Society Chief Financial Officer**
	Other Directorships: Newcastle Portland House Limited.		
MR Thompson BA, FCA	**11.10.61**	**29.01.19**	**Non Executive Director**
	Other Directorships: Atlas Cloud Limited; Newcastle United Foundation; The Clinkard Group Limited; NorthStandard Limited (formerly known as The North of England Protecting and Indemnity Association Limited); Tyne and Wear Building Preservation Trust Limited.		

Documents may be served on any of the Directors c/o Addleshaw Goddard LLP, One St Peter's Square, Manchester M2 3DE. The Executive Directors have service contracts which can be terminated at any time by the Society on six months' notice. The Executive Directors' service contracts were entered into on the dates of their appointment, excepting A S Haigh who was appointed to the role of Chief Executive on 1 May 2015, having previously held the role of Chief Operating Officer. There are no contracts for Non-Executive Directors and no compensatory terms for loss of office.

Principal office

Newcastle Building Society is a building society incorporated and domiciled in the United Kingdom.
The address of the Society's principal office is 1 Cobalt Park Way, Wallsend, NE28 9EJ.

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears - A customer is in arrears when they are behind in their mortgage payments. A customer is 3 months in arrears when they have missed the equivalent of 3 mortgage payments.

Administrative expenses - Expenses incurred in running the day to day activities of the Society including staff, property, marketing and technology costs.

Basel II - The second of the Basel Accords, issued by the Basel Committee on Banking supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA Handbook.

Basel III - The third of the Basel Accords, issued by the Basel Committee on Banking supervision, which are a long-term package of changes that will strengthen regulatory requirements for capital and liquidity.

Buy-to-let (BTL) - A mortgage designed to support customers purchasing an investment property to let out.

Capital Requirements Directive (CRD IV) - The EU legislative package covering prudential rules for banks, building societies and investment firms. CRD IV is made up of the Capital Requirements Directive and Capital Requirements Regulations, it is designed to implement the Basel III Accord across the EU.

Commercial lending / mortgage - Loans secured on commercial property.

Common Equity Tier 1 capital - Defined by the PRA as general reserves or qualifying capital instruments which for the Society is the accumulation of retained profits.

Common Equity Tier 1 ratio - Common Equity Tier 1 capital as a percentage of risk weighted assets.

Contractual maturity - The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

Covered bonds - Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other on-balance sheet assets solely for the benefit of the holders of the covered bonds.

Credit risk - The risk that a customer or counterparty is unable to honour their repayment obligations as they fall due.

Debt securities - Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding central banks.

Derivative financial instruments - A derivative financial instrument is a type of financial instrument (or an agreement between two parties) that has a value based on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to interest rate risk.

Effective interest rate method (EIR) - The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period.

Fair value - Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Conduct Authority (FCA) - FCA regulates the conduct of financial firms providing services to consumers and maintains the integrity of the UK's financial markets.

Financial Services Compensation Scheme (FSCS) - The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the PRA is obliged to pay an annual levy, which goes towards running costs and compensation payments.

Forbearance - A term generally applied to arrangements which are provided to support mortgage customers experiencing financial difficulties. An example of this would be a temporary reduction in mortgage payments.

Free capital - Represents gross capital less property, plant and equipment and investment property.

Funding limit - Measures the proportion of shares and borrowings not in the form of shares held by individuals.

Gilts - These are bonds issued by certain national governments. The Group only classifies debt securities issued by the Bank of England as Gilts.

Gross capital - The aggregate of general reserve, available-for-sale reserve, subscribed capital and subordinated liabilities.

Impaired loans - Loans where an event has occurred which indicates the Group does not expect to collect all the contractual cash flows due, or expects to collect them later than they are contractually due.

Individual Capital Guidance (ICG) - Guidance from the PRA on the minimum level of capital that must be held.

Individual Liquidity Guidance (ILG) - Guidance from the PRA on the minimum quantity of a firm's liquidity resources and the firm's funding profile.

Individually / collectively assessed - Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be incurred.

Interest rate risk - The risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates.

Internal Capital Adequacy Assessment Process (ICAAP) - The Group's own assessment of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.

Internal Liquidity Adequacy Assessment Process (ILAAP) - The Group's internal assessment of the liquidity levels needed to meet its regulatory liquidity requirements.

Legacy mortgage portfolios - Mortgage loan books where the Group has ceased new lending and is winding down exposures.

Lending limit - Measures the proportion of business assets not in the form of loans fully secured on residential property.

Leverage ratio - A Basel III ratio which measures Tier 1 capital against total on and off balance sheet assets.

Liquid assets - The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Liquidity Coverage Ratio (LCR) - A Basel III measure of the amount of highly-liquid assets against cash outflows over a 30 day period.

Liquidity risk - The risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash inflows and outflows.

Loan-to-value ratio (LTV) - A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates UK residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis) to reflect changes in house prices.

Loans and advances to banks - Treasury investments purchased with banking institutions.

Management expenses - Management expenses represent administrative expense and depreciation. The management expense ratio is management expenses expressed as a percentage of mean total assets.

Market risk - The risk that movements in market risk factors, including re-pricing of assets and liabilities and the imperfect matching of interest rates between different asset and liability types, may adversely impact the Society.

Mean total assets - Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Member - A person who has a qualifying share investment or a mortgage loan with the Society.

Net interest income - The difference between interest received on assets and interest paid on liabilities.

Non-Executive Director - A Member of the Society's Board who does not form part of the executive management team. They are not an employee of the Society.

Operational risk - The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Other lending - Loans and advances secured on traded endowment policies.

Past due - Loans on which payments are overdue including those on which partial payments are being made.

Permanent Interest Bearing Shares (PIBS) - Unsecured, deferred shares that are a form of capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing Members of Newcastle Building Society.

Prime - Prime mortgages are those granted to the most credit worthy category of residential borrowers.

Prudential Regulation Authority (PRA) - Part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms

Renegotiated loans - Loans are classed as renegotiated with the customer's consent, when their terms have changed during the year. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower.

Repo - Short to medium-term funding agreements which allow a borrower to sell a financial asset, such as government bonds, as security for cash. As part of the agreement the borrower agrees to repurchase the security at a later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

Residential mortgage backed securities (RMBS) - Asset backed securities that represent interests in residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).

Residential loans - Residential loans are secured against residential property.

Risk appetite - The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Society's Members whilst achieving business objectives.

Risk-weighted assets (RWA) - The value of assets, after adjustment under Basel II rules, to reflect the degree of risk they represent. The Society measures RWA using the standardised approach.

Shares - Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings - The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest.

Solutions - A subsidiary of the Society that offers business to business services through people, process and innovative application of technology. Services include complete systems for smaller societies and white-labelled savings management for a range of banks and building societies.

Solvency ratio - The ratio of total capital to total risk weighted assets.

Subordinated debt / liabilities - A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors, and investing Members (other than holders of PIBS).

Tier 1 capital - Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. Other regulatory adjustments may be made for the purposes of capital adequacy. Under the grandfathering rules of Basel III qualifying capital instruments such as PIBS can be included in other Tier 1 capital (i.e. not Common Equity Tier 1) transferring to Tier 2 over the grandfathering period.

Tier 2 capital - Comprises the Group's qualifying subordinated debt and collective impairment allowance (for exposures treated on a Basel II standardised basis).

Wholesale funding - The total of deposits from banks, amounts owed to other customers and debt securities in issue.

Branch and Financial Advice Centre Directory

Alnwick - 28 Bondgate Within, NE66 1TD	**Tel: (01665) 603 344**
Ashington - 10 Station Road, NE63 9UJ	**Tel: (01670) 815 919**
Barnard Castle - 25 Market Place, DL12 8NE	**Tel: (01833) 600 100**
Berwick Upon Tweed - 12 Hide Hill, TD15 1AB	**Tel: (01289) 306 417**
Bishop Auckland - 15 Newgate Street, DL14 7HG	**Tel: (01388) 433 001**
Carlisle - 65 English Street, CA3 8JU	**Tel: (01228) 524 518**
Chester-Le-Street - 42 Front Street, DH3 3BG	**Tel: (0191) 388 5266**
Consett - 19/21 Middle Street, DH8 5QP	**Tel: (01207) 502 636**
Cramlington - 34/35 Craster Court, NE23 6UT	**Tel: (01670) 735 813**
Darlington - 7/8 Horsemarket, DL1 5PW	**Tel: (01325) 383 656**
Durham - 73/75 Saddler Street, DH1 3NP	**Tel: (0191) 384 3182**
Gateshead - 12 Ellison Walk, Trinity Square, NE8 1BF	**Tel: (0191) 477 2547**
Gosforth - 105/107 High Street, NE3 1HA	**Tel: (0191) 285 5965**
Hartlepool - 133/135 York Road, TS26 9DR	**Tel: (01429) 233 014**
Hawes - Hawes Community Office, Market Place, DL8 3RA	**Tel: (01969) 600 333**
Hexham - 1-2 Beaumont Street, NE46 3LZ	**Tel: (01434) 605 106**
Knaresborough - 40 Market Place, HG5 8AG	**Tel: (01423) 648 750**
Middlesbrough - 38 Linthorpe Road, TS1 1RD	**Tel: (01642) 243 617**
Morpeth - 14 Market Place, NE61 1HG	**Tel: (01670) 514 702**
Newcastle - 136 Northumberland Street, NE1 7DQ	**Tel: (0191) 261 4940**
North Shields - 76 Bedford Street, NE29 0LD	**Tel: (0191) 259 5286**
Penrith - 12 Market Square, CA11 7BX	**Tel: (01768) 862 888**
Ponteland - 23 Broadway, Darras Hall, NE20 9PW	**Tel: (01661) 821 828**
South Shields - Unit 3-5 Denmark Centre, NE33 2LR	**Tel: (0191) 454 0407**
Stokesley - 36 High Street, TS9 5DQ	**Tel: (01642) 711 742**
Sunderland - 14 Waterloo Place, SR1 3HT	**Tel: (0191) 565 0464**
West Denton - 15 Denton Park Centre, NE5 2RA	**Tel: (0191) 267 5038**
Whickham - 28 Front Street, NE16 4DT	**Tel: (0191) 488 1766**
Whitley Bay - 303 Whitley Road, NE26 2HU	**Tel: (0191) 252 0642**
Wooler - The Cheviot Centre, NE71 6BL	**Tel: (01668) 260 360**
Yarm - 41 The High Street, Yarm, TS15 9BH	**Tel: (01642) 785 985**

Photo: **Vita, Branch Manager, Bishop Auckland**