

NEWCASTLE BUILDING SOCIETY ANNOUNCES 2022 FINANCIAL RESULTS

Key Highlights

- 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

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 Mortgages Credit Strategy - Lending Awards
- Four-star Mortgage Provider - Financial Adviser Service Awards
- Best Small Residential Lender - TMA Mortgage Club Awards

Chief Executive's Statement

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.

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).

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.

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

NEWCASTLE BUILDING SOCIETY
PRELIMINARY ANNOUNCEMENT
for the year ended 31 December 2022

SUMMARY CONSOLIDATED INCOME STATEMENTS

	2022	2021
	£m	£m
Interest receivable and similar income		
Interest income calculated using effective interest rate	116.6	92.0
Interest income recognised in respect of insurance contracts	11.1	11.9
Net expense on derivatives hedging mortgage assets	3.1	(13.1)
Total interest receivable and similar income	130.8	90.8
Interest payable and similar charges	(55.4)	(31.8)
Net interest income	75.4	59.0
Other income and charges	45.4	45.7
Fair value gains less losses on financial instruments and hedge accounting	(1.1)	(5.2)
Administrative expenses	(83.5)	(65.8)
Depreciation and amortisation	(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 of tangible and intangible assets	(0.3)	(2.0)
Provisions for liabilities and charges	(0.1)	(0.2)
Profit for the year before taxation	31.7	29.1
Taxation expense	(5.7)	(5.2)
Profit after taxation for the financial year	26.0	23.9

SUMMARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2022 £m	2021 £m
Profit for the financial year	26.0	23.9
Other comprehensive income:		
<i>Items that may be reclassified to income statement</i>		
Cash flow hedges		
Fair value movements recognised in equity	(3.7)	-
Amounts transferred to the income statement	0.1	-
Tax on net amounts recognised in equity	0.9	-
Financial assets measured at fair value through other comprehensive income		
Fair value changes recognised in equity	(2.1)	(0.2)
Amounts transferred to the income statement	0.1	-
Tax on net amounts recognised in equity	0.5	0.3
Total items that may be reclassified to income statement	(4.2)	0.1
Total comprehensive income for the financial year	21.8	24.0

SUMMARY CONSOLIDATED BALANCE SHEETS

	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
Investments	2.1	3.9
Intangible assets	10.2	7.5
Property, plant and equipment	29.1	31.0
Non-current assets available for sale	0.2	2.4
Other assets	22.2	26.0
TOTAL ASSETS	5,312.5	4,894.4
LIABILITIES		
Shares	4,220.8	3,731.8
Fair value adjustments for hedged risk	0.3	-
Deposits and debt securities	752.9	746.7
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 LIABILITIES AND EQUITY	5,312.5	4,894.4

SUMMARY CONSOLIDATED CASH FLOW STATEMENTS

	2022	2021
	£m	£m
Net cash inflows / (outflows) from operating activities	102.6	(62.8)
Corporation tax paid	(4.6)	(4.4)
Cash inflows / (outflows) from operating activities	98.0	(67.2)
Cash outflows from investing activities		
Purchase of property, plant and equipment	(2.1)	(3.7)
Purchase of intangible assets	(5.0)	(4.0)
Sale of property, plant and equipment	2.4	4.9
Purchase of equity investments	(0.3)	-
Purchase of investment securities	(275.1)	(106.6)
Sale and maturity of investment securities	229.8	84.6
Net cash outflows from investing activities	(50.3)	(24.8)
Cash outflows from financing activities		
Interest paid on subscribed capital	(2.3)	(2.3)
Capital payments for lease arrangements	(1.1)	(1.0)
Net cash outflows from financing activities	(3.4)	(3.3)
Net increase / (decrease) in cash	44.3	(95.3)
Cash and cash equivalents at start of year	395.0	490.3
Cash and cash equivalents at end of year	439.3	395.0

Summary of key financial ratios	2022	2021
	%	%
Gross capital as a percentage of shares and borrowings	5.35	5.45
Liquid assets as a percentage of shares and borrowings	19.29	21.36
Profit for the year as a percentage of mean total assets	0.51	0.49
Management expenses for the year as a percentage of mean total assets	1.75	1.45

Notes

1. The financial information set out above, which was approved by the Board of Directors on 2 March 2023, does not constitute accounts within the meaning of the Building Societies Act 1986.
2. The financial information for the years ended 31 December 2022 and 31 December 2021 has been extracted from the Accounts for those years and on which the auditors have given an unqualified opinion.