

# NEWCASTLE BUILDING SOCIETY ANNOUNCES 2023 FINANCIAL RESULTS

## Key Highlights

- Good value for savers, paying an average interest rate of 3.03% versus the rest of market average rate of 2.46%, equating to around £25m more interest paid to our savers than the market average
- Good value for borrowers, with an average Standard Variable Rate (SVR) for mortgages 1.24% lower than the market average, saving our SVR borrowers over £2.3m in interest payments compared to the market average
- Profit for the year before taxation fell slightly to £29.1m (2022: £32.6m)
- Operating profit before impairments and provisions remained constant at £31.4m (2022: £31.4m)
- Underlying operating profit increased by 23% to £32.8m (2022: £26.7m)
- Gross mortgage lending for the year at £1.1bn, equalling last year's record performance and net core residential lending at £575m (£1.1bn gross and £586m net in 2022)
- Following the merger by way of transfer of engagements to Newcastle Building Society on 1 July 2023, it was a great pleasure to welcome Manchester customers and colleagues to the Society Business.
- Commitment to a new Newcastle City Centre community branch at Monument opening in 2024
- Customer satisfaction score of 95% (2022: 95%) and net promoter score (NPS) of +82 (2022: +82)
- We added community space to our Darlington branch, bringing the number of community rooms across our network to 15
- Following adoption of the Mutual Value Measurement Framework (MVM®) we have become the first UK mutual to be formally accredited, recognising the Society as a 'Good Mutual'
- Increased colleague numbers by nearly 260 during the year, creating new job opportunities for the region
- Community funding of £357,296 through charity partnerships, community grants from the Newcastle Building Society Community Fund at the Community Foundation and colleague fund raising matches

## Chief Executive's Statement

In a challenging period, shaped by wider economic uncertainty, I'm proud that, as a Society, we have remained true to our Purpose of 'Connecting our communities with a better financial future' while delivering another set of strong results in 2023. We have continued to focus on the strategic ambitions underpinning our Purpose of achieving growth, investing in the Group's infrastructure for the long term, and of course, delivering value for our Members.

2023 was a particularly difficult year for people in our communities coping with the impact of stubborn inflation driving up the cost of living. In our regions, those cost challenges are often felt more deeply, making our priorities as a mutual to support all our customers and colleagues wherever we can, whilst providing additional help to those in need, more relevant than ever.

It was a great pleasure to welcome former Manchester Building Society customers and colleagues to the Society following our merger and we've subsequently made swift progress on our integration plans. It's clear that the North West deserves a vibrant, regional building society and we've begun to articulate a vision, ambition and plans for the Manchester Building Society brand and the role we'll play across those communities.

The volatile market conditions throughout 2023 will have impacted all our Members but borrowers, and especially those remortgaging from historically low fixed rates to the higher rates that prevailed during the year, faced higher repayments, adding to the squeeze on their household finances.

My hope is that Members recognise the value that comes with being part of our mutual organisation; the additional support we've provided to those worried about their mortgage repayments, consistently offering savings rates above the market average and making a positive difference in our communities across key areas of focus, including our commitment to branches, increasing access to face-to-face financial services and fostering employability within the region.

We believe that maintaining a focus on Member value, both through the products we offer and our wider contribution to financial futures within our communities, is central to our business model and critical to the long-term health of the Society. Adopting the Mutual Value Measurement (MVM®) framework during 2023, has helped bring greater clarity on where we can achieve greater impact in how we add value for our Members and build out our strategy for the future as we continue to connect our communities with a better financial future.

The MVM® framework was developed in Australia by the Business Council for Cooperatives and Mutuals and Monash University in Melbourne, working with Warwick University in the UK and measures mutual value across six dimensions. We were delighted to have our work reviewed and in January 2024, to become the first UK mutual to be formally accredited, recognising the Society as a 'Good Mutual Business'.

## Performance summary

Despite an increasingly challenging external environment the underlying business continues to perform well and for 2023 we are reporting an operating profit before impairments and provisions of £31.4m (2022: £31.4m), continuing our record performance from 2022. Group profit before tax for the year ending 2023 was £29.1m (2022: £32.6m). On an underlying basis operating profit was £32.8m for 2023 (2022: £26.7m), further details are given in the strategic report. Gross mortgage lending for 2023 remained consistent with the record levels in 2022 at £1.1bn and net core residential lending was £575m (£1.1bn gross and £586m net in 2022). In addition to these key highlights we continue to operate with the appropriate levels of capital and liquidity.

## **Good value for our Members and clients**

In a dynamic rate environment, we aim to pass on changes in the base rate of interest to our savings and mortgage customers in a timely and fair manner. At the start of the year, the Bank of England base rate was 3.5%, increasing to 5.25% at the end of December. On average across the year, our savings rates were 3.03% compared to a market average of 2.46%. This equates to an additional £25m interest for our Members over that period.

For borrowers, the increasing Bank of England base rate presents a very different challenge. I'm acutely aware of the difficulties faced by homeowners coming to the end of a historically low fixed rate period, moving onto a higher repayment rate, especially as inflation remained high and other living costs continued to grow.

We were quick to sign up to the Government's Mortgage Charter and provided customers with additional support options which helped keep mortgage arrears below the market average. Recognising that the biggest difference we can make is to keep our mortgage rates as low as possible, over the course of 2023, our mortgage Standard Variable Rate (SVR) remained one of the most competitive on the market at 6.94%, against a market average of 8.18%, saving our SVR borrowers over £2.3m in interest payments over the year.

Further support was made available to Members and colleagues through our work with Citizens Advice Gateshead and the continuation of our free-to-use Helping Hand service, which quickly provides expert advice, information and support on a range of issues. In its first full year of operation in 2023, our Helping Hand service realised more than £500,000 in estimated financial benefit for Members and colleagues through a combination of grants and benefits from the advice and support received.

## **Thinking differently about branches**

Being a Purpose-led, Member-owned business means we can think differently about how we address the needs of our customers and communities and despite our modest scale relative to the whole market, our innovative approach can actually help shape the market. One such area is branches and our belief that face-to-face financial services are an essential requirement within any community, which has led us to explore a very different approach to expanding our branch network.

The worrying trend of bank branch closures continues and according to LINK more than 600 new closures were announced across the UK in 2023, adding to the more than 5,000 closures since January 2015, with banks regularly citing the cost of running a branch network and dwindling usage. We reject this premise, especially when we know the cost of social and economic damage caused by financial exclusion and the withdrawal of essential services from our high streets. We believe that something has simply got to change in order to reverse this trend and we are keen to do what we can both to support our communities and to advance the wider thinking on the subject.

Whilst online provision grows and has an essential role to play in a range of ways customers choose to access their providers, our Members are unequivocal in their preference for choice. Therefore, it remains our belief that by putting our Members' interests first and taking a more creative approach to the future of branches, we can continue to offer the level of service, reassurance and convenience that is only available by speaking to a friendly face at a local branch.

Fresh thinking, recognition of the fact the role of the branch has changed and the combination of technological innovation and the type of collaboration seen in our partnership branches in Yarm, Wooler, Hawes and Knaresborough offers a successful blueprint for future branches. Sharing costs and locating ourselves in the places where communities gather transforms the branch proposition from one that is simply about processing transactions to one that values and promotes human interaction.

Elsewhere in our branch network, our community rooms continue to be a warm, safe and comfortable place for people and groups to gather. We added community space to our Darlington branch, bringing the number of community rooms across our network to 15. All are well-used and are a popular meeting place for social groups, helping to encourage people to spend time in the company of others in their community.

To be successful, a branch doesn't always have to be small or offered in partnership with others. In 2023 we started work on a new community branch in Newcastle city centre. Located at the heart of our home city, our Monument branch will be our largest community branch when it opens in 2024, offering first-in-class access to financial services and a welcoming space which will bring one of the city's historic buildings back into full use for the benefit of the wider community.

Another feature which makes our branch provision stand out is our offer of a financial advice service that remains accessible to all as we look to fill a growing advice gap in our regions. Demand for accessible, in-person financial advice remained strong in 2023 across the communities we serve, with over 9,000 appointments undertaken by our qualified team of advice experts from our wholly owned subsidiary, Newcastle Financial Advisers Limited (NFAL). NFAL has seen an increasing demand for advice supporting people with key decisions around pensions and retirement planning, as well as investment, inheritance tax and protection advice. The increasing levels of complexity in legislation and the UK tax regime, as well as the growing need for people to navigate their way through the cost-of-living challenge, have driven a strong performance in our financial advice business, which again achieved the VouchedFor 'Top Rated Firm' status for a second consecutive year, with an average rating of 4.9/5.

2023 saw the return of our popular BIG Talk events which together with other information sessions saw more than 120 events attended by more than 2,500 people, providing the chance to find out more about savings, investing and later life planning, all in an informal, relaxed environment.

### **Services to the wider savings market**

For nearly twenty years, our subsidiary, Newcastle Strategic Solutions Limited (Solutions) has provided an outsourcing service to other banks and building societies to manage their savings operations on their behalf. Over its life, Solutions has gained unparalleled experience in supporting the operational launch of new digital banks, bringing new digital capabilities to existing banks and supporting organisations through rapid growth and unpredictable markets.

In 2023, the Solutions' business continued to support clients with record volumes of account opening and retail deposit growth, now managing over 1.5m savings accounts and approaching £50bn in savings balances on behalf of clients.

An important milestone was also passed during the year with the development of our next generation digital savings platform which is now being rolled out and complements the ongoing investment into Solutions' successful mobile app which has been available for clients to adopt for a number of years. These new capabilities have enabled Solutions to address the challenges of the rapidly changing market conditions, helping clients react quickly, remain agile in a competitive savings environment and respond to customer requirements. We were pleased to strengthen the senior team during the year, in particular with additions to leadership functions in Commercial, Product Development and Client Management.

The Solutions' business continues to be multi-award winning, playing its part in clients winning more than 24 different awards for their savings service and operations during the year.

### **Shaped by our Members**

As a Member-owned organisation, it's vital that our business approach and outcomes reflect the priorities of Members, which we aim to achieve by incorporating customer feedback into our strategic planning.

Our online platform Connected Communities plays an important role but, as is often the case, there is no substitute for meaningful feedback found through conversation. Happily, there was plenty of conversation at the series of Member events we held in spring 2023, with more than 350 people taking the time to join us, share their views and contribute to the future of their Society and improve our understanding of the priorities emerging from the Mutual Value Measurement framework (MVM®).

We grouped the priorities emerging from the 6 dimensions of the MVM framework into three broad themes: product value, service and accessibility; membership and community; and employment, operations and partnerships. It is against these themes that we are building our plans for the years ahead.

The unique role that Members play in a mutual organisation isn't often seen in other industries and I believe is one of the reasons our customers continue to choose Newcastle Building Society and recommend our services to others. I also believe it is an important factor in our customer satisfaction score which remained at a record high during 2023 of 95% (2022: 95%) and a Net Promoter Score (NPS) of +82 (2022:+82).

### **A catalyst for positive change in our communities**

We continue to be active in our communities and help create positive change across our region, working in collaboration with long-term partners and key stakeholders. One of the unique challenges we are keen to explore in the future is whether we can replicate our unique relationship with the North East under the Manchester Building Society brand in the North West. Conversations are underway with key stakeholders in the North West as to how we best take our first steps in delivering that ambition.

Meanwhile, in the North East, our skills partnerships with Newcastle United Foundation, the Prince's Trust and Walking With The Wounded aim to bridge the employability skills gap – an ongoing challenge which we seek to tackle by working with others to help talented individuals, who might otherwise not get a chance, to achieve their potential and become work-ready by developing valuable skills and building confidence.

In 2023, our work with Newcastle United Foundation through their flagship NU Futures programme reached more than 7,000 pupils through school workshops, with colleagues delivering sessions on money management, skills and confidence building, and interview practice.

Where possible we aim to extend our employability work further by offering career opportunities to skills partnerships with a route into our Early Talent programme, which in 2023 saw 18 young people from a range of backgrounds join our Society, each taking a significant step in their career journey.

One of the most meaningful ways we support our communities continues to be through colleague volunteering and our volunteering-friendly policies. In total, colleagues delivered more than 10,000 hours of volunteering in 2023, taking part in an extensive range of activities including support for local charities, as well as mentoring, governorship and coaching. Our long-term partnership with the Prince's Trust includes support for their Team project and in 2023 involved 22 different volunteering activities, providing employability skills support for young people categorised as NEET (not in education, employment or training).

In financial terms in 2023 we contributed more than £350,000 to our communities, which includes a donation of more than £200,000 to the Newcastle Building Society Community Fund at the Community Foundation Tyne and Wear & Northumberland. Our donation to the Community Fund enabled investment in the underlying endowment and the provision of grants totalling £170,253 to 45 local charities across our branch locations, focusing on our key themes of employability, debt management, homelessness, food poverty, and the environment.

In 2023 we were pleased to support the work undertaken by the Community Foundation to produce their Vital Signs North East 2024 report, which gathers regional data on ten themes in order to identify new trends and key areas of priority. We're looking forward to working with the Community Foundation and wider regional stakeholders over the next year to consider what more could be done.

We continue to make good progress against our commitment to care for our environment and support a sustainable future for our communities. Further detail can be found in the Sustainability Report.

### **Our role as a regional employer**

As an employer, we aim to foster talent in an inclusive environment which gives opportunity to people in the region who have potential but may struggle to find the opportunities to make the most of their latent capability. This is another way in which we aim to fulfil our Purpose of 'connecting our communities with a better financial future'. Our approach to development is an important part of this process and we were proud to retain our Platinum status with Investors in People (IIP), demonstrating our ongoing commitment to colleagues and being a great place to work. As the highest rating IIP award, Platinum is not easy to achieve so to be reaccredited for another three years is a sign that our efforts to connect colleagues with our Purpose and help them to understand their role in the future success of the Society is having an impact.

In 2023 we launched our 'A Place To Be You' plan, which details how we'll deliver on our Diversity, Equity and Inclusion (DE&I) ambitions, helping to create a workplace where everyone feels able to be themselves and can achieve their potential.

Our colleague-led DE&I networks, which include Race, Disability, Women in Leadership, Menopause, LGBTQ+ and Carers, are a fantastic example of this work in practice, helping to increase awareness and understanding, agree actions and celebrate the value diversity brings to the organisation.

As an organisation we also made our commitment to racial equality visible to colleagues, customers, partners and communities by signing the Race at Work Charter, which aims to improve equal opportunities for ethnically diverse employees in the UK.

We've continued to invest in a range of tools and technologies to improve our digital ways of working and to enhance the wider colleague experience, we're undertaking a full review of colleague reward, including pay and benefits and the launch in 2023 of a colleague mortgage scheme and access to financial advice. Recognising the difficult economic environment which impacts so many people, we've continued to provide colleague access to the Helping Hand service delivered through Citizens Advice Gateshead, providing support with information and advice on a range of topics such as housing, benefits and relationships.

With the growth of the Society reflected in additional colleague numbers – more than 200 new jobs created in 2023 – it's pleasing that colleague satisfaction measured by eNPS (employee net promoter score) of +57 (2022:+58) places us in the top 25% of our survey provider's finance sector benchmark.

### **Looking ahead**

I'm proud that in a difficult year, as a Society, we continued to deliver for our Members, our communities and our colleagues. We demonstrated the character and resilience required to navigate uncertain and fast-changing market conditions and would like to thank everyone who has played a role in 2023. Not only were we able to grow the business, including the merger with Manchester Building Society, we attracted new customers, supported Members where needed, offered good value and continued to invest in the future of the organisation.

As ever I am enormously grateful for the tireless contribution of colleagues from across the Group and the ongoing support of our Members, our partners and our communities.

These remain challenging times but I believe the Society is well placed to respond and to achieve new levels of performance through our ambition and continued investment and that our ever greater focus on delivering value to Members will amplify the positive impact we make in our communities.

**Andrew Haigh**  
**Chief Executive**  
**29 February 2024**

**NEWCASTLE BUILDING SOCIETY**  
**PRELIMINARY ANNOUNCEMENT**  
for the year ended 31 December 2023

**SUMMARY CONSOLIDATED INCOME STATEMENTS**

	<b>2023</b>	2022
	<b>£m</b>	Restated £m
Interest receivable and similar income		
Interest income calculated using effective interest rate	<b>214.4</b>	116.6
Interest income recognised in respect of mortgages held at fair value	<b>11.1</b>	11.1
Net expense on derivatives hedging mortgage assets	<b>34.4</b>	3.1
Total interest receivable and similar income	<b>259.9</b>	130.8
Interest payable and similar charges	<b>(173.5)</b>	(55.4)
<b>Net interest income</b>	<b>86.4</b>	75.4
Other income and charges	<b>51.6</b>	45.2
Fair value gains less losses on financial instruments and hedge accounting	<b>(0.4)</b>	(0.2)
Income from dividends	<b>0.3</b>	0.2
Administrative expenses	<b>(100.1)</b>	(83.5)
Depreciation and amortisation	<b>(6.4)</b>	(5.7)
<b>Operating profit before impairments and provisions</b>	<b>31.4</b>	31.4
Impairment (charges) / reversals on loans and advances to customers	<b>(1.1)</b>	1.6
Impairment of tangible and intangible assets	<b>(0.3)</b>	(0.3)
Provisions for liabilities and charges	<b>(0.9)</b>	(0.1)
<b>Profit for the year before taxation</b>	<b>29.1</b>	32.6
Taxation expense	<b>(7.0)</b>	(6.0)
<b>Profit after taxation for the financial year</b>	<b>22.1</b>	26.6



## SUMMARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2023	2022
		Restated
	£m	£m
<b>Profit for the financial year</b>	<b>22.1</b>	<b>26.6</b>
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified to income statement</i>		
<b>Cash flow hedges</b>		
Fair value movements recognised in equity	5.8	(3.7)
Amounts transferred to the income statement	(0.4)	0.1
Tax on net amounts recognised in equity	(1.3)	0.9
<b>Financial assets measured at fair value through other comprehensive income</b>		
Fair value changes recognised in equity	0.6	(2.1)
Amounts transferred to the income statement	-	0.1
Tax on net amounts recognised in equity	(0.2)	0.5
<b>Total items that may be reclassified to income statement</b>	<b>4.5</b>	<b>(4.2)</b>
<b>Total comprehensive income for the financial year</b>	<b>26.6</b>	<b>22.4</b>

## SUMMARY CONSOLIDATED BALANCE SHEETS

	2023	2022
	£m	Restated £m
<b>ASSETS</b>		
Liquid assets	1,250.3	959.7
Derivative financial instruments	50.9	90.4
Loans and advances to customers	4,859.7	4,259.5
Fair value adjustments for hedged risk	(13.2)	(60.9)
Investments	1.9	2.1
Intangible assets	12.8	10.2
Property, plant and equipment	31.5	29.1
Non-current assets available for sale	-	0.2
Other assets	29.3	22.8
<b>TOTAL ASSETS</b>	<b>6,223.2</b>	<b>5,313.1</b>
<b>LIABILITIES</b>		
Shares	5,014.3	4,220.8
Fair value adjustments for hedged risk	-	0.3
Deposits and debt securities	801.0	752.9
Derivative financial instruments	61.7	54.7
Other liabilities	25.4	20.2
Subscribed capital	34.8	20.0
<b>TOTAL LIABILITIES</b>	<b>5,937.2</b>	<b>5,068.9</b>
Reserves	286.0	244.2
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>6,223.2</b>	<b>5,313.1</b>

## SUMMARY CONSOLIDATED CASH FLOW STATEMENTS

	2023	2022
	£m	Restated £m
<b>Net cash inflows from operating activities</b>	<b>251.9</b>	101.3
Corporation tax paid	(7.0)	(4.6)
<b>Cash inflows from operating activities</b>	<b>244.9</b>	96.7
<b>Cash outflows from investing activities</b>		
Purchase of property, plant and equipment	(2.0)	(2.1)
Purchase of intangible assets	(5.4)	(5.0)
Sale of property, plant and equipment	0.7	2.4
Cash acquired on transfer of engagements	42.7	-
Purchase of equity investments	-	(0.3)
Purchase of investment securities	(501.5)	(275.1)
Sale and maturity of investment securities	330.0	229.8
<b>Net cash outflows from investing activities</b>	<b>(135.5)</b>	(50.3)
<b>Cash outflows from financing activities</b>		
Interest paid on subscribed capital	(2.9)	(2.3)
Capital and interest payments for lease arrangements	(0.9)	(1.1)
<b>Net cash outflows from financing activities</b>	<b>(3.8)</b>	(3.4)
<b>Net increase in cash</b>	<b>105.6</b>	43.0
Cash and cash equivalents at start of year	427.9	384.9
<b>Cash and cash equivalents at end of year</b>	<b>533.5</b>	427.9

<b>Summary of key financial ratios</b>	<b>2023</b>	<b>2022</b>
	%	%
Gross capital as a percentage of shares and borrowings	<b>5.52</b>	5.35
Liquid assets as a percentage of shares and borrowings	<b>21.50</b>	19.29
Profit for the year as a percentage of mean total assets	<b>0.38</b>	0.51
Management expenses for the year as a percentage of mean total assets	<b>1.85</b>	1.75

### Notes

- The financial information set out above, which was approved by the Board of Directors on 29 February 2024, does not constitute accounts within the meaning of the Building Societies Act 1986.
- The financial information for the years ended 31 December 2023 and 31 December 2022 has been extracted from the Accounts for those years and on which the auditors have given an unqualified opinion.
- The fair value of the derivative liabilities has been restated reflecting deferred consideration due for the purchase of the book in 2004. This increased 2022 derivative liabilities by £2.2m and increased 2022 profits before tax by £0.9m. Please see note 45 in the Annual Report and Accounts for details.
- The cashflow statement has been restated to remove the cash ratio deposits held with the Bank of England of £14.5m (2022: £11.4m, 2021: £10.2m) from cash and cash equivalents.