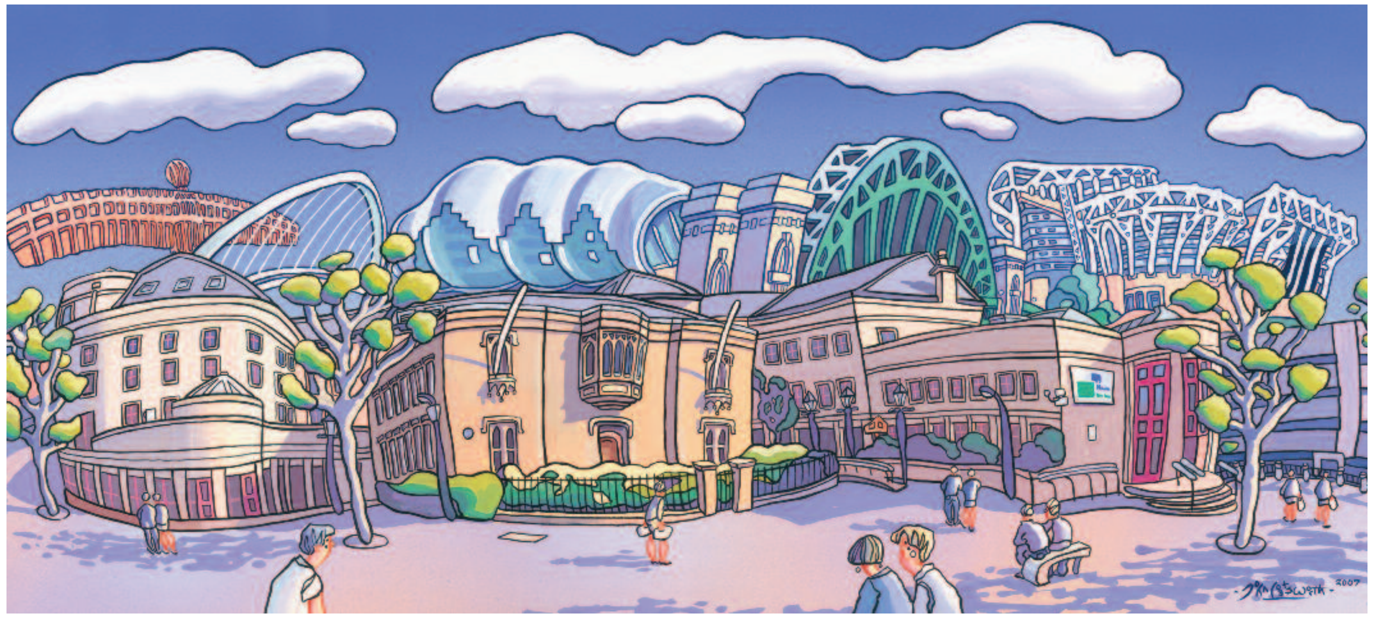
Principal Office
Portland House
New Bridge Street
Newcastle upon Tyne
NE1 8AL

www.newcastle.co.uk

Newcastle Building Society



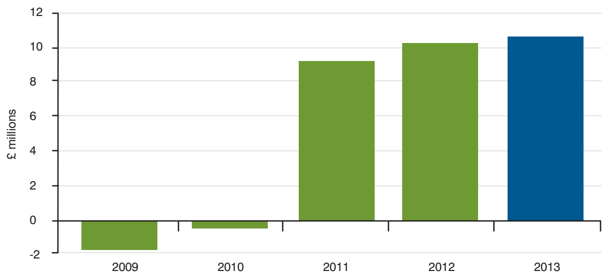
Annual Report and Accounts 2013

Local knowledge. Mutual understanding.

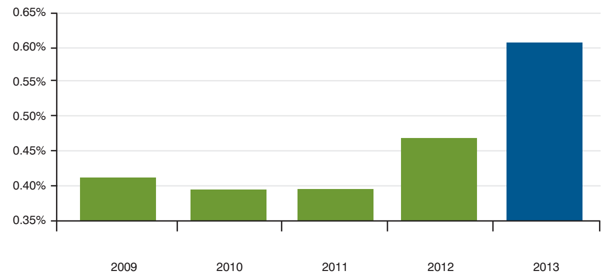
Newcastle
Building Society

2013 key highlights

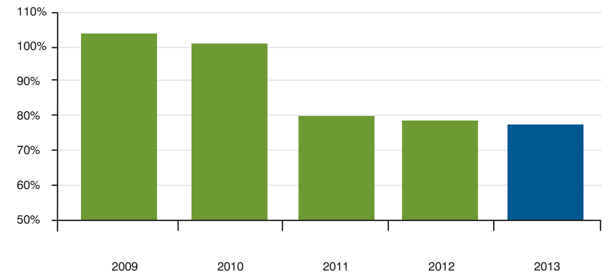
Operating Profit / (loss) before Impairments, Provisions, FSCS levy and Exceptional Items



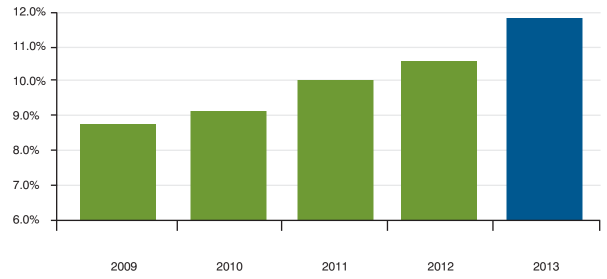
Interest Margin as a Percentage of Mean Total Assets



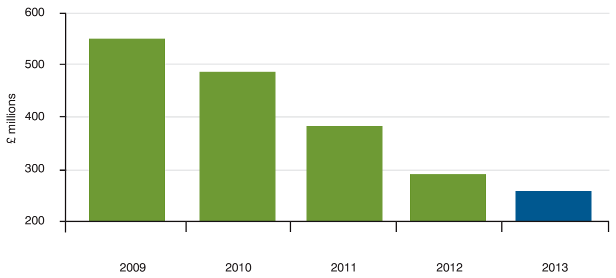
Cost to Income Ratio



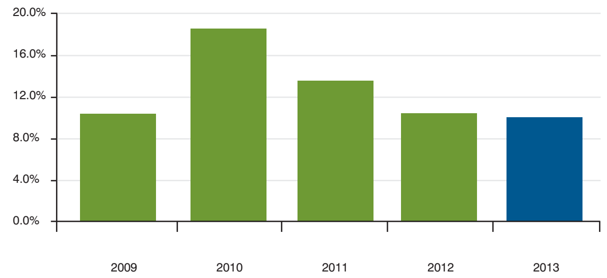
Core Tier 1 Capital Ratio



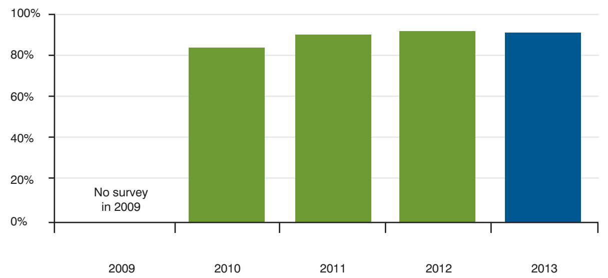
Commercial Investment Loan Exposure (net of provisions)



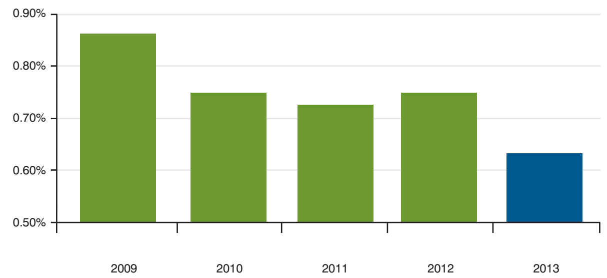
Percentage Staff Turnover



Overall Customer Satisfaction Percentage



Number of Loans in 3 months + Arrears



Contents

Our Vision

We aim to deliver excellent service to our Members and customers; long term, secure and rewarding employment to our staff; and recognisable support to local communities. We also aim to provide best in class service for our Solutions business customers.

Our Objectives

Our Members, customers, employees and the communities we serve all have an important part to play in the future of the Society. We believe we can best serve the interests of all stakeholders by remaining a strong, dynamic and independent mutual building society.

Our objectives for each are:

Our Members and Customers

- To provide a good range of savings, investment, mortgage and insurance products;
- To provide value for money;
- To be a friendly customer-focused organisation, which understands its customers, listens to and acts on what they say;
- To offer expert and trusted advice across a range of services;
- To deliver exceptional service in a prompt, courteous, professional, respectful and efficient manner;
- To be straightforward in what we do while being efficient and effective;
- To take personal ownership and care about what we deliver;
- To treat customers fairly and in a way that is consistent with mutuality; and
- To provide a diversified income stream through our Solutions business by sharing our technology and processing capability, built on our core building society competencies, with business partners.

Our Employees

- To provide secure and rewarding long term employment;
- To provide further development of our staff;
- To provide our staff with a thorough understanding of our corporate strategy to enable them to pursue it with commitment and passion;
- To be open and honest and do what we say we will do;
- To respect our employees and operate within an environment of mutual trust and understanding; and
- To provide competitive and fair remuneration packages.

Our Communities

- To be seen to be a major contributor to the economic wellbeing of the areas in which we operate; and
- To support the communities in which we operate, by way of both personal and financial involvement.

Our Values

'F.O.R.T.S.' – The Building Blocks of our Society

We have always had Values within our organisation but we wanted to be clear about what those were, right across the business and ensure that they were embedded in everything that we do.

Over the last three years our staff have been developing and delivering strong and realistic values that reflect the way the Society likes to do business with customers and how our staff want to work together. These were developed through feedback from the entire organisation, via a staff survey, and the delivery of them throughout the business has been supported by a team of 'Values Champions'. The Values were presented to our Board and supported wholeheartedly.

Our Values are what we call the 'building blocks' of the Society. They have been formed from a solid foundation upon which we can build an even more engaged and committed workforce. They have been delivered in a way that is informal and simply forms part of our day-to-day work. However, they aren't just empty words; more than that they reflect a culture within the business which is supportive and delivers year on year increased value for our Members and customers.

Friendly. Ownership. Respect. Trust. Straightforward.

Chairman's Statement

Phil Moorhouse - Chairman

This is my first Statement as Chairman, having taken up the post in April 2013, although I have been on the Board since October 2011. The progress in the business is something I've seen build steadily over the time I've been here. It is pleasing to announce continued progress in profit, capital and performance ratios. The hard work and dedication shown by staff at all levels within this organisation is what makes the Society special.

After four years of continued focus on being a straightforward, traditional building society, I'm pleased to say the Newcastle is seeing signs of being back to 'business as usual' with a simpler business model and reduced risk on our balance sheet. Against this background, we see a more positive economic environment and an increased demand from customers for mortgages.

In particular, our residential mortgage lending activity has expanded and we are now seeing volumes at levels we last experienced before the credit crunch started in 2007. Our Solutions business, which provides savings administration and IT services to third parties, has also had one of its most positive years since its launch in 1997. This is despite the Funding for Lending Scheme impacting negatively on the volume of retail inflows for some of our clients. Our commercial wind-down strategy is progressing equally as well, with a solid reduction in our legacy portfolio against target; further details are provided in the Chief Executive's Review on page 6. All in all, this has all resulted in a consistent improvement in underlying performance, which helps to demonstrate the success of our strategy.

Economy

In 2013, the UK economy was all about sustaining growth. GDP improved broadly across all sectors, which helped the economy to grow, as did an increase in consumer spending towards the end of the year. This led the Government to talk about the UK being on the 'path to recovery'. We are pleased to see this improving economic environment but continue to plan ahead prudently.

During a year when the economy started to come out of 'repair' mode, we saw the Government introduce the Help to Buy scheme. Designed to stimulate activity with First Time Buyers (FTB), and for those looking to move up the ladder with as little as a 5% deposit, this has encouraged a more aggressive mortgage landscape with some of the most competitive products launched, since before the credit crisis.

However, the Society has offered 95% LTV loans for several years and we have a well-established competitive mortgage product portfolio so despite the competitive pressures, we have grown our mortgage portfolio of residential loans to homebuyers by almost 10% in the year.

In the Regulatory world there was also the introduction of the Twin Peaks regulatory structure, which resulted in the financial sector now being monitored by both the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). This poses its own challenges given we now report to both organisations. Nonetheless, the Newcastle has a good relationship with the Regulators and we keep open and positive communication lines with them.

Members

Our Members saw us celebrate our 150th year in 2013, which resulted in a new branding strapline – 'Local Knowledge. Mutual Understanding.' This really emphasises our local North East heritage and our wealth of expertise. It has been warmly received by both Members and staff alike. Our Members continued to access competitive mortgage products from us and our Sir Bobby Robson Foundation savings products continue to go from strength-to-strength, resulting in a contribution to date to the Foundation of £700,000. This really is one of the major success stories for the Society over the last couple of years and shows how two regional organisations with mutual values can work together to support one another. We also continue to provide financial advice to our Members through our subsidiary, Newcastle Financial Services Limited, when many others have pulled out of providing this support on the high street.

Our Board

Good corporate governance plays a critical role in ensuring the Society remains a successful and sustainable organisation. A key aspect of this is ensuring the Board has the correct mix of experience and expertise, which has led us to make some new appointments in 2013 and more recently in 2014.

In April, David Holborn retired from the Board after serving as a Non Executive Director for 10 years, the last 2 years as Chairman. We thank him for his wise counsel over the years and we wish him well in his retirement.

Ian Ward was appointed in July as a Non Executive Director and comes with significant experience of the building society sector and complements the skill-set of our other Board members. His experience includes 45 years working within the building society sector including Leeds Building Society – where latterly he was Chief Executive for 16 years until his retirement in October 2011.

Subsequent to the year-end we have made a number of additional Board appointments. Andrew Haigh joined us in January as Chief Operating Officer; he comes with extensive experience of the mutual sector. Patrick Ferguson was promoted to Strategy, Planning and Risk Director in February, having previously held the post of Group Risk Executive since May 2010. Angela Russell, the Society's Finance Director also takes on the additional role of Deputy Chief Executive. We believe these additions strengthen our Board significantly and we wish them every success. We also had one departure from our Board in 2013 with Gillian Tiplady moving on to pursue other career interests.

Outlook

The Board recognises the steady and consistent progress we have been making against our strategy. We're taking a prudent approach, but it's a strategy that is working for the Society and one we'll continue. While the improvement in the economy is most welcome, headwinds may still arise, perhaps not in the UK but more globally, and there will no doubt be financial challenges arising from the government agenda in the run up to the election.

The Society is in a strong position to deal with these challenges through careful planning and a clear strategy. In fact we've recently developed our vision for 2020 that takes a look at our longer term goals and has helped us really focus our efforts on what our Society will look like then; it has helped us look forward with even more confidence.

Finally, a thank you to all our staff for their tremendous efforts this year. Every single person in our organisation has the opportunity to make a positive contribution to it and impact on its success. We've seen that in 2013 and may it continue into 2014 and beyond.

Phil Moorhouse
Chairman
24 February 2014

Chief Executive's Review

Jim Willens - Chief Executive

I am delighted to report that 2013 has been a successful year for the Society with improvement across a range of key performance indicators. I am particularly pleased that we have been able to do so much to support lending to our Members, especially first time buyers, whilst at the same time offering a good range of competitive savings products. Our financial advice subsidiary, Newcastle Financial Services Limited, also continued to provide advice to customers at a time when others have decided to exit the market for all but high net worth individuals.

In 2013 the Building Society sector continued to punch above its weight in both the mortgage and savings markets and offered a real alternative to the high street banks. Building society net lending almost doubled in 2013 while net lending by other lenders was negative; almost a third of mortgage lending by building societies was to first time buyers, who are key to a thriving housing market. Building societies, including Newcastle Building Society, have been bringing homebuyers and savers together for over 150 years. Being owned by Members, building societies can focus on the longer term and on providing excellent service to Members; we don't have to worry about shareholders focussed on share price and investor returns. The building society model has proven to be very resilient over recent years. It is pleasing to see building societies at the forefront of the economic recovery, providing a trusted home for savers and helping homebuyers get on to the property ladder.

When I was first appointed, in 2010, we changed our strategic focus to return the Society to a traditional building society model with a diversified income stream via our Solutions business; built on core building society competencies. At the heart of this strategy are our Members, our staff and the communities within which we operate alongside ensuring we provide a good range of products and excellent customer service, all of which are underpinned by the Society's Values. Our year on year continuing improvement in performance is evidence that our strategy is working and we will continue to pursue our strategic goals with vigour. After five long years of the "credit crunch" we can see signs that the economy is building momentum and that a recovery is more firmly in train, which should enhance ongoing delivery of our strategy.

In terms of our achievements in 2013, from a financial perspective, profitability and capital ratios continue to strengthen further, and the quality and level of our liquidity continues to be robust. Our key non-financial measure, the satisfaction of our Members, continued above target. We exceeded our targets for wind down of legacy assets and delivered on schedule on key regulatory projects. We continued our staff engagement programme and increased spending on training and development. Overall, we have had another very positive year of continued and steady progress.

Financial Performance

Profit before tax improved by 33% from £1.5m to £2.0m reflecting a higher net interest margin that benefitted from increased mortgage lending activity and reduced funding costs. Our operating profit (before provisions and Financial Services Compensation Scheme levy) increased to £10.6m from £10.4m. Whilst profitability remained at a modest level, we were pleased to have achieved this result given lower levels of financial advice income following the implementation of the Retail Distribution Review, and the costs of winding down legacy assets. Our cost-to-income ratio fell to 76% in 2013 from 77% in 2012.

The profitability of our Solutions business remained stable and performed in line with expectations given we had already identified a reduced demand for retail savings from clients due to the availability of cheaper funding from the Funding for Lending Scheme. The Solutions pipeline for new clients continues at record levels and we are currently at project stage on four contracts expected to launch in the next 12 months, with other contracts in prospect for future periods.

The Society's capital ratios continued to improve with the Solvency Ratio improving from 16.4% to 17.8% and the Core Tier 1 ratio, the key measure of focus under new capital regulations, improving from 10.7% to 11.9%. The Tier 1 ratio improved from 12.6% to 14.1%. Under the new capital requirements directive the calculation of capital ratios changes from 1 January 2014; the Society will continue to show capital ratios broadly in line with those at the end of 2013, following this change. Further details are given on page 12.

In 2013 the Society continued to unwind legacy portfolios with higher risk or lower margin which do not fit the traditional building society model. A reduction of £160m was achieved including £30m on commercial investment loans and £48m on loans to housing associations. Since the start of 2010 we have reduced legacy portfolios by £600m with the largest element of this reduction relating to commercial investment loans, falling by £270m or 50%. As the risks within the commercial portfolio reduce we have also seen a reduction in provisions for impairment charges on commercial loans of 25%. The backdrop for commercial investment property remains challenging and while property prices have stabilised there continues to be a high incidence of voids, due to tenant failure and lease maturities, particularly in the retail sector. The Society has made great progress in reducing the risk within the Society's balance sheet over the last four years particularly within the commercial investment loan book.

The number of mortgage loans in arrears of 3 months or more, across the whole mortgage portfolio, reduced from 0.76% to 0.64%; well below industry averages.

Our liquidity at the end of the year was strong at 26% compared to 30% at the start of 2013. This reduction was in line with our expectations and we expect to see a further fall in 2014 as we see the momentum continue on residential lending and we reach a more optimal level of liquidity.

Members

We continued to support first time buyers throughout the year with a range of competitive 90-95% LTV products, which were very popular with homebuyers. We have operated in the first time buyer space for several years and the Society has its own mortgage indemnity insurance arrangements in place, which has meant we have not had to rely on government schemes to support first time buyer lending. The government initiatives have been successful in starting to rebuild confidence in the housing market and we are very supportive of the objectives of the schemes. Our lending to first time buyers more than doubled in 2013 in comparison to 2012 and our overall gross lending increased to £350m. We expect to maintain this increased level of activity going forward. In addition to offering a great range of mortgage products we also invested in projects to streamline our mortgage processes with the main focus being on the customer journey and experience. Our "Members First" project team completed a review of the mortgage maturity and application processes and identified significant improvements, with the help of customer feedback, which has resulted in improved retention rates on maturities and quicker response times on mortgage applications. In 2014 we will be devoting significant resource to our online mortgage application system after several years of major investment in people and systems to be ready for the Mortgage Market Review, new regulatory requirements effective from 1 April 2014. We continue to offer all of our mortgage products to both new and existing customers.

Two of our most popular savings products in 2013 were our Big Home Saver and Big Little Saver products, both designed to encourage regular saving for customers either wanting to buy their own home, or younger Members who should be encouraged to get into the habit of regular saving. Our Sir Bobby Robson Foundation ISA and Saver accounts continued to be very popular with Members and have enabled the Society to make a significant contribution to the Foundation on behalf of Members. We enhanced our online savings account in 2013 making it easier for customers to open new accounts and transfer between accounts.

Our annual customer survey showed overall satisfaction of 91% in 2013, above our target of 90%, with overall satisfaction within our financial advice subsidiary at 92%. With all the changes implemented at the beginning of 2013 for the impact of the Retail Distribution Review it is pleasing that our most satisfied customers are those that value face-to-face financial advice.

Over the last 18 months we have enhanced our complaint handling processes, firstly to ensure we are doing all that we can to incorporate customer feedback into improving our processes, and secondly to handle the spike we had seen in complaints relating to Mortgage Payment Protection Insurance (MPPI), many of which were speculative. Complaint volumes fell by 58% in 2013, with MPPI complaints falling by 71% and non-MPPI complaints falling by 9%. We upheld 38% of non-MPPI complaints and 3% of MPPI complaints with only 6% of non-MPPI complaints subsequently referred to the Financial Ombudsman Service. The Society has never sold single premium policies with charges loaded up front and the Society has not identified an issue with regard to systemic mis-selling of MPPI.

In 2014 we will continue to engage with Members, and in addition to our existing financial planning seminars, customer panel, focus groups and branch events, we will be meeting our Members face to face via a programme of "Meet the Chief Executive" events, where Members will be able to have their say.

Employees

Our employees are the Society's most important asset and as a financial services provider it is our customers that benefit from loyal, motivated and well trained staff. Our staff turnover rate across the whole business was only 10% in 2013, and we continued to invest in a number of programmes to develop and engage with staff. Overall staff satisfaction remained in excess of 80% with a survey participation rate of 74%.

The roll out of our values programme was completed in 2013 and staff are now very familiar with the FORTS (Friendly, Ownership, Respect, Trust and Straightforward) acronym and how this represents the culture of the Society and the way in which we want to do business with customers and support colleagues in the workplace.

We continued to get fantastic feedback on the success of our graduate training and undergraduate student placement programmes and these programmes are proving successful in providing the Society with the managers and leaders of tomorrow. We have a number of managers within the organisation that have previously been involved with these programmes. In 2013 we also invested in a training programme for all of the Society's Executives, managers and team leaders called "Raising the Performance Bar", which focussed on how we could be more efficient and effective and ultimately provide an even better service to customers.

Our staff joined us at the historic Newcastle's Great North Museum in June 2013 to celebrate the Society's 150th anniversary year. The event was created and run by staff and was in recognition of the hard work and dedication our staff have shown the organisation during what have been challenging economic times for everyone.

In April we gave an annual pay award that was in line with UK wage inflation data. In December the Remuneration Committee approved a Society-wide corporate bonus, based on achievement of the Corporate Key Performance Indicators, which will be paid to staff after the approval of the Annual Report and Accounts.

Communities

We continued our "Cornerstone of the Community" initiative within our branch network, through activities including volunteering, charity fundraising, local hero awards and a financial education initiative for children.

Through our community foundation endowment fund we donated more than £8k to local grassroots good causes within North East Communities. This was in addition to the time spent by our staff supporting good causes both via their time and through fund raising activities.

We have continued to provide support to our corporate charity of the Year. For 2012/2013 this was Help for Heroes who received a cheque for £24k and for 2013/2014 our chosen charity, as selected by staff, is the Alzheimer's Society. In addition to staff organising fund raising events, the Alzheimer's Society has also held "Dementia Friends" training sessions with branch managers to enable them to support any Members coming into the branch that have a form of dementia.

As I mentioned in the Members section above, through the popularity of our Sir Bobby Robson Foundation accounts we have donated more than £700k to the charity, which has contributed towards its efforts in fighting the battle against cancer.

More details of our work with communities and charitable activities are given on pages 14 and 15.

Summary

The Society continued to make great progress in 2013 towards achieving our long-term goals. With the recovery in the UK economy more firmly in train, I am more confident than ever that building societies will continue to thrive. Also, that the Society will continue its focus on mortgage lending and good long-term value savings products, trusted financial advice and pursuit of excellent customer service.

Our success is dependent on the exceptional loyalty and commitment of our people. I would like to take this opportunity to thank all our staff and the Executive team, for their significant contribution to the Society's successful performance in 2013.

Jim Willens
Chief Executive
24 February 2014

The Directors' present their Strategic Report on the Group for the year ended 31 December 2013.

Overview of Business and Strategy

Newcastle Building Society has been providing savings accounts to Members for over 150 years. In return for customers placing their money with us we pay interest on the amount saved and we then use these balances to extend mortgages to customers looking to buy a home. Our borrowers pay us a rate of interest which is generally higher than we pay out to savers and this generates a "margin" which is then used to cover the administrative costs of running the Society's business and to generate a profit. The Society does not seek to maximise profits however we do need to make profits in order to grow our business; we therefore try to optimise our profit position i.e. generating enough profit to grow our capital to plough back into lending and services to Members. The Society is a mutual organisation owned by its Members and ultimately the Society's Board and staff must always operate for the benefit of the Members as a whole.

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 partner Openwork LLP, insurance products including home and contents insurance through our partner Legal & General Group plc, as well as other services we believe our Members will benefit from.

The Society also provides IT and savings administration services to third party financial institutions, based on the core competencies within the Society's business. The Solutions business operates on a commercial basis, to make a profit, and the profits from this business generate capital enabling the Society to do more mortgage lending than it otherwise would have been able to do.

In 2010 the Society reviewed its strategy and identified a number of areas where improvement was required in order to enhance the financial strength of the Society and refocus attention on key stakeholders i.e. Members, Staff, Communities, Regulators and Solutions customers. The key objectives of the strategy, which remain unchanged from 2010, are as follows:-

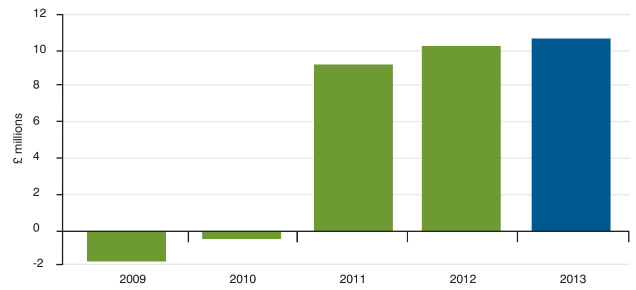
- To put our Members at the heart of our business providing good value products and excellent customer service;
- To engage fully with employees and improve satisfaction year on year;
- To simplify the Society's business and return to a straightforward building society model with a diversified Solutions business built on core competencies;
- To unwind legacy mortgage portfolios that have a high risk or low return and that do not fit with the building society model of prime residential lending to individuals; and
- To reduce the cost base and improve profitability and key capital ratios to further strengthen the Society's financial base.

The Society uses a suite of Corporate Key Performance Indicators to monitor performance against the strategic plan and these are referred to in more detail in the Directors' Report on page 19. Since 2010 the Society has made excellent progress against all of its key objectives and further details are provided in the Chief Executive's report on page 6 and also within the detailed commentary provided below. The principal risks and uncertainties facing the Society in delivering this ongoing strategy are set out in the Risk Management Report on pages 29 to 31.

Overview of Financial Performance

Profit before tax continued an improving trend, increasing 33% to £2.0m in 2013 from £1.5m in 2012. This improvement was mainly as a result of improved operating profit and lower overall provisions for liabilities and charges. Operating profit before impairments, provisions and exceptional items is considered by the Board to be a primary financial KPI; it improved to £10.6m in 2013 from £10.4m in 2012. The modest improvement has been achieved despite significantly reduced income from the financial advice subsidiary Newcastle Financial Services Limited (NFSL) following the implementation of the Retail Distribution Review, as well as the costs of winding down legacy assets. This progress continues to be supported by a diversified income stream generated by the Solutions business coupled with a cost base that is becoming more efficient.

Operating Profit / (loss) before Impairments, Provisions, FSCS levy and Exceptional Items



The Group balance sheet retains its strength and quality. Key financial metrics show liquidity remaining robust at 26.3% (2012: 30.2%) and the capital base continuing its improving trend with the Core Tier I ratio increasing by 1.2% to 11.9% from 10.7% in 2012. This important ratio, which provides a measure of protection afforded to Members, has increased by 37% since the Society's revised strategy was launched at the start of 2010.

Gross residential lending volumes in 2013 increased to £350m in 2013 from £160m in 2012 with first time buyer lending doubled. The Society's strategy to re-focus its balance sheet by winding down legacy portfolios with higher risk or lower margins saw a further £160m of legacy mortgages redeemed off the balance sheet in 2013. However, in recognition of the difficult, albeit improving, trading conditions and sensitivities in the commercial property sector, the Society has provided a further £6.9m against loans in arrears or possession, with Law of Property Act (LPA) receivers or where a trigger event has identified there may be a problem in the future servicing of the loan.

The Society was also successful in exiting the Kings Manor Properties Limited investment property portfolio with all 128 properties sold or under offer by the end of 2013; however this has come at a cost and an additional £1.1m of losses were recognised on the disposal of these properties.

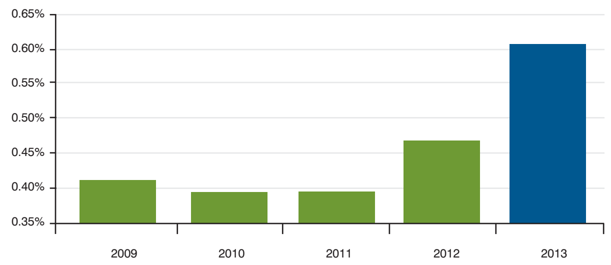
Income statement review

GROUP INCOME STATEMENT	2013 £m	2012 £m	2011 £m
Net interest income	23.4	19.9	17.5
Other income and charges	25.2	28.6	27.3
Loss on disposal of investment properties	(1.1)	(1.0)	(0.1)
Total income	**47.5**	**47.5**	**44.7**
Administrative expenses	(34.6)	(34.5)	(32.6)
Depreciation	(2.3)	(2.6)	(2.9)
Operating profit before impairments, provisions, FSCS levy & exceptional items	**10.6**	**10.4**	**9.2**
Gain on disposal of Prepaid Cards	0.6	0.8	3.9
Impairment losses - loans	(6.7)	(8.3)	(12.3)
Reversal of impairment provisions - banks and debt securities	0.8	0.7	0.7
Provisions for liabilities and charges	(3.3)	(2.1)	(1.4)
Profit for the year before taxation	**2.0**	**1.5**	**0.1**

Net interest income

Net interest margin has increased from 0.47% in 2012 to 0.61% in 2013, the increase was driven mainly by increased lending volumes and lower funding costs as retail savings rates fell in response to falling mortgage rates and the funding initiatives provided by the Bank of England. The Society's margin also benefitted from holding reduced levels of liquidity. The Group will maintain its strategy of managing the margin with a view to the long term future; this includes balancing the risk and reward from residential lending while offering consistent value to savings Members.

Interest Margin as a Percentage of Mean Total Assets



Other income and charges

Other income across the Group fell by £3.4m in 2013 to £25.2m from £28.6m in 2012. A reduction in other income was expected and is largely the result of a change in regulation affecting the Society's financial services subsidiary (NFSL). The Retail Distribution Review regulations became effective on 1 January 2013, changing the way customers pay for investment products and services from ongoing commissions to upfront fees for financial advice. These regulations impacted all regulated investment advisors and several banks have exited the market in full or in part, with many only providing financial advice for high net worth individuals. While the profitability of NFSL has been greatly reduced as a result of the regulatory changes, we decided to retain this business because we firmly believe that the provision of financial advice to Members is a core part of the services we provide as a building society, this is reflected in customer satisfaction scores with NFSL having the highest scores across the group.

Income from the Solutions' business fell slightly from £16.2m to £15.9m as savings balances under management were affected by the availability of cheaper funding via Bank of England initiatives, which resulted in reduced demand for retail funding. However, efficiencies and processing improvements saw the operating profit for the Solutions business improve to £6.9m from £6.7m despite the fall in income. Diversification through the Solutions business is a key element of the Society's strategy, the pipeline of savings management contracts is strong and further growth of the business in the medium to longer term is expected.

Investment Property Revaluation

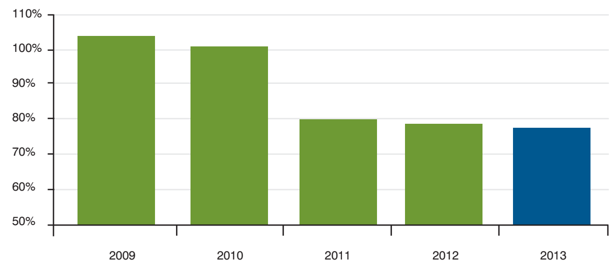
The subsidiary company, Kings Manor Property Limited (KMPL), held the Group's residential investment property portfolio. The KMPL business does not fall into the Group's simplified Society model and in 2012 the Group took the decision to dispose of the portfolio of properties. The disposal decision resulted in the assets being classified as Held for Sale in accordance with IFRS 5. The Group follows the fair value model of asset valuation for investment properties as laid out in IAS 40 and fair value write downs totalled £1.1m in 2013 (2012: £1.0m). At 31 December 2013 the assets remaining on balance sheet have been written down to agreed sale prices, the portfolio is all sold subject to contract at the balance sheet date. Further details are given in Note 18 of the Annual Report and Accounts.

Administrative expenses and depreciation

Administrative expenses and depreciation (together "management expenses") fell in 2013, from £37.1m in 2012 to £36.9m in 2013; this is despite upward pressure on costs in relation to wage inflation and regulation. This reduction was achieved by the Society's continuing drive to improve efficiency and implement robust cost management strategies. The Society's management expenses are now £10m lower than at the start of the credit crisis. With regard to wage inflation the Society awarded a 1.5% annual pay review and a 2.5% corporate bonus payment. The increased cost of regulation came in the form of higher headcount in risk and compliance functions.

The ratio of management expenses to mean total assets was 0.96% in 2013 compared to 0.88% in 2012; the 8bp increase is wholly due to a reduction in mean total assets, in turn a result of winding down legacy mortgage portfolios and reducing levels of liquidity. The management expense ratio is less reflective of the Group's business model in that the Solutions business income stream requires minimal assets to support it. A more relevant measure is the ratio of cost incurred to income generated, where cost excludes property fair value adjustments. This metric improved to 76% in 2013 from 77% in 2012 and is as expected to fall further.

Cost Income Ratio



Gain on Disposal of Prepaid Cards Division

The Society legally completed on the sale of its Prepaid Cards Division to Wirecard AG on 21st December 2011. Cash received on completion amounted to £7.5m with a maximum further £2.5m payable as deferred consideration based on trading performance in 2012 and 2013. The Society recognised £0.5m of the earn-out in 2011, £0.8m in 2012 and a further £0.6m in 2013. Further details are given in Note 10 on page 46 of the Annual Report and Accounts.

Impairment losses

The impairment charge for loans and advances to customers has fallen to £6.7m in 2013 from £8.3m in 2012, excluding provision charges for suspended interest. Although the Society has experienced reducing provision charges in each of the last two years the charge remains above historic, pre-credit crunch, levels. The continued high level of provisioning reflects the demanding, albeit improving, economic conditions which particularly impact on commercial investment loans, borrowers and property values. There are signs that the values are recovering somewhat but greater incidence of tenant failure (particularly on the high street) and resultant void periods affect the serviceability of loans of this type. A summary of loan impairment charges, which demonstrates the significance of commercial provisions to the overall charge, below with full details of provisions included in Note 14 on page 48 of the Annual Accounts.

IMPAIRMENT CHARGES BY AREA	2013 £m	2012 £m
Commercial	6.1	8.5
Residential (1)/ Other	0.6	(0.2)
Provisions charge for the year	6.7	8.3
Interest added to provisions (2)	2.2	2.6
Total charge recognised	**8.9**	**10.9**

(1) Residential includes provisions in relation to owner occupier and BTL properties
(2) Interest provisions flow through net interest margin and relate primarily to commercial loans

Commercial
The total commercial impairment charge for the year including interest added to provisions amounted to £8.1m for 2013 (2012: £10.6m). The Society has been successful in its strategy to de-risk the commercial portfolio by winding down the loan book with a £270m or 50% reduction over the last five years. The difficult trading conditions prevalent over the last few years are showing signs of abating but the requirement to provide for impairments that are considered ‘incurred’ continues. Impairment calculations are carried out by considering future discounted cash-flows as per rules laid out in international accounting standard, IAS39. In considering future cashflows the Society estimates the future valuation of the security less anticipated disposal costs, any interest rate hedge unwind required as well as interest rates, operational expenses and charges. The Society considers several factors when deciding if a commercial exposure is impaired including any missed payments, tenant failure, tenant voids and likelihood of re-letting and any other potential loan servicing issues arising from assessments or professional advice particularly where this provides evidence that a loan is or is unlikely to be fully serviced. In addition a full review has been carried out of loans where forbearance has been granted during 2013 including; capitalising arrears, extending the loan term, or where there has been a renegotiation of the original loan terms and conditions. The Society has a provisioning committee, chaired by the Society’s Strategic, Planning and Risk Director, with terms of reference for ensuring full and consistent application of the Society’s impairment methodology to commercial loans, with the best internal and external information available.

Residential
A charge of £0.6m (2012:£0.9m) relates to residential lending; the majority being against historic lending to BTL portfolio investors which is another loan portfolio being wound down (although the Society may return to the BTL market for individuals requiring smaller loan balances in the future). Credit losses on the Society’s residential lending assets continue to be small compared to the size of the portfolio which amounts to 89% of the Group’s total mortgage assets. The credit quality of these loans is excellent and they continue to perform, arrears being below industry averages. Impairment of the residential book is considered collectively for loans with 3 months or more arrears based on an estimation of loss given default and probability of default based on individual loan circumstances. All properties entering possession are provided specifically based on loan to value and anticipated disposal costs. A small collective provision arises from the Society’s roll-rate to possession modelling for loans with low arrears; previous arrears or where forbearance has previously been granted.

Other
The Society’s book of other loans is secured on endowment policies and its associated risk has significantly decreased again in 2013.

Loans and advances to banks
In 2008 the Society made impairment provisions totalling £32.6m against exposures to Icelandic banks. The Society is provided with information from administrators about the level of recoveries the creditors could expect to recover from the Icelandic banks. The anticipated recoveries for Kaupthing Singer and Friedlander and Heritable, which are based on latest estimates from the administrators, have been revised upwards following an ongoing improvement in recoveries which continues the trend seen in recent years. The Glitnir instrument was sold at market value in October 2013 with a small profit to book value recognised. The overall effect of legacy Icelandic exposures for 2013 is a £0.8m (2012: £0.7m) net credit recognised in the Income Statement relating to the release of impairment provisions.

Provisions for liabilities and charges
The majority of the 2013 charge recognised in the Income Statement of £3.3m relates to the Financial Services Compensation Scheme (FSCS) levy of £2.0m (2012: £2.1m). The levy charge covers estimated liabilities under the rules of the scheme in compliance with applicable International Financial Reporting Standards and guidance, IAS37 and IFRIC6, the Society has not early adopted IFRIC 21 for the 2013 reporting period. Further details of the provision are given in Note 26 on page 56.

Segment reporting
Segmental information is prepared under IFRS 8 with activities split into ‘Member’ and ‘Solutions’ businesses. Details are given in Note 9. The Member business provides mortgage, savings, investment and insurance products to Members and customers. The Solutions business 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. The presentation in Note 9 highlights the continued pronounced impact that provisions (mainly to cover impairment losses on commercial loans and the FSCS Levy) have on the overall loss before tax of the Member business. The Solutions business operating profit before provisions, impairments and exceptional items in 2013 increased by £0.2m despite the anticipated fall in income as savings management was impacted by the Funding for Lending scheme. Details of the exceptional item relating to the sale and earn out of the Prepaid Cards business is given in Note 10 to the Annual Report and Accounts.

Taxation
The Group shows an effective corporation tax rate of 95% in 2013 or £1.9m. The tax charge relates to the reduction in the deferred tax asset carried on the balance sheet. This reduction arises as taxable losses from previous years are used to extinguish the current year corporation tax charge (£0.6m) and, in addition, the deferred tax asset has to be written down where there is a reduction in the enacted corporation tax rate, reflecting that taxable losses have a lower recovery value in the future. During 2013 legislation was enacted which reduced future corporation tax rates by 3% and the deferred tax asset write off as a result of this was £1.3m. The Society and Group have not paid any corporation tax since 2007 due to the taxable losses available.

Balance sheet review
Liquid assets
The Society has continued to maintain a high level of quality liquid assets throughout 2013. A liquidity percentage of 26.3% at 31 December 2013 (2012: 30.2%) reflects both cash generated by the run off of legacy mortgage portfolios, and an above average savings retention rate as competition in retail markets has reduced. The Society has a robust and careful approach to its liquid asset investments with thorough credit risk assessment policies and practices. As can be seen in the tables below, the level of liquidity placed with UK institutions has increased to over 93% of liquid assets held. The fall in AAA rated investments at the end of 2013, reflects the downgrade of the UK sovereign rating by Fitch and Moodys in 2013. The quality of the Society’s liquidity holdings continues to be very strong and this is reflected in the percentage of holdings rated at Aa3 or above.

RATING	2013 %	2012 %
Aaa	40.4	76.3
Aa1 - Aa3	50.9	9.0
A1 - A3	5.7	12.7
Baa1 or below	0.9	1.4
Unrated	2.1	0.6
Total	100%	100%

COUNTRY EXPOSURE	2013 %	2012 %
Australia	1.6	2.1
Iceland	0.5	0.6
Netherlands	-	2.5
Sweden	-	0.3
UK	93.4	88.6
Supranational	4.5	5.9
	100%	100%

The Society has no exposures to counterparties based in Greece, Portugal, Italy, France, Belgium or Spain. The Icelandic exposure relates to legacy holdings dating back to 2008 and prior years.

The table below shows the Society’s liquid assets profile by asset class at fair value.

ASSET CLASS	2013 %	2012 %
Cash in hand and balances with the Bank of England	33.4	32.7
Cash with banks and building societies	12.8	15.7
Gilts	11.1	-
Fixed rate bonds	0.6	8.7
Floating rate notes	3.4	3.6
Residential mortgage backed securities	27.3	24.5
Covered bonds	11.4	14.8
	100%	100%

All of the Society’s liquid assets are denominated in UK sterling; the Society does not invest in instruments denominated in other currencies.

Loans and advances to customers
Loans and advances to customers fell by £25m overall in 2013 as shown in the table below, which also illustrates the Society’s strategy to wind down legacy portfolios and concentrate on prime owner-occupied residential lending. The net £25m balance reduction includes £160m fall in legacy books and a £135m increase in prime residential balances (NB there are also some legacy books in wind down within the prime residential portfolio e.g. the small loan book in Jersey). The Society is still experiencing higher than average overpayment and pay-down transactions on residential loans under the prevailing low interest rate environment, and it is therefore particularly pleasing to see prime lending grow in this manner. The Society will continue to pursue interlinked strategies of legacy wind down, and residential lending where the balance between credit risk and net return are within risk appetite.

LOAN PORTFOLIOS	2013 £m	2013 LTV%	2012 £m	2012 LTV%
Prime Residential	1,552	56.1	1,423	51.1
Specialist Residential	132	73.4	205	82.9
Housing Associations	734	71.8	781	72.2
Commercial	267	96.4	294	97.5
Other	46	63.4	53	68.3
	2,731		2,756	
Provisions	(30)		(28)	
	2,701	65.5	2,728	65.1

Since the start of 2010 the Society has reduced legacy portfolios by £0.6bn with the largest element of this reduction relating to commercial investment loans, falling by £270m or 50%.

The loan to value ratios are down on all books except the prime residential category which is increased reflecting the Society’s lending to First Time Buyers. The Group’s lending is all secured with a first charge registered against the collateral property. Residential loans are shown at indexed loan to value using the quarterly regional Halifax House Price Index, remaining loans are shown without indexing although all commercial loans have been revalued since 2011 which is reflected in the high LTV of this portfolio. Further information on security loan to value is provided in Note 33.

Overall Arrears
The Society measures mortgage arrears of 3 months or more (excluding possessions) by both number of loans and loans balance as a percentage of total number of loans and total balance, respectively. The levels of arrears experienced continue to be below Council of Mortgage Lenders reported averages. Overall by number of loans arrears are down by 12bp to 0.64% from 0.76% in 2012, influenced by a similar sized fall in the Society’s largest loan category, residential lending. Overall by balance the arrears ratio has increased by 14bp to 1.00% from 0.86% in 2012, reflecting a small number of higher value commercial investment loans falling behind in payments.

ARREARS PERFORMANCE 3 months or more arrears	By number of loans 2013 %	By number of loans 2012 %	By balance 2013 %	By balance 2012 %
Residential	0.63	0.75	0.61	0.82
Commercial Investment	1.50	1.37	5.78	3.26
Housing Association	-	-	-	-
Other	0.72	0.80	0.31	0.26
Total	0.64	0.76	1.00	0.86

Residential Arrears, Forbearance and Possessions
Residential arrears have fallen by 12bp to 0.63% by number, and by 21bp to 0.61% by balance due mainly to the managed reduction of the higher risk and higher value BTL mortgage book loans, and also due to the increasing size of the residential mortgage book. These specialist residential loans fall into the Society’s legacy group of assets and management of problem cases within this category has been particularly successful in 2013.

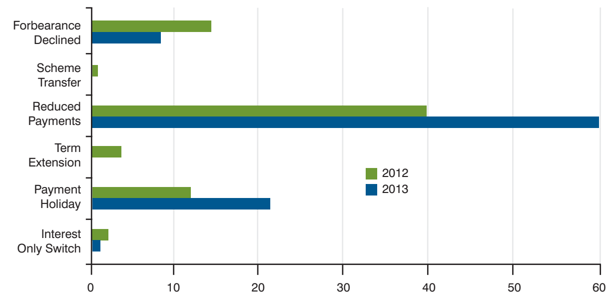
Forbearance data is monitored closely on a monthly basis by the Society’s Residential Credit Committee with the levels of concessions granted not considered to be material for the size of the overall book.

Residential possessions - owner occupier	31-Dec-12	Taken in	Sold	31-Dec-13
Equity release managed sale	1	3	1	3
Court action by the Society	1	5	5	1
2nd charge mortgagor action	2	-	2	-
Abandoned/surrendered	1	5	6	-
Total owner occupier possessions	5	13	14	4
BTL possessions	17	-	9	8
Total residential possessions	22	13	23	12

The Society continued to experience a low level of possessions on residential loans in 2013 with only four possession properties at the end of 2013 in relation to owner occupied loans, representing a reduction of one from the end of 2012. The Society took in 13 properties on owner occupied loans in 2013 with the majority of these relating to the borrower surrendering the property or where assuming management of the property sale on behalf of an equity release borrower. Further details are given in the table above.

Possessions on Buy to Let (BTL) properties also reduced from 17 to just 8 as no new possessions were taken in and 9 were divested. There was one new BTL case subject to LPA receiver appointment with 6 sales leaving just 3 loans being managed by an LPA receiver.

Residential Forbearance



Commercial Investment Arrears, Forbearance and Possessions
At 31 December 2013 the Society had four commercial investment loans in arrears of 3 months or more with balances of £16.8m, this compared to three at the end of 2012 with balances of £10.1m. The increase in the year related to one exposure where the loan could not be serviced due to a tenant void period. The property is now tenanted and the Society is working closely with the borrower to reduce the

arrears. Total specific provisions against these four loans amounted to £6.0m (2012: £2.4m). The Society had no commercial loans in possession at the end of 2013 (2012: none).

At the end of 2013 the Society had one exposure subject to LPA receivership with a total balance of £16.3m (2012: four exposures with balances of £22.4m). Specific provisions against the exposure at 31 December 2013 amounted to £5.7m (2012: £6.0m). The Society generally goes down the route of LPA appointment where the relationship has broken down with the borrower and the Society needs to ensure the security property is properly managed in order to secure the best outcome for the Society in terms of eventual repayment of the loan. This approach has proved to produce acceptable outcomes in the past few years and the Society expects to continue to adopt this approach should any further similar situations arise.

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 will grant forbearance when this is also in the best interests of the Society e.g. providing the borrower with a little more time to sell the security property following a tenant renewal. In Note 33 on page 70, details are given of forbearance granted to commercial borrowers in 2013; in summary the Society granted loan extensions on nine loans (on original commercial terms or better), three of which are considered impaired, and capitalised arrears on two loans, one of which is considered impaired.

Funding

As the Society pursues its strategy to wind down legacy asset portfolios and also reduce liquidity the funding requirement also reduces, because of this retail savings balances fell by 6.1% or £209m in 2013. Wholesale exposures also decreased across the year, by £104m or 42% (including repayment of repo facilities). This movement in funding mix resulted in the percentage of wholesale balances to total share and deposit liabilities falling from 6.66% in 2012 to 4.19% in 2013. This highlights the ongoing strategy to fund the Society's mortgage portfolio with retail savings.

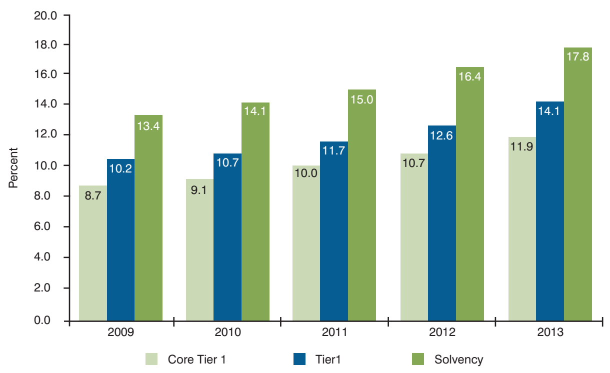
Capital

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

CAPITAL (BASEL II BASIS)	2013 £m	2012 £m
Tier 1 Capital		
Core Tier 1 capital	167.1	165.6
Permanent interest bearing shares	29.7	29.7
	196.8	195.3
Tier 2 Capital		
Subordinated Debt	46.2	53.0
Collective impairment allowance	6.1	6.2
	52.3	59.2
Total Capital	249.1	254.5
Risk Weighted Assets		
Liquid Assets	71.2	141.2
Loans and Advances to customers	1,198.1	1,271.4
Other Assets	44.1	58.9
Off Balance Sheet	15.1	16.5
Operational Risk	71.4	66.5
	1,399.9	1,554.5
Capital Ratios	%	%
Core Tier 1 ratio	11.9	10.7
Tier 1 ratio	14.1	12.6
Solvency ratio	17.8	16.4

The Group complied with Individual Capital Guidance as notified by the PRA throughout 2013. All of the capital ratios show improvement in 2013 and follow a trend of a strengthening capital base with the total solvency ratio improving to 17.8% (2012: 16.4%) and Core Tier I improving to 11.9% from 10.7%.

Capital Ratios



Basel III

Basel III is part of the continuous effort made by the Basel Committee on Banking Supervision to enhance the banking regulatory framework. The Basel III text was released in December 2010 with the first wave of rules and guidance becoming effective from 1st January 2014. It seeks to improve the banking sector's ability to deal with financial and economic stress, improve risk management and strengthen transparency. A focus of Basel III is to improve resilience at the individual organisation level in order to reduce the risk of system wide shocks.

The impact of Basel III on the Society is mainly in relation to Permanent Interest Bearing Shares (PIBS) which move from tier 1 to tier 2 capital over a transitional period. The un-wind of the Society's subordinated debt under Basel III is similar to the position under Basel II. Other changes that impact the Society from 1 January 2014 include the deduction from Core Tier 1 capital of deferred tax assets relating to trading losses, a different calculation of risk weights on equity release mortgage assets and inclusion of the available for sale reserve in capital. The impact of Basel III on capital including the transitional arrangements, are reflected in the Society's medium and long term capital planning. Further details of the impact of the Basel III regulations are given in the Pillar 3 disclosures, to be published on the Society's website in April.

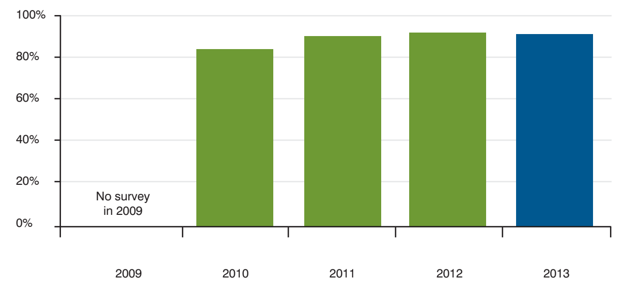
Basel III also introduced a new leverage ratio which is a simplified capital strength measure, which takes qualifying tier 1 capital divided by on and off balance sheet assets. The Society's Basel III leverage ratio on a transitional basis is 5.0% and the final end point measure is 4.4%. This is well in excess of the proposed 3% target.

Customers

In addition to financial indicators the Board monitors a range of measures designed to reflect how well the Group is meeting Members' and customers' needs. The Group's key customer metric being the customer satisfaction survey which shows the proportion of our customers who say that they are pleased with the service they received.

The 2013 customer satisfaction survey showed overall satisfaction of 91% in 2013, above our target of 90%. In addition the overall satisfaction within the financial advice subsidiary, Newcastle Financial Services Limited, was 92% in 2013, which is a great achievement given the regulatory changes following the implementation of the Retail Distribution Review.

Customer Satisfaction

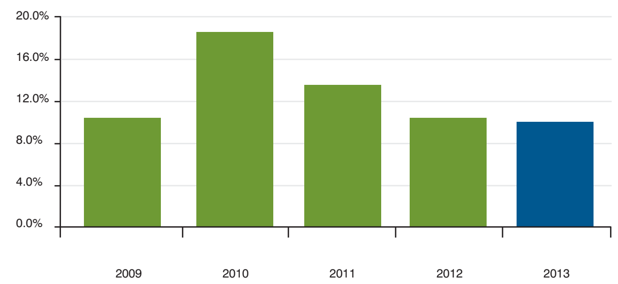


A further important measure of how the Group delivers on its customer strategies is the level of complaints received. Complaints volumes fell by 58% in 2013, with Mortgage Payment Protection Insurance (MPPI) complaints falling by 71% and non-MPPI complaints falling by 9%. We upheld 38% of non-MPPI complaints and 3% of MPPI complaints with only 6% of non-MPPI complaints subsequently referred to the Financial Ombudsman Service.

Staff

Our staff turnover rate across the business was only 10% in 2013, and we continued to invest in a number of programmes to develop and engage with staff.

Staff Turnover



Outlook

There is an ongoing improvement in macroeconomic data and forecasts: unemployment is falling and economic growth is increasing. Ultimately this should build further confidence that the economy is now on the path to recovery. The Bank of England has highlighted that there are still headwinds to recovery and that interest rates are not likely to rise any time soon.

The Society has demonstrated it can operate in a low interest rate environment, however, should rates rise this would have a positive impact on the Society.

The Group has set out its strategic objectives and will continue to focus on delivery and ongoing improvement in performance, ensuring we put our Members and other stakeholders at the heart of all that we do. With a lower cost base, reduced risk and improved financials, we enter 2014 in a good position to take advantage of any upside.

On behalf of the Board
Angela Russell
Finance Director & Deputy Chief Executive
24 February 2014

When done well, CSR is something that can engage with staff and communities so effectively that it can inspire and reward. That aim is at the forefront of our corporate social responsibility activity within the Society and is a key part of being a regional mutual organisation.

Our Cornerstones – at the heart of what we do

The Society's Cornerstone of the Community campaign entered its third year in 2013 and it grew from strength-to-strength. This is a very important programme to our branch network as it encourages them to 'break out' from behind counters and support the communities in which they operate. The branches do this in a number of ways:

Boardroom Charity Challenge

2013 saw us engage with more than 650 school pupils aged 9 and 10 as part of our six-week long curriculum-based primary school challenge. It aims to teach children more financial independence later in life through being educated about core numeracy and literacy skills now.

Children, through their learning, had to develop a business idea that would utilise the £500 prize fund to make greater profits for their local Society branch charity of the year. The judging panel, comprising the Chief Executive and senior Society managers, were more impressed than ever before with the scope of business ideas and the confidence the children had in presenting.

The winning school was Heathfield primary in Darlington with its group called 'The Boardroom Piggies'. They turned the £500 prize money and their idea to host a farm themed event, into a profit making venture and raised £3,000 for Darlington branch's Charity of the Year, which was Butterwick Hospice.

The Boardroom Piggies', winners of our Boardroom Challenge with Jim Willens, the Society's Chief Executive.

Celebrating our Local Heroes

Our Cornerstone awards are a successful element of our corporate social responsibility programme. To date, more than 120 people have been celebrated at our ceremonies with some heartwarming stories at the centre of those wins.

In 2013, The Young Person's award winners included a group of young teenagers who plunged into icy winter waters when Les Jobson, a 78 year old stroke victim, fell into the lake and could not lead himself to safety. Without their help the incident could have resulted in a fatality.

Another winner, this time of the Team award, was Dumfries and Galloway's Special Olympic Team. This group of extraordinary individuals had to overcome all sorts of personal difficulties to come together as a cohesive team and they are truly remarkable and community role models for people with disabilities.

We have had some great feedback from the communities about these awards.

As one winner said:

"Thankyou for enabling Buddies to be a part of this (Dumfries Cornerstone awards) event. To set up this enterprise has taken a lot of effort….winning the Business Award and have someone objectively view our efforts as worthwhile was amazing."

Christine Crossley, Secretary Trustee to Buddies.

The Dumfries & Galloway Special Olympic Team with Pauline Buglass (centre) from the Sir Bobby Robson Foundation.

(L to R) Gareth Danes, Les Jobson, Danny Simpson and Ross Moore.

Fundraising Fun

Another element to our programme is the charity-related event our branches take part in to raise funds for their chosen charities.

For the small charities that our branches support, the money raised can make a big difference to what they do in their local areas. Some of our branches pitted themselves against one another in the '150km' bike challenge, which tied in with our 150 year anniversary. The Carlisle, Consett, Cramlington and Hood Street branches all took part and raised hundreds of pounds for local good causes.

Our Carlisle branch 'gets on their bike'.

Our Ashington branch also commenced a knitting campaign for a local premature babies unit. This has resulted in baskets full of tiny baby clothing being collected, helping to save the unit money.

(L to R) Lindsey from our Ashington branch and Ivy, Branch Manager, proudly displaying their skillful knitting.

Tea for Tilly (front centre) and Consett Branch Manager Rachael Benford (front right).

Consett branch also held a tea party in aid of its charity 'Give Tilly a Hand.'

A staff member from our Darlington branch also volunteered to be a Town Ranger for a time. The Rangers work hard to improve the town centre and make it a better experience for visitors and businesses alike.

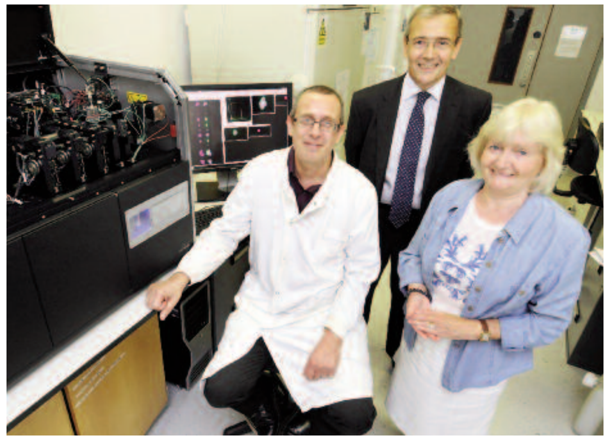
As well as this, many other branches held tombolas, raffles, cake sales and much more in aid of their local communities. At Christmas, many branches held toy or tin collections to collect items for either local children's centres or food banks.

Community Photography Celebrates Region

Our annual photography competition snapped into action in July and it developed into a rather successful competition. The aim behind it was to encourage local photographers to take pictures of anything they felt represented their community, something they were proud of. The best pictures were awarded a prize and were used to produce calendars. Around £2,500 was raised for local charities as a result of this.

Celebrating two years in Partnership with the Sir Bobby Robson Foundation

To date, the Society has donated over £700,000 to the Sir Bobby Robson Foundation, which has so far helped the Foundation purchase new technology (an ImagestreamX) that will provide an insight into how cancers spread around the body and how effectively new treatments are working. This was unveiled to the media in September at a launch with Lady Elsie Robson, Dr David Jamieson a Research Associate at the Northern Institute for Cancer Research and Jim Willens, our Chief Executive.



The ImagestreamX unveiling (L to R) Dr David Jamieson, Jim Willens and Lady Elsie Robson.

Our Society-Wide Charity of the Year

The Society also supports one charity for a 12-month period, which complements all the work our branches are doing with smaller charities in the communities. For 2013-14 this was the Alzheimer's Society. Through cake sales, dress down days and a Memory Walk staff have raised thousands of pounds for this organisation.

NBS' Community Foundation Fund

Through the Community Foundation the Society donates money to local good causes. This is a successful relationship that both organisations have had since the 1990s. The Society decided this year to donate to fewer charities but higher amounts than previous years so as to help them with larger projects, with around £8,000 given away to several organisations for the year 2013-14.

Our Directors

1. Jim Willens
Chief Executive

Jim's expertise in, and commitment to, the building society sector spans more than 30 years. During this time, he has held significant senior posts including Retail Operations Director and Group Services Director at Nationwide. His roles over the years have included strategic responsibility for Branches, Telephony, Internet Services, Technology, Product Development and Central Support Services, which have involved leading teams in excess of 9,000 people. His career started out in the 'field' as a branch manager and he also held a range of retail and sales management positions. Jim has a strong track record of delivery and a passion for developing the people he works with to provide excellent customer service through the mutual business model both of which are key elements to the Society's strategy. He is a BSA National Council Member, (also sitting on nominations and remuneration committees) and on 1 February 2014 became a Non Executive Director of Brown Shipley & Co. Limited.

2. Phil Moorhouse
Chairman

Phil has been the Society's Chairman since April 2013, although he joined the Board as a Non Executive Director in 2011. Phil has held a number of senior Board positions including that of Managing Director (UK) of Northgate PLC, which he held for more than seven years. This followed six years as Finance Director. He is a Director of Molins PLC where he is Chair of Audit and a Senior Independent Director. Additionally, he is Vice Chairman on the Board of Cumbria NHS Partnership Trust and was appointed a director of Transflex Vehicle Rental Limited on 20 January 2014. Phil brings his 36 years' industry expertise to the Newcastle's Board and also the Society's Group Risk Committee, of which he is a Member. He also Chairs the Society's Nominations Committee He is a highly experienced accountant and is a Fellow of the Chartered Association of Certified Accountants.

3. Angela Russell
Finance Director and Deputy Chief Executive

Angela is a highly experienced Chartered Accountant and Certified Public Accountant with 25 years' experience in finance in the UK and abroad. She has worked in a variety of positions covering finance, risk, audit, project and corporate planning roles. In particular, she has many years' experience in finance roles within the building society sector including her current role as Finance Director for the Newcastle, which she has held since 2010. She also held the post of Finance Director at the Universal Building Society. Prior to joining the building society sector Angela spent 12 years at PricewaterhouseCoopers LLP She is also a Non Executive Director at St Cuthberts Care Limited.

4. Andrew Haigh
Chief Operating Officer

Andrew has a track record in transforming and developing businesses. With 30 years' business experience and over 20 years in the mutual sector, he has held leadership roles as both an Executive and a Non Executive Director. As the former Chief Executive of Engage Mutual Assurance, he led the organisation for over 10 years, through a period of sustained growth and innovation. Andrew gained his strong customer focus through his early career in marketing and customer service roles with British Airways, Barclays and National & Provincial Building Society. An advocate of mutuality, he was previously Chairman of Mutuo, an independent organisation which promotes the development of new and existing mutuals to Government.

5. Patrick Ferguson
Strategy, Planning and Risk Director

Patrick is a new member to our Board having been appointed in February 2014. Before this he was the Society's Group Risk Executive for almost four years. He has extensive experience in risk management, including conduct risk and regulatory compliance, in addition to financial reporting, planning, and budgeting. He has 15 years experience in the Building Society sector and has held the posts of Finance Director, General Manager, Finance and Head of Strategy and Planning. He qualified as a chartered accountant with PricewaterhouseCoopers.

6. Richard Mayland
Non Executive Director

Richard is an experienced accountant who was a partner at Pricewaterhouse Coopers LLP (PwC) for 17 years before his retirement in 2003. During his time with PwC, he specialised in audit and business advisory services. His time as a partner was spent in the North East before being asked to head the financial services audit practice for the North of England. He has significant expertise in regulatory and accounting matters. He is currently Chief Executive of Norprime Ltd, a post he has held for seven years in addition to being on the Board of Community Services North East Limited. He brings more than 31 years' experience of the accountancy world to the Society's Board, which he has been a member of for more than eight years. He is a member of the Audit, Nominations and Remuneration Committees.

7. John Morris
Non Executive Director

John is a Fellow of the Institute of Chartered Accountants and brings to the Society a significant amount of experience of both the banking and building society sectors. He worked for several years as Director of Finance for the Retail Banking Division at HBOS. Prior to that, he held senior posts at Halifax (Halifax Building Society and then Halifax PLC) as General Manager and Leeds Permanent Building Society where he held the post of General Manager Finance. He also worked at KPMG where he started his accountancy career. He is a member of the Audit, Nominations and Remuneration Committees.

8. Ian Ward
Non Executive Director

Ian has spent over forty years in financial services including being Chief Executive of Leeds Building Society (LBS) for sixteen years until his retirement from that role in August 2011. Ian is now a non-executive director of Harrogate and District NHS Foundation Trust and a member of its Audit Committee. He also undertakes consultancy work for some other businesses. Ian was a director and vice-president of Leeds, York and North Yorkshire Chamber of Commerce and Chairman of its Property Forum. Also, he was a member of the national council of the Building Societies Association and a director and Chairman of the Audit Committee of Leeds Training and Enterprise Council. He has been a non executive director of Newcastle Building Society since July 2013 and is a member of the Group Risk Committee, and Director of Newton Facilities Management Limited (a subsidiary of the Society).

9. Catherine Vine-Lott
Non Executive Director

Catherine has a total of 35 years' experience in the financial services sector having spent her entire working life in the industry. This includes 18 years at Barclays where her positions included Chief Executive of Barclays Stock Brokers, as well as Barclays Personal Investment Management. In addition, she has significant experience with Legal and General both at group Board level and in running the wealth management division. This brings an abundance of expertise to Newcastle's Board, which she joined in January 2010, and to the Society's Audit and Remuneration Committees, which she Chairs. She is also an experienced Non Executive Director and currently sits on Just Retirement Limited's Board.

10. David Buffham
Non Executive Director

David has spent most of his career at the Bank of England. He held a wide variety of banking and other roles, including the post of Bank of England Agent for the North East. There he was responsible for reporting to the Bank's Monetary Policy Committee on the region's economy and explaining policy to key stakeholders in the North East. He brings this knowledge and experience to the fore as Chairman of the Group Risk Committee and also as a member of the Nominations and Remuneration Committees. Additionally, he is a Director of a subsidiary of NBS; Newton Facilities Management. He is an experienced Non Executive Director and is a Director of Zytronic PLC, William Leech (Investment) Limited and William Leech Foundation.

11. Ron McCormick
Deputy Chairman

Ron has established a successful career in the building society sector as an experienced accountant. He is both a Fellow of the Institute of Chartered Accountants and a Fellow of the Chartered Institute of Internal Auditors. He has previously worked as Group Finance Director then Group Commercial Director at Skipton Building Society, posts which he held for a total of 14 years. In addition, he has more than seven years experience with Guardian Royal Exchange, as well as seven with KPMG, both in the UK and abroad. Following three years on the Newcastle's Board, in January 2011 he was appointed Deputy Chairman and Senior Independent Director. He is a member of the Society's Audit and Group Risk Committees. He also works as a senior adviser to businesses within a range of sectors. He is Chairman of Grassington Hub Ltd and a Director of Threshfield Quarry Development Trust Limited.

The Directors present their Annual Report and Accounts and Annual Business Statement for the year ended 31 December 2013, which they consider to be fair, balanced and understandable, providing Members with the information necessary to assess the Group's performance, business model and strategy.

Objectives and Activities

It is the intention of the Directors that the Society will continue to remain an independent building society. We believe this status enables us to deliver excellent service to both our saving and borrowing Members; long term, secure and rewarding employment to our staff; and recognisable support to local communities. We also aim to provide best in class service for our Solutions business customers.

Business Review

The Chief Executive's Review and Strategic Report on pages 6 to 13 set out the business activities and business performance in the year against our strategic objectives, as well as likely future developments.

The Directors have reviewed the Group's capital, liquidity and profit forecasts and considered the risks faced by the Group, including under stressed scenarios. The Directors have considered the Group's risk management and material controls as detailed in the Risk Management Report. The Directors are satisfied there are no material uncertainties that cast significant doubt about the Group's ability to continue as a Going Concern and have, therefore, continued to adopt the Going Concern basis in preparing the Annual Report and Accounts. (See Note 1 on page 38).

Risk Management Objectives and Policies

The Board seeks to manage the key risks faced by the Group in order to minimise any potential adverse impact on performance. The key financial risks faced by the Group include credit risk, liquidity risk, operational risk and market risk which are managed through the Group's documented risk management framework. Further details can be found below and in the Risk Management Report on pages 29 to 31.

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Group are summarised below.

Credit Risk - Commercial

The Society's commercial lending exposure is made up of larger, more concentrated loans secured on land and non-residential property at a loan to value (LTV) ratio which is higher than more traditional residential lending due mainly to downward movements in commercial property values. The Society ceased commercial lending in 2008 and is de-risking its balance sheet by actively winding down this portfolio , however the potential for credit losses continues to be a material risk despite a reduction in the portfolio of 50% since the beginning of 2010. The Society mitigates the risk of significant credit losses by assessing each loan exposure individually and making provision for any exposure which demonstrates potential serviceability issues. An additional £8.1m of capital and interest provisions have been made in the 2013 Annual Report and Accounts. The 3 month arrears rate on the Society's commercial lending portfolio based on balances, was 5.78% at 31 December 2013 (2012: 3.26%) representing four loans with a value of £10.8m after provisions. This represented 1.50% based on number of loans (2012: 1.37%). Further details on commercial credit risk and provisioning are given in the Strategic Report on page 11, with further details on the risk governance structure given in the Risk Management Report on page 29.

Although the Society has recently seen some signs of improvement in the outlook for commercial property values, it will, for the foreseeable future, maintain its robust approach of winding down the portfolio whilst at the same time adding to provisions. The Society does not assume any upside in its provisioning models.

Credit Risk – Residential

The Group's residential lending portfolio comprises mostly well seasoned, performing, low LTV owner-occupied lending. Throughout the year the Society continued to see low levels of arrears and possessions on this mortgage portfolio. Average UK prices have recovered somewhat in 2013, but this includes regional variations where rises and falls are compensating in the overall average price. Strong growth in London prices is not present in the Society's heartland region of North East England, but a diversified geographical distribution of residential lending, achieved through multi-channel mortgage distribution, mitigates the Group's exposure to concentrations of geographical credit risk. Unemployment in the UK is falling at a higher rate than expected and, although no major effect on the Society's arrears had been discernable over the recent period of higher unemployment, it remains a key factor in the credit risk associated with this type of lending.

The Society stopped buy to let (BTL) lending in 2008 and in previous years has experienced difficulties with several larger portfolio investors. The rental market in 2013 largely remained buoyant. We have seen the incidence of problems with these borrowers diminish over the year. The Society will continue to actively rundown the portfolio investor element of the BTL book to aid de-risking of the balance sheet while ensuring that provisioning methodologies are in place to cover any issues arising. Overall, the number of 3 month residential arrears cases fell from 0.75% to 0.63% in 2013 with the value of 3 month arrears also falling from 0.82% to 0.61%. The number of residential properties in possession reduced from 22 to 12 of which 4 related to home owners. The number of residential loans subject to LPA receiver decreased from 7 to 3, all relating to BTL portfolio investors. Further details are given in the Strategic Report.

The Society expects risk within the residential mortgage portfolio to remain relatively benign and does not assume any upside in its provisioning models.

Liquidity Risk

The Society monitors on a daily basis the risk it will have insufficient cash to meet its liabilities as they fall due. The Society has throughout the year mitigated this risk by maintaining high quality liquid assets and has further reduced its reliance on treasury markets, with the wholesale funding ratio reducing further during the year. The Society undertakes lending only where funding is in place and operates a range of retail savings products to attract and retain customers. At the end of 2012 the success of winding down legacy portfolios resulted in the Society starting 2013 with a relatively high liquidity ratio of 30.2%, this has now reduced to 26.3% and is expected to fall further in 2014 as further residential lending is undertaken.

Operational Risk

Further details on operational risk are given in the Risk Management Report on page 29.

Market Risk

The Society's market risk relates only to interest rate risk in the banking book and the way interest margin is impacted by a changing rate environment. This includes basis risk as well as understanding the impact of upward and downward movements in interest rates. Sensitivity to, and effect of, interest rate changes is monitored by the Asset and Liability Committee. The Society actively measures the effect of rate movements in accordance with best practice, and manages the interest rate risk to which it is exposed using interest rate hedges or natural offsetting of asset and liability rate-characteristics. Further details are given in the Risk Management Report on page 31.

Group Results for the Year

The Strategic Report on pages 8 to 13 provides a detailed overview of the Group's results and performance during the year and should be read in conjunction with the following summary, which the Directors consider to be the key performance indicators used to manage the business.

Key Performance Indicators (KPIs)

	2013	2012
PROFITABILITY		
Group operating profit before impairments, provisions and exceptional items	£10.6m	£10.4m
Profit before tax	£2.0m	£1.5m
Interest margin	0.61%	0.47%
Cost to income ratio	76%	77%
Solutions operating profit	£6.9m	£6.7m
CAPITAL		
Basel II Solvency ratio	17.8%	16.4%
Basel II Tier 1	14.1%	12.6%
Basel II Core Tier 1 ratio	11.9%	10.7%
CREDIT QUALITY		
Properties in possession	12	22
Properties in LPA receivership	3	11
3 months or more arrears for mortgage portfolio, by number	0.64%	0.76%
3 months or more arrears for mortgage portfolio, by balance	1.00%	0.86%
Wind-down of legacy portfolios	£160m	£180m
Impairment losses on loans and advances to customers*	£6.7m	£8.3m
LIQUIDITY		
Liquidity as a percentage of shares, deposits and liabilities	26.3%	30.2%

*excluding suspended interest

The Society operated above both Individual Capital Guidance and Individual Liquidity Guidance issued by the PRA throughout 2013.

The Society also uses a number of other non-financial KPIs to monitor its performance against target such as customer service levels, staff turnover and number of new savings and mortgage accounts opened.

Staff

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. The Board also has an approved diversity policy. The gender diversity for the Society's staff at 31 December 2013 is as follows:

	Female	Male
Directors	22%	78%
Management	50%	50%
Clerical and Support	74%	26%
All employees	62%	38%

A pay review for staff takes place on an annual basis on 1 April. In addition a corporate bonus scheme operates for all staff which is based on the achievement of Corporate KPIs linked to the Society's strategy. The 2013 corporate bonus payment, equal to 2.5% of salary, will be paid to all eligible staff following the approval of the Society's year-end accounts. The Society withdrew incentive schemes for its branch and contact centre sales staff in January 2013 with all of these staff now part of the corporate bonus scheme only.

The Society takes its responsibilities for staff development very seriously and has held the Investors in People accreditation for 18 years. Training and appraisal programmes are operated for staff at all levels of the business. A range of staff update sessions are also held by the Chief Executive and Executive team. We are committed to effective communication at all levels and the Society and employee consultation and input is welcomed and promoted. Unite has negotiating rights on behalf of all staff up to and including senior management level.

The Society has an active staff engagement programme that aims to make consistent improvements to our working environment and practices to ensure our organisation is a great place to work. Part of this is an annual staff survey that aims to identify staff perceptions, the results of which go on to shape aspects of people strategy going forward.

Our Values were developed by staff and these define both how we work with each other as well as how we operate as a business. Everyone in the Society, including our Board, have embraced the Values and all staff have incorporated them into all aspects of day-to-day business. Further details are given on page 4 under Our Vision and Values.

Our S.T.A.R. awards continued to go from strength to strength in 2013; S.T.A.R. means 'Staff To Achieve Recognition' and aims to celebrate work well done. The scheme allows staff to nominate their colleagues, normally for excellent customer service or work completed above and beyond the call of duty, with the winners chosen by a panel of staff representing a cross-section of the business.

Directors

As at 31 December 2013, the members of the Board, who had served throughout the year and continue to act as Directors were as follows:

David Buffham, Richard Mayland, Ron McCormick, Phil Moorhouse, John Morris, Angela Russell*, Catherine Vine-Lott, and Jim Willens*.

Changes to the Directors in 2013 included the retirement of David Holborn on 24 April 2013, replaced as Chairman by Phil Moorhouse on the same date, and the appointment of Ian Ward as a Non Executive Director on 9 July 2013. Gillian Tiplady resigned from the Society on 11 April 2013.

Subsequent to the year-end Andrew Haigh* was appointed as Chief Operating Officer on 27 January 2014 and Patrick Ferguson* was appointed as Strategy, Planning and Risk Director on 19 February 2014.

At the Annual General Meeting (AGM) to be held on 23 April 2014, all Directors will offer themselves up for annual election or re-election, other than Patrick Ferguson, who will offer himself for election at the 2015 AGM.

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

*Executive Directors

Independent Auditors

A resolution to re-appoint PricewaterhouseCoopers 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 on pages 16 and 17 has taken all steps that he or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the statement of auditors' responsibilities on page 32, 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, Annual Business Statement and Directors' Report in accordance with the appropriate law and regulations. The Building Societies Act 1986 (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under the Act they are required to prepare the Group and Society Annual Accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and applicable law.

The Group and Society Annual Accounts are required by law and IFRS, as adopted by the EU, to give a true and fair view of the state of affairs of the Group and Society as at the end of the financial year and of the income and expenditure of the Group and Society for the financial year, and which provide details of Directors' emoluments in accordance with part VIII of the Act and the regulations made under it.

In preparing the Group and Society Annual Accounts, the Directors are required to:

- Select appropriate accounting policies and apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the Annual Accounts; and
- Prepare the Annual Accounts on the Going Concern basis unless it is inappropriate to presume the Group will continue in business.

In addition to the Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group.

The Directors are responsible for ensuring that the Group:

- Keeps adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Society in accordance with the Act; and
- Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its businesses in accordance with the rules made by the Financial Services Authority and Markets Act 2000.

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

The Directors are responsible for the maintenance and integrity of the financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

On behalf of the Board
Phil Moorhouse
Chairman
24 February 2014

Report of the Directors on Corporate Governance

Introduction

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. A revised UK Corporate Governance Code (the Code), issued by the Financial Reporting Council in September 2012 is addressed to publicly quoted companies, however, the Society's Board considers it to be best practice to have regard to the Code when establishing and reviewing corporate governance arrangements.

A working party operates to ensure the corporate governance procedures and processes within the Society are inline with the Code on an ongoing basis including when updates or revised guidance are published. The revised Code applies to accounting periods beginning on or after 1st October 2012, and therefore, the Society has regarded the Code in the 2013 Annual Report and Accounts.

This report outlines the approach taken by the Society and how the Board considers it has demonstrated application of the principles of the 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 on pages 16 and 17. The Board's Terms of Reference are reviewed on a regular basis and were last agreed by the Board in July 2013. Key responsibilities, included within the Terms of Reference are set out below.

- The Board is responsible for agreeing the overall strategy for the Society, with the responsibility for implementing it being delegated to the Executive team. The Board is responsible for monitoring operational and financial performance in pursuit of the strategy;
- At a dedicated Board "Strategy Day" the Board agrees the strategic plan for the Society ensuring that the necessary financial and operational resources are in place so that the Society can meet its objectives and also that appropriate targets are set against which to review management performance;
- The Board is responsible for risk management, for governance, and for ensuring adequate internal controls. The Board delegates oversight of risk management to the Group Risk Committee, and oversight of internal controls to the Audit Committee;
- The Board completes a formal review of the effectiveness of risk management and internal controls on an annual basis with the latest review completed in January 2014;
- The Board is responsible for overseeing and approving the Society's Recovery and Resolution Plan and monitoring any recovery plan should it be invoked;
- The Board is responsible for approving the budgets and forecasts, the adequacy of capital and liquidity plans, the adequacy of the systems of internal control and major capital expenditure. In addition, the Board is responsible for final approval of the interim and annual accounts on a going concern basis;
- In order to oversee the business, the Board receives and reviews various reports and management information from Board Committees and the Executive team;
- The Board formally reviews its effectiveness, on an annual basis. The Board also has responsibility for overseeing the evaluation process for all Committees of the Board;
- The Executive team have been delegated the task of ensuring that the business operates in a compliant way, with regard to all legislative requirements and guidance, and is focussed on delivery of the Strategic Plan and Budget, Individual Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment (ILAA), and also progressing action points arising from the Board meetings, as appropriate.

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 Chairman and Chief Executive are exercised by different people within the Society. There is a need for all Non Executive Directors to be deemed to be independent, and the review of independence is carried out by the Nominations Committee (NomCo) as set out on page 22.

An effective Board should not necessarily be a comfortable place, with challenge, as well as teamwork, being an essential feature. Challenge by Non Executive Directors is something which is encouraged by the Chairman and, where appropriate, training is provided to support the challenge process. A culture of openness exists within the Society and Non Executive Directors are encouraged to meet with members of the Executive team.

Phil Moorhouse was appointed Chairman of the Society on 24th April 2013, taking over from David Holborn who retired from office at the last Annual General Meeting (AGM). At the time of appointment, the new Chairman was considered to be independent by the Board. The Board appointed Ron McCormick as Deputy Chairman and Senior Independent Director on 1st January 2011; he provides a sounding board for the Chairman and serves as an intermediary for the other Directors where necessary.

Board balance and independence is important 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 at the end of 2013 the Board comprised of seven Non Executive Directors and two Executive Directors.

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

Board Changes and Elections/Re-elections

It is recognised that changes need to be made to the Board from time to time, and changes during 2013 are set out in the Directors' Report on page 19.

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

One aspect of the Code provides that all directors of FTSE 350 companies should be subject to annual election by shareholders, and the Building Societies Association considers that this requirement would apply to the twelve largest building societies. Therefore, in line with good corporate governance, all Directors will continue to offer themselves up for annual election/re-election at the Society's AGM. The biographies of all of the Directors are detailed on page 16 and 17.

Management Information

The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. Members of the Board receive monthly Board and Management Information packs except in August when there is no Board meeting but a Management Information pack is still issued. A rolling Board agenda is tabled at each meeting to ensure all key areas are covered appropriately during the year. Sufficient time is set aside to ensure that constructive discussion and challenge can take place. Once a year, the Board considers whether the regular Management Information which Directors receive is adequate, and this was deemed to be so at the meeting held on 24th April 2013. All Directors have access to independent professional advice, if required, and also access to the services of the Group Secretary. Directors and Officers insurance has been put in place by the Society.

Board Effectiveness

The Board conducts a review of its effectiveness on an annual basis with the last review undertaken in January 2014. The most recent assessment was supported by an independent review completed by the Society's Internal Audit function who received consulting advice on the review from Deloitte LLP. Deloitte LLP provides other consultancy services to the Society mainly in relation to taxation. A detailed and full discussion took place at the Board meeting held on 27th January 2014 and the Board was considered to be effective. The Board considers whether it would be beneficial to use outside consultants to carry out an externally facilitated effectiveness review and specifically requested the input of Deloitte LLP in the independent review completed by internal audit. Consideration will be given in 2014 as to when an external review should take place.

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, further details of which are set out below. The Chairman of each Committee reports to the subsequent Board meeting on the matters discussed at each Committee meeting.

Similar to the Board, each Committee has carried out a review of its own effectiveness, and where improved opportunities have been identified, the individual Committees are responsible for tracking action points. These reviews are carried out on an annual basis and the effectiveness review for each Committee is summarised and presented to the Board for review.

Information concerning attendances at the meetings is detailed on page 24. Terms of reference for Audit Committee, Group Risk Committee, Remuneration Committee and Nomco are included on the Society's website under governance (http://www.company-newcastle.co.uk/governance/)

Audit Committee

Details of the Audit Committee are contained in the Audit Committee Report on page 25.

Remuneration Committee

Details of the Remuneration Committee are contained in the Remuneration Committee Report on page 27.

Group Risk Committee

Details of the Group Risk Committee are contained in the Risk Management Report on page 29.

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 Terms of Reference and the effectiveness of NomCo are reviewed on an annual basis and each of these tasks was carried out on 2nd December 2013.

The main objectives of NomCo are summarised as follows:-

- To oversee the structure of the Board and Board Committees;
- To identify suitable candidates to fill Board vacancies;
- To ensure that the Board has the appropriate balance of skills, experience, independence and knowledge; and
- To oversee the Board's succession plan.

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

Members of NomCo are Phil Moorhouse (Committee Chairman), David Buffham, John Morris and Richard Mayland.

NomCo operates to a rolling agenda to ensure it discharges its full responsibilities. It normally meets a minimum of twice a year and in 2013 it met on two occasions.

NomCo is supported by the Chief Executive and the Human Resources Executive 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. External consultants and advisors are normally utilised to ensure there is a robust list of suitable candidates with which to fill a vacancy. During the year the Society utilised the services of independent recruitment specialists Odgers Berndtson. As part of the ongoing succession planning for the Board, an independent recruitment agency is to be engaged to assist in the candidate search and administration of the recruitment process for a Non Executive Director.

Whenever a new director is appointed the Financial Conduct Authority and Prudential Regulation Authority have the right to carry out formal "Significant Influence Function" (SIF) interviews in order that the director becomes an "Approved Person".

All Directors have been issued with Role Descriptions, and Terms of Engagement for Non Executive Directors, to ensure that all Directors fully understand and comply with their role and the responsibilities of being a Director of the Society.

In July 2013 Ian Ward was appointed as a Non Executive Director. Subsequent to the year-end Andrew Haigh was appointed Chief Operating Officer in January 2014 and Patrick Ferguson was appointed as Director of Strategy, Planning and Risk in February 2014.

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 qualities of its Directors. Giving specific regard to gender ratios, female representation on the Board has ranged from 33% in 2010 to 22% at the end of 2013 (across the Society's business 62% of staff are female, and within senior roles, i.e. executives, managers and team leaders, the figure is 50%). 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 and the Board has not set any measurable objectives for diversity although the position will be kept under review.

Re-election to the Board

It has been agreed previously by the Board that all Directors, as appropriate, should be required to seek annual re-election, which will take place at the forthcoming AGM, to be held on 23rd April 2014.

Non Executive Directors are usually expected to serve two full three year terms, subject to satisfactory performance evaluations and re-election by Members. They may also be proposed for a further third term but only in exceptional circumstances will 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 at each meeting as part of the standing agenda.

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, and the last review was carried out on 2nd December 2013. In the opinion of NomCo, and subsequently agreed by the Board, each of its Non Executive Directors is independent in both character and judgement. One of the Non Executive Directors, Catherine Vine-Lott, was Chairman of Openwork Holdings Limited, which pays commission to Newcastle Financial Services Limited, a wholly owned subsidiary company of Newcastle Building Society, until she stood down from the Openwork board, with effect from 31st December 2013. The Society's Board had previously determined that she was independent, notwithstanding the existence of this relationship, and under the Conflicts of Interest Policy, she had previously undertaken to advise the Board if any conflict arose. Mrs. Vine-Lott has also stepped down as a director of Openwork Services Limited on the same date and therefore is no longer a member of any of Openwork's boards.

The Society recognises that it is good corporate governance to have a Senior Independent Director. This role has been held by the Society's Deputy Chairman, Ron McCormick since 1st January 2011 and it is intended that, subject to re-election, he continues in this role.

During 2013 the Chairman met separately with the Non Executive Directors from time to time, without the Executive Directors present, in addition to regular telephone contacts with the Non Executive Directors throughout the year.

Assessment of Directors

All Directors are subject to a formal appraisal of their performance on an annual basis. The Chairman conducts the appraisals of the Chief Executive and Non Executive Directors, the Chief Executive conducts the appraisals of the Executive Directors, and the Deputy Chairman/Senior Independent Director leads the appraisal of the Chairman.

Skills and Continuous Development

All Directors are required, as part of their terms of engagement, to follow a process of continuous development to ensure that 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.

The Committee oversees the on-going training and development of Non Executive Directors including a formal induction programme for newly appointed Directors. The Chief Executive oversees the programmes for Executive Directors.

In order to ensure that the Committee 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)

Members of Solutions are:

Members of NSSL are Ron McCormick (NSSL Chairman), Phil Moorhouse, Nigel Wright (Non Executive Director only of NSSL) and Phil Grand (Customer Services Executive).

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 strategy;
- To evaluate and monitor the financial and operational performance of NSSL against pre-determined objectives, which includes assessing performance in terms of sales performance, profitability, efficiencies, risk and compliance;
- Approval of new contracts where required under the Society's risk appetite and delegation of authorities;
- To ensure that NSSL complies with all relevant legislation and the appropriate regulations relating to its activities;
- To review NSSL's risk appetite statement on a regular basis, including the stressed scenarios for the NSSL business and the requirement for any additional capital;
- To ensure that an annual review of service resilience is conducted;
- To approve the NSSL statutory accounts; and
- To consider and act upon the findings of internal and external audit reviews.

Towards the end of 2013 the board of Newton Facilities Management Limited (NFML) was reconstituted and the company will be primarily responsible for overseeing the strategic direction of Information Technology and associated services ensuring this is consistent with the Society's agreed strategy. These responsibilities were previously within the remit of NSSL.

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 AGM voting process where we encourage Members, as owners of the business, to use their vote and we try to make this process as easy as possible.

Understanding what Members think about our products and service is also extremely important. Members are encouraged to join our customer panel and we regularly consult with this group on a range of topics. We also use customer satisfaction surveys extensively and obtain feedback from different types of product holders and from customers who choose to deal with us through our main channels i.e. our branches, over the telephone, by post and via the internet. The information which is collected is used from these sources to help to develop and improve our offering.

Special Members' seminars are held on a regular basis and are designed to provide our customers with useful information to help them understand and make sense of what is becoming an increasingly uncertain financial world. These seminars provide an excellent opportunity not only to speak to our Members but also to interact and listen to their views.

Through our Corporate Social Responsibility (CSR) activities we are able to engage with both our Members and the communities we serve. Whether it is helping to raise money for local, worthy causes, or helping to develop financial education in local schools, we try hard to make a difference and improve the well being of people who live within our heartland.

Our Cornerstone of the Community campaign provides a wider platform for our branches to engage with their customers and local communities. Through our Cornerstone of the Community awards we are able to recognise significant contributions by local citizens and charities.

In 2012 we launched our Sir Bobby Robson Foundation accounts which have continued to be enormously popular during 2013. These straightforward accounts provided a competitive rate and for every pound invested a donation was made by the Society to the Foundation. In helping Members to save we are also helping to support a worthy local cause.

Board and Board Committee Membership Attendance Record

The table below sets out the number of meetings attended by Directors during 2013 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	NSSL
Phil Moorhouse	**11** (12)	-	**5** (5)	-	**2** (2)	**6** (6)
Ron McCormick	**7** (12)	**3** (5)	**2** (5)	-	-	**5** (6)
Jim Willens	**12** (12)	-	**5** (5)	-	-	-
David Buffham	**12** (12)	-	**5** (5)	**3** (3)	**2** (2)	-
Richard Mayland	**11** (12)	**5** (5)	-	**3** (3)	**2** (2)	-
John Morris	**12** (12)	**5** (5)	-	**1** (1)	**1** (1)	-
Angela Russell	**12** (12)	-	**5** (5)	-	-	-
Catherine Vine-Lott	**12** (12)	**5** (5)	-	**3** (3)	-	-
Ian Ward	**5** (5)	-	**2** (2)	-	-	-
David Holborn	**4** (4)	-	-	-	-	-
Gillian Tiplady	**0** (3)	-	-	-	-	-

Annual General Meeting (AGM)

The Annual General Meeting provides an opportunity for Members to question the Chairman, Chief Executive, Committee Chairmen 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 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 20p to its charity of the year. 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
Phil Moorhouse
24 February 2014

Audit Committee Report

Audit Committee

Members of Audit Committee are:
Catherine Vine-Lott (Committee Chairman), Richard Mayland, Ron McCormick and John Morris.

The Audit Committee's extensive experience and qualifications are detailed on page 16 and 17 of the Annual Report and Accounts. The composition of the Committee meets the requirements of the UK Corporate Governance Code for at least one member to have recent and relevant financial experience. The Committee members were selected for appointment by recommendation of the Nomination Committee in consultation with the Audit Committee Chairman.

Committee meetings:

The Committee meets at least four times each year coinciding with key dates in the Group's financial reporting calendar. A rolling schedule of items for discussion is agreed. Meetings are attended by the Audit Committee members with attendance by invitation extended to the Head of Internal Audit, External Auditors, Chief Executive, Group Finance Director, Group Strategy, Planning and Risk Director and Chairman of the Board. Other members of senior management are invited to attend at the request of the Audit Committee to update and report on relevant matters. For details of Committee meeting attendance see page 24 of the Annual Report and Accounts.

At least once a year the Audit Committee invites the Head of Internal Audit to meet the committee without senior management present. In addition, as well as a formal annual meeting, the Audit Committee has an opportunity to meet with the External Auditors, PricewaterhouseCoopers (PwC), at each Audit Committee meeting, without senior management present. These meetings cover matters relating to its remit and any issues arising from audits, including matters required to be discussed by relevant law or regulation.

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:

- financial reporting;
- effectiveness of internal financial control including internal audit; and
- external audit including re-appointment.

Further details are given below.

Financial reporting:

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

- review of interim announcements and Annual Report and Accounts;
- reporting to the board on the appropriateness of accounting policies;
- review and challenge of significant financial reporting judgements, estimates and the actions and judgements of management;
- advice to the board on whether the Annual Report and Accounts, taken as a whole are fair, balanced and understandable and provides 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; and
- considering reports from the External Auditors and the Finance Director on new and emerging accounting and financial reporting developments.

The main areas of financial reporting significance considered by the Audit Committee in 2013 were as follows.

Commercial and residential loan impairment provisions. Inherently an area of accounting estimate and judgement, the Society's commercial loan impairment provisions are agreed by the Society's Provisioning Committee and then reported to the Audit Committee. The Audit Committee address the level of provisioning through receipt of reports setting out policies and methodologies, including triggers for impairment provisions. Reports are considered from management and the External Auditors. The Committee is satisfied with the assumptions adopted and models used to calculate provisions over the residential and commercial mortgage books. The impact of forbearance in the mortgage portfolios has been considered and appropriate disclosures made in the financial statements.

Going Concern. Preparing the Annual Reports and Accounts under the Going Concern assumption requires the Board and Audit Committee to be satisfied about the long term viability of the Group's business operations, business planning, business management and risk management. Long term liquidity, capital and funding budgets and forecasts alongside capital, cash flow and business viability considerations are assessed formally at the half year and year-end to coincide with the approval of the interim and annual accounts. A balanced consideration of positive and negative plan aspects is considered with supporting narrative provided by the Finance Director & Deputy Chief Executive. Based on this, the adoption of the Going Concern assumption to prepare the accounts is appropriate.

FSCS levy provision and provisions for other liabilities and charges. The Audit Committee reviews and challenges the estimates and assumptions made by management when calculating provisions at the end of the reporting period. The Committee was satisfied with provisions in relation to legacy business areas and for potential consumer redress. In relation to the FSCS levy the committee also considered the impact of the final version of International Financial Reporting Interpretations Committee 21 on government levies (IFRIC21) and agreed that this would be implemented from 1 January 2014. IFRIC 21 clarifies the trigger date for recognition of the FSCS levy and this will result in a change in the recognition date for FSCS liabilities. The Committee has agreed this will be treated as a change in accounting policy requiring a prior year adjustment of comparatives, in 2014.

Hedge accounting. A complex area of accounting with a greater risk of error in application, the Audit Committee is appraised of the Group's derivative and hedge accounting position and strategy and also agrees the accounting policy for hedging, including disclosures in the Annual Report and Accounts. The Committee has concluded satisfactorily in this area.

The Audit Committee considered the independent actuarial valuation of the Society's reversionary equity release portfolio and was satisfied with the adjustments made following the biennial review.

Recovery of deferred tax assets is the main taxation area of focus of the Committee and this is considered in conjunction with the review and approval of the Going Concern Review. The Committee was satisfied with the recovery of deferred tax assets. The Audit Committee review the Group Tax Risk Policy which sets out compliance with relevant jurisdictional legislation, identifying areas of tax risk for appropriate focus and managing the overall Group tax risk.

The Committee considers matters raised by the External Auditors and the Committee concluded there were no adjustments required that were material to the Annual Report and Accounts.

Having undertaken the above responsibilities and considerations throughout the Group's 2013 financial year the Audit Committee recommended to the Board that approval be given to the audited Annual Report and Accounts as at 31 December 2013.

Effectiveness of internal financial control

The Audit Committee works closely with the Group Risk Committee to ensure that management and staff take appropriate responsibility for departmental, business unit and subsidiary risk mitigation and internal control. The Audit Committee also reviews management and Internal Audit reports on the effectiveness of systems for internal financial control and risk management across the Group. Further details of risk management activities are given in the risk management report on pages 29 to 31 of the Annual Report and Accounts.

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 procedures for detecting fraud and irregularities;
- ensuring arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, control or other matters and to ensure independent investigation and appropriate follow up of such matters is undertaken; and
- reporting to the Board on significant findings concerning risk management, internal control, financial reporting and other aspects of relevance.

The Group's Internal Audit department forms a core component of the Group's risk management and internal control process. The Audit Committee is responsible for monitoring the effectiveness of the Group's Internal Audit function, its independence, objectivity and adherence with applicable professional standards. A formal review of the effectiveness of Internal Audit is undertaken by the Committee annually.

The Internal Audit department 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 Strategy, Planning and Risk Director, Internal Audit and the External Auditors provide input on key risks and uncertainties direct to the Audit Committee.

The Committee also approves and reviews the Internal Audit work programme and results and ensures the Internal Audit department maintains sufficient access to the Board, management and the books and records of the Society. This oversight allows the Audit Committee to monitor and assess the role and effectiveness of the Internal Audit function in the overall context of the Group's internal control framework and ensure appropriate management responsiveness to audit findings and recommendations given.

External audit:

The Audit Committee is responsible for overseeing the Group's relationship with the External Auditors; PricewaterhouseCoopers LLP (PwC). This role extends to:

- appointment, reappointment, removal and assessment of independence, objectivity, effectiveness and remuneration of the External Auditors;
- annual approval of the Society policy on the use of the External Auditors for non-audit work; and
- consideration of audit quality including reports by the Audit Quality Review Team.

The Audit Committee assesses annually the qualification, expertise and resources of the External Auditors seeking reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the Society that is considered to impact their independence. The External Auditors communicate their formal independence annually and appraise the Audit Committee of policies, processes and monitoring in place for maintaining their independence. In 2013 the Committee also considered the results of the work of the Audit Quality Review Team, and also considered the quality results of PwC against other major accounting firms.

Prior to an external audit engagement the Audit Committee discuss the nature and scope of the audit. They review findings of the auditors' work and assess 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 auditors in responding to questions from the Audit Committees and obtaining feedback about the conduct of the audit from key people involved.

The Group use a variety of external firms to provide professional services to support the effective operation of the business. The Audit Committee ensures that non-audit services provided by the External Auditors will not adversely impact the independence and objectivity of the audit firm in performing their duties. A formal Society policy on use of the External Auditors for non-audit work is reviewed annually encompassing pre-approved, low risk non-audit services alongside permitted and prohibited services requiring Audit Committee approval. During 2013 the External Auditors were engaged to provide corporate pensions and rates rebates advice by virtue of their expertise across these areas. The fees paid to the External Audit firm for audit and non-audit services are set out in Note 6 to the Accounts.

The current External Auditors, PwC, have been auditors to the Group since 1994. A formal external audit tender process was undertaken in 2013 which followed a rigorous assessment process including the appointment of an audit selection panel comprising the Chairman of the Audit Committee, the Chief Executive, the Society's Chairman, the Group Finance Director, the Group Financial Controller and one other member of the Audit Committee. Following submission of detailed proposals and a series of presentations a recommendation was made to the Audit Committee and the Board to retain PricewaterhouseCoopers LLP as external auditors. The recommendation was made in light of a challenging and robust external audit and satisfaction with previous audits undertaken. Accordingly, a resolution proposing the reappointment of PricewaterhouseCoopers LLP will be made to the Members at the forthcoming Annual General Meeting.

Directors' remuneration, including the members of the Audit Committee, is detailed within the Remuneration Committee Report on page 28 of the Annual Report and Accounts. The Report on Corporate Governance on pages 21 to 24 also sets out the process for review of the effectiveness of Board sub-committees including the Audit Committee.

A full copy of the Terms of Reference for both the Audit Committee and Internal Audit can be viewed on the Society's website (www.newcastle.co.uk) under the Governance section.

On behalf of the Board
Catherine Vine-Lott
Chair of the Audit Committee
24 February 2014

Remuneration Committee Report

The Remuneration Committee (RemCo) operates within the Terms of Reference (TOR) agreed by the Board. The TOR are reviewed annually and were last reviewed on 25th November 2013. The effectiveness of the committee is also reviewed on an annual basis and was last reviewed on 25th November 2013.

The main objectives of the committee are summarised as follows:

- To ensure compliance with the applicable principles of the Regulators' Remuneration Code (the Code);
- To consider and make recommendations to the Board on executive remuneration and conditions of employment;
- Consideration of proposals from the Chief Executive for changes to the level of fees for non-executive directors including the fees for the Chairman;
- Approval of the Society's Remuneration Policy Statement including ensuring it is aligned with the Society's strategy and objectives;
- Approval of the Pillar 3 remuneration disclosures; and
- To consider and make recommendations to the Board on the general framework of staff bonus schemes ensuring that an effective balance is maintained between incentivising performance and sound risk management.

Composition of the Committee

The committee consists solely of Non Executive Directors; Catherine Vine-Lott (Chairman of the committee), David Buffham, Richard Mayland and John Morris. The attendance record of the committee is shown on page 24. The committee operates to a rolling agenda in order to ensure that it fully discharges its responsibilities. It normally meets at least three times each year. The committee is supported by the Chief Executive and Human Resources Executive who attend meetings in an advisory capacity only. The Chief Executive does not attend any part of the meeting where his own remuneration is being discussed.

Regulators' Remuneration Code

The key requirements of the Code affecting the Society are summarised below:

- To establish a Remuneration Committee;
- To maintain a Remuneration Policy Statement; and
- To maintain a list of employees whose professional activities have a material impact on its risk profile; such staff are known as 'Code Staff'.

The Remuneration Committee have monitored all remuneration policies and processes during 2013 and consider that the Society fully complies with the requirements of the Code.

Code Staff

The Committee considers that at 31 December 2013 there were 12 employees that should be categorised as Code Staff and these include:

- All Executive Directors (2)
- Executives and senior managers responsible for key control functions (4) – Group Risk Executive (now Strategy, Planning and Risk Director), Head of Business Assurance, Head of Conduct Risk (who is also Money Laundering Reporting Officer) and Senior Underwriting Manager; and
- All other Executives (6)

A summary of the remuneration of Code Staff and the business areas in which they operate is shown on page 28. One Code staff member left the Society in the year (the Business Services Director) and details are given on page 28.

Remuneration Strategy

The Society's remuneration strategy can be summarised as follows:

Basic Salaries

Remuneration packages are normally set at a level to attract, motivate and retain Executives, Officers and staff of the Society of the calibre necessary to oversee the operations of the Society. Basic salaries are normally set by taking into account salary levels within similar sized financial services organisations and the market as a whole, so as to attract and retain the skills levels that are appropriate. A 1.5% across the board pay increase was received by all staff in April 2013, with the exception of Executive Directors who elected not to receive the award.

Performance Related Bonuses

In recognition of the continued progress and achievement of the Society's 2013 corporate key performance indicators (KPIs), the Remuneration Committee approved a modest payment of a maximum 2.5% under the Society's Corporate Bonus Scheme. The KPIs underpinning the Corporate Bonus Scheme are based on the following:

- Financial performance covering profitability, capital, liquidity and control of costs;
- Focus on Members including achievement of service levels, customer satisfaction, dealing with complaints and numbers of accounts opened;
- Achievement of staff engagement strategies and improved employee satisfaction;
- Success of the Solutions business, including profitability and efficiency; and
- Delivery of key projects and targets for legacy portfolio wind-down and de-risking the business.

Progress against the Corporate KPIs is formally reviewed by the Remuneration Committee at the end of the financial year with progress being monitored by the Board on a monthly basis.

There are no separate bonus schemes for Executive Directors. Sales related incentive and bonus schemes were removed from the Society's business in January 2013, with the exception of those staff employed by the Society's subsidiary company Newcastle Financial Services Limited (NFSL). The bonus schemes which operate within NFSL are set in such a way as to ensure that they promote both good customer outcomes and the financial strength of the Society, do not reward failure and they do not encourage any employee to take risks outwith the Society's agreed risk appetite. The Committee has monitored the operation of these bonus schemes throughout 2013 to ensure compliance with the Code and the Society's Remuneration Policy Statement. The performance of all staff, including Code Staff, is reviewed at least annually via a formal appraisal process.

Exceptional Items

The Committee is required to report any exceptional items such as 'sign-on' or severance payments made to Code Staff. It is confirmed that there was one such payment made in respect of the role of the Business Services Director.

Pensions

All staff (including Executive Directors and Executives) are eligible to join the Newcastle Building Society Group Personal Pension Scheme, which is a defined contribution scheme. The Newcastle Building Society Pension and Assurance Scheme (a 'defined benefit' scheme) has been closed to future accrual since November 2010 and has been closed to new entrants since 2000. None of the current directors participated in this scheme.

Other Benefits

All Executive Directors and Executives receive a range of taxable benefits, which include a motor vehicle or cash equivalent, private health care and the ability to participate in a concessionary mortgage scheme. Life Cover for a lump sum on death in service is also provided of four times basic salary. No Executive participated in the concessionary mortgage scheme during the year.

Service Contracts

It is the Society's policy to provide six months notice of termination for all Executive Directors. All of the current Executive Directors therefore have such notice periods. Four of the longer serving Executives have service agreements, which provide for 12 months notice of termination from the Society. The remaining Executives all have notice periods of 6 months. It is the policy of the Society to employ all newly appointed Executives with notice periods of 6 months. There are no contracts of employment for Non Executive Directors and no compensatory terms for loss of office.

Remuneration Committee Report (cont)

Policy on Remuneration of Non Executive Directors

Non Executive Directors fees are set at a level appropriate to reflect the skills and time required to oversee the Society's operations and progress. Non Executive Directors receive a base fee and additional fees depending upon the Board Committees on which they sit or chair.

Fees are normally reviewed annually in light of those paid to directors of other similar financial services organisations. The Non Executive Directors do not determine their own fees. The CEO recommends the fees for Non Executive Directors. The Remuneration Committee then comment on any such recommendations before they are presented to the full Board for ratification. The Non Executive Directors declined to take up the offer of a general across the board increase of 1.5% in April 2013. Non Executive Directors do not participate in any bonus or pension scheme.

Directors' Emoluments (Audited)

Emoluments of the Society's Directors from the Society and its subsidiaries are detailed below:

	Salary or fees	Annual bonus	Pension contributions to defined contribution scheme (Note 1)	Other benefits	Total 2013 contractual benefits	2012 total
	£000	£000	£000	£000	£000	£000
Executive Directors						
JH Willens - notes 1, 3 and 4	260	-	-	37	297	297
AM Russell - notes 2 and 4	145	-	13	10	168	168
G Tiplady (resigned 11 April 2013) - note 5	38	-	2	3	43	142
JH Warden (resigned 30 June 2012)	-	-	-	-	-	82
	443	-	15	50	508	689
Non Executive Directors						
DJ Buffham	42	-	-	-	42	40
FD Holborn (retired 24 April 2013)	21	-	-	-	21	62
RD Mayland	37	-	-	-	37	40
RJ McCormick	50	-	-	1	51	52
J Morris	36	-	-	1	37	35
PJ Moorhouse (appointed as Chairman 24 April 2013)	56	-	-	-	56	38
CRR Vine-Lott	44	-	-	1	45	43
IW Ward (appointed 9 July 2013)	17	-	-	1	18	-
Total for Non Executive Directors	303	-	-	4	307	310
Total for all Directors	746	-	15	54	815	999

Notes:
1. Mr JH Willens has elected to take his pension contribution amounting to £23,400 as a cash payment. He is liable for his own tax and national insurance contributions on this payment.
2. Mrs AM Russell's salary was increased to £170,000 on 1 April 2013 however Mrs Russell elected not to accept the increase in 2013.
3. Mr JH Willens' salary was increased to £300,000 on 1 April 2013 and he declined the increase in 2013.
4. Mr JH Willens and Mrs AM Russell declined their bonus entitlement of 2.5% of basic salary due under the Society's 2013 Corporate Bonus Scheme.
5. Mrs G Tiplady received compensation for loss of office amounting to £135,000.

Summary of the Remuneration of Code Staff

A summary of the remuneration of Code Staff during 2013 and the business areas in which they operate is shown below.

Category	Typical Functions	Number in Category During the Year	*Fixed Remuneration £000	Variable Remuneration £000	Total Remuneration 2013 £000	Total Remuneration 2012 £000
Executive Directors	CEO, Finance Director, Business Services Director	3	508	-	508	689
Sales & Marketing Executives	Sales & Marketing	2	205	5	210	214
Control Functions	Business Assurance, Risk Management, Compliance, Underwriting	4	301	7	308	340
Other Executives	Treasury, Information Technology, Operations, Human Resources	4	366	8	374	375
Total		**13**	**1,380**	**20**	**1,400**	**1,618**

*Includes benefits and pension contributions, but excludes compensation for loss of office
There was no deferred remuneration in 2012 or in 2013.

Catherine Vine-Lott
Chair - Remuneration Committee
24 February 2014

Risk Management Report

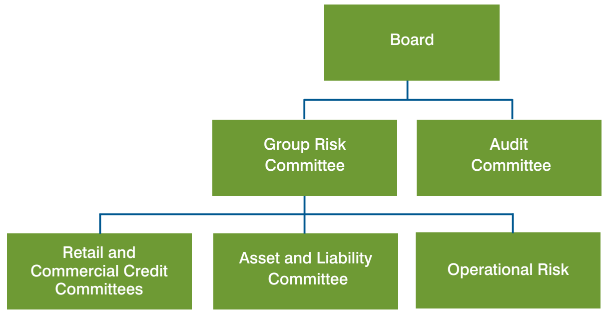
Overview

The Society's Group Risk Committee oversees the management of risk across the Group and is supported by the Group Risk department and various sub-committees. The Society and Group risk management framework operates under the "three lines of defence" principle. The first line of defence is within departments, business units and subsidiaries where Executives, Managers and staff have responsibility for risk management and ensuring adequate controls are in place to mitigate risk. The second line of defence is provided by the Group Risk Committee and supporting sub-committees together with oversight by the Group Risk department. The third line of defence is provided by Business Assurance and the Audit Committee, which are responsible for reviewing the effectiveness of the first and second lines of defence.

Members of the Group Risk Committee, throughout the year, were David Buffham (Committee Chairman), Ron McCormick, Phil Moorhouse, Angela Russell and Jim Willens with Ian Ward joining the Committee on 9th July 2013. With effect from 17th January 2014 both Angela Russell and Jim Willens resigned from the Group Risk Committee so that the Committee comprises only non-executive directors.

Risk Governance

Risk Governance Structure



The Group Risk Committee is a Board Committee that has responsibility, under its detailed terms of reference, for considering and co-ordinating the approach to risk management across the Group in the following key areas:

- Oversight of overall risk appetite, risk management strategy and framework, including oversight of both prudential and conduct risk appetites;
- Oversight of compliance with risk policy statements and approval of changes to those policies on an annual basis, or more frequently where market conditions require;
- Oversight of the Retail and Commercial Credit Committees, and of the Asset and Liability Committee;
- Oversight of Operational Risk and the governance of Operational Risk by the Executive;
- Review and assessment of the adequacy of risk management information to monitor and control risks;
- Approval of new initiatives and projects, including the risks those initiatives and projects expose the Group to and the amount of capital required to cover those risks;
- Consideration and approval of the top risks for the Society and Group including low likelihood, high impact risks;
- Approval and recommendation to the Board of both the Internal Capital Adequacy Assessment Process (ICAAP) and the Individual Liquidity Adequacy Assessment (ILAA) ; and
- Consideration and approval of stress testing scenarios including reverse stress tests.

The Group Risk Committee normally meets six times a year and is supported by four Executive committees that meet on a monthly basis, as follows:

The Retail Credit Committee is responsible for credit risk across the Group arising from the retail mortgage portfolio as follows:

- Review of lending policy statements and compliance therewith;
- Review of risk metrics and management information for the retail mortgage portfolio;
- Review and approval of arrears and possessions policy (including breach policies) and compliance therewith;
- Sanction of larger loans in accordance with the lending policy statement;
- Review and approval of new types of mortgage products including ensuring return on capital employed meets internal benchmarks and that risks have been effectively considered and mitigated;
- Performance review of underwriters, panel managers and brokers;
- Review of credit risk profile of existing retail mortgage book including trends on arrears (both historical and against the market), losses and capital requirements;
- Review of key economic data impacting credit risk including trends on unemployment, house prices, arrears rates, affordability, inflation and confidence indices;
- Review of credit control activity levels including customer contact volumes, forbearance measures granted, disturbed payment patterns and changes in behavioural scoring. This includes reviewing the effectiveness of forbearance measures granted to customers;
- Review and approval of stress testing assumptions and outputs including monitoring of trends;
- Review of arrears and possessions reports including causal factors and lessons learned; and
- Review of Mortgage Indemnity Guarantee (MIG) policy arrangements.

The Commercial Credit Committee is responsible for credit risk across the Group's non-retail mortgage portfolio as follows:

- Review of non-retail policies and compliance therewith;
- Review of risk metrics and management information for the non-retail mortgage portfolio;
- Monitor compliance with controls and limits set out in the policies;
- Review of credit risk profile of existing mortgage book including trends on arrears, losses and capital requirements;
- Review of key performance indicators in relation to the delivery of the commercial strategy;
- Review of risk indicators and risk factors. This includes review of tenant and borrower watch-lists and sector specific reports;
- Approval of annual reviews, breach reports, loan renegotiations and restructures, in accordance with the delegation of authorities;
- Review and approval of stress testing assumptions and outputs including monitoring of trends;
- Review of key trends in commercial property markets including values, yields and levels of activity; and
- Approval of changes to the Risk Grade Scorecard and monitoring the effectiveness thereof.

Operational Risk has been overseen by the Executive Committee until February 2014, and thereafter by a Conduct and Operational Risk Committee (CORC). Its remit includes:

- Review of operational risk policy and other related risk and compliance policy statements;
- Monitoring compliance with policies;
- Review of risk indicators in risk dashboards including risk event trends across the business, actions being taken on significant risk events, and status of project risks;
- Review of conduct risk indicators, via monthly dashboards,

including in relation to Compliance monitoring, Mortgage Conduct of Business (MCOB), Treating Customers Fairly, Complaints, Information Security and Fraud monitoring;

- Approval of corporate insurance policy statement, status of claims and effectiveness of policies at mitigating operational risk; and
- Review of business continuity policy, disaster scenarios and results of annual disaster recovery test.

The Asset and Liability Committee (ALCO) is responsible for all aspects of treasury risk management including liquidity risk, interest rate risk, treasury counterparty credit risk and balance sheet management. The ALCO terms of reference cover the following areas:

- Review of Treasury Policy and compliance therewith;
- Review of treasury dealing strategy and compliance with risk appetite statement;
- Management of balance sheet assets and liabilities;
- Review of risk dashboards covering all aspects of treasury, liquidity, funding and interest rate risk, including basis risk;
- Setting of interest rate view;
- Review of wider treasury markets and economic backdrop to assess the impact on the Society's funding and liquidity requirements;
- Detailed review and agreement of cashflow requirements across the business on a rolling 24 month basis;
- Monitoring of interest rate risk and hedging activity, including profit performance;
- Review of treasury counterparty limits and country limits including assessing the impact of ratings changes;
- Review of funding including sources, mix and compliance with limits;
- Review of contingency funding plans;
- Review of liquidity requirements and compliance with limits;
- Review and approval of results of liquidity stress testing scenarios; and
- Review and approval of product pricing including rate changes, mix of new business and maturity defence strategy.

The Group has detailed risk management policies setting out how risk is managed across the Group, including specific risk appetite statements. The risk appetite statement outlines for each risk area the basis on which risks are accepted or declined. This forms the basis for various limits and key criteria, set out in the policies that must be followed in order to mitigate risk exposures.

These limits are embedded into daily, weekly and monthly management and Board reporting in order to monitor compliance with the Society's risk profile. Other governance structures exist as outlined in the Report of the Directors on Corporate Governance on pages 21 to 24.

Risk Appetite

The Board approved risk appetite statements consider profit and loss in a moderate stress scenario; capital adequacy in a severe stress; and the existence of "tail risks" – low likelihood high impact risks. They also consider measures relating to the fair treatment of customers and conduct risk. They set out limits and escalation triggers in relation to liquidity, Solutions business, credit risk, operational risk, compliance monitoring, and complaints. Policies, including credit risk policies, treasury policies, operational risk policies, and the Retail Conduct Risk Appetite Statements, set limits to ensure that the Society complies with its Board approved risk appetite statements. The risk appetite statements are subject to annual review and approval by the Board and performance against the risk appetites is monitored on a quarterly basis by the Board.

Credit Risk

Credit risk is the risk that a treasury counterparty, debtor or borrower will not be able to meet their obligations as they fall due. Credit risk arises primarily on retail and commercial loans, and on treasury assets held for liquidity purposes. The Group has comprehensive policies in place covering credit risk management that set out criteria that must be followed before funds are advanced and in corporate limits for concentration risk arising from, inter alia, large exposures, geographical areas and lending types. Return on Capital Employed benchmarks are set to ensure that reward is commensurate with the risk taken; once the risk is considered acceptable to the Society.

For retail lending the Group operates manual underwriting procedures to prudent policy criteria, including restrictions on loan to value, income multiples, and affordability criteria. The Group does not undertake sub-prime or self-certification lending. The Commercial Risk department continues to monitor the performance of the commercial and residential investment portfolios through annual reviews and key risk management information, including tenant and borrower watchlists, arrears trends, breach reports and general market and sector specific information. The Society has a number of Committees established to oversee risk within the Commercial portfolio including Commercial Credit Committee as shown on page 29, Risk and Recovery Committee (a sub-committee of the Commercial Credit Committee with a remit to approve breach reports and annual reviews for loans within a defined mandate), Watch Committee (an operational committee with a remit for determining the strategy for loans in the commercial portfolio) and the Provisioning Committee (a committee with a remit to consider recommendations in relation to provisions for commercial loans).

A collections team operates, which has a more targeted approach to collections and recovery for commercial and Buy to Let (BTL) portfolio borrowers, featuring a rapid response where difficulties are identified such as late payments, tenant failure, ratings downgrades and general negative market news. The Society has a credit risk management information department that monitors and reports credit risk within the mortgage portfolio, including stress testing. Credit risk on liquid assets is controlled via the operation of counterparty, sector, instrument, and country limits for treasury assets. Counterparty limits are set with regard to external ratings agency assessments with the Society investing only in highly rated financial institutions or other building societies. The Society supplements ratings agency information with more extensive credit assessment procedures for counterparty limits including market information and movement on credit default swap (CDS) spreads for countries and individual counterparties. Treasury counterparty risk is monitored within Treasury Middle Office in accordance with the Treasury Policy. All treasury counterparty ratings, CDS spreads and market information are monitored in real time and prompt action is taken where volatile market conditions require a tightening of criteria.

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 to be able to do so only at excessive cost. The nature of the business of a building society is to lend longer-term (typically up to 25 years) and fund with short term savings accounts. This leads to a maturity mismatch between assets and liabilities.

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding and enable the Group to meet its financial obligations when they fall due. This is achieved by maintaining a prudent level of liquid assets and ensuring that funding and lending plans are balanced. The Society has continued to invest in liquidity of the highest quality and further details are provided within the Strategic Report on page 10.

Conduct Risk

Conduct risk is the risk of poor consumer outcomes, resulting from poorly designed or targeted products, mis-selling of products, inadequate controls relating to fraud prevention and detection or to prevent money laundering. The Group has established a conduct risk framework including a Retail Conduct Risk Appetite statement

supported by detailed policies relating to Compliance, Treating Customers Fairly, Fraud, and Anti-Money Laundering. Compliance with the Retail Conduct Risk Appetite statement is monitored by the Executive on a monthly basis and by the Group Risk Committee on a quarterly basis. The Group has a Product Approval Committee which approves all products. Included in the terms of reference for the Product Approval Committee is consideration of risks to consumer outcomes arising from products or services.

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.

The Group has an established operational risk framework with an Operational Risk Policy that sets out the framework for operational risk, including the measurement and management of risk, operational risk appetite, use of scenario testing for operational risk, tracking of risk events and operational losses, timescales for implementation of action plans and escalation procedures for more serious risk events that require immediate action to mitigate loss.

A key feature of the Group's operational risk framework is that key risks and controls are identified for all areas of the business ranging from the high level risks, discussed at Board level, down to the risks within individual departments. Risk assessments remain the responsibility of the relevant departmental managers and Executives, and are updated regularly for new risks, the results of risk events and following internal audit reviews. 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.

Risks are scored in terms of the impact and probability of the risk arising and are scored before and after considering the impact of controls. The operational risk system is also utilised by Business Assurance with the audit inspection plan based on high scoring risk areas or where there is significant reliance on key controls to mitigate the impact of otherwise significant risks. Group Corporate Insurance policies are also negotiated with full regard to the key risks within the Group requiring greater mitigation.

Pension Obligation Risk

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. Pension 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 projection of the Scheme's obligations includes estimates of mortality and inflation, the actual out-turn of which may differ from estimates. The Scheme is also exposed to changes in pension legislation. To mitigate these risks the Trustees of the Scheme, in consultation with management, regularly review reports prepared by the Scheme's independent actuary and take appropriate actions including adjusting the investment strategy. The Group also performs stress testing on the pension scheme liabilities and assets as part of capital planning as set out in the ICAAP.

Market Risk

The principal market risk to which the Group is exposed is interest rate risk. The Group has no exposure to foreign currency and only a very moderate direct net exposure to equities through a small shareholding in Standard Life arising from the demutualisation of the insurance company in 2006. The Group has an indirect exposure to the performance of equities through its defined benefit pension scheme. Interest rate risk arises on mortgages, savings and treasury instruments due to timing differences on re-pricing of assets and liabilities and the imperfect matching of interest rates between different asset and liability types. This risk is managed using financial instruments including derivatives. Natural hedging strategies are also utilised e.g. matching two year fixed rate mortgages with two-year fixed rate bonds.

The Group's risk appetite for interest rate risk is documented in the Treasury Policy and includes limits for the maximum adverse impact on net interest margin, maximum value at risk, basis risk, as well as limits to minimise gaps in specific time buckets.

The table below describes the activities undertaken by the Group and the derivatives used to manage the associated risks.

ACTIVITY	RISK	TYPE OF HEDGE
Fixed rate savings products and funding instruments	Sensitivity to fall in interest rates	Fair value interest rate swap
Fixed rate mortgage products and funding investment instruments	Sensitivity to rise in interest rates	Fair value interest rate swap
Index-linked savings products	Sensitivity to changes in underlying indices	Fair value hedges with index-linked swaps
General balance sheet management	Sensitivity to different types of interest rates moving in different ways e.g. LIBOR and Base Rate	Basis risk swaps

Derivatives are only used by the Group in accordance with the Building Societies Act 1986. These instruments are not used for trading or speculative purposes and their sole purpose is to mitigate risks arising from movement in interest rates or indices. Note 33 gives details of the derivative financial instruments held at 31 December 2013.

Capital Management

Capital adequacy is monitored on a monthly basis by the Board and the 3 year capital plan has been updated on a regular basis between ICAAP reviews against the background of changing economic circumstances. The Group maintains its capital at a level in excess of Individual Capital Guidance notified by the PRA. The Group publishes further information about risk exposures in its Pillar 3 disclosures, available on the Society's website (www.newcastle.co.uk) shortly after the publication of these accounts.

David Buffham
Chair - Group Risk Committee
24 February 2014

Independent Auditors' Report to the Members of Newcastle Building Society

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2013 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Newcastle Building Society, comprise:

- the Group and Society Balance Sheets as at 31 December 2013;
- the Group and Society Income Statements and Statements of Comprehensive Income for the year then ended;
- the Group and Society Cash Flow Statements for the year then ended;
- the Group and Society Statements of Movement in Members' Interests for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Society's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters prescribed by the Buildings Societies Act 1986

In our opinion:

- 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 accounting records and 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- proper accounting records have not been kept, by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society's Members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Karyn Lamont (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
24 February 2014

Income Statements for the year ended 31 December 2013

	Note	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Interest receivable and similar income	2	**95.0**	110.3	**95.2**	110.8
Interest payable and similar charges	3	**(71.6)**	(90.4)	**(71.6)**	(90.4)
Net interest income		**23.4**	19.9	**23.6**	20.4
Other income	4	**26.1**	28.8	**22.9**	24.7
Other charges	4	**(1.4)**	(0.9)	**(1.4)**	(0.9)
Gains less losses on financial instruments and hedge accounting		**0.5**	0.7	**0.5**	0.7
Loss recognised on revaluation of investment properties held for sale	18	**(1.1)**	(1.0)	**-**	-
Income from shares in subsidiary undertakings	5	**-**	-	**3.1**	-
Total operating income		**47.5**	47.5	**48.7**	44.9
Administrative expenses	6	**(34.6)**	(34.5)	**(32.7)**	(30.6)
Depreciation	17	**(2.3)**	(2.6)	**(2.0)**	(2.4)
Operating profit before impairments, provisions, FSCS levy and exceptional items		**10.6**	10.4	**14.0**	11.9
Impairment credit on loans and advances to banks	11	**0.8**	0.7	**0.8**	0.7
Impairment charges on loans and advances to customers	14	**(6.7)**	(8.3)	**(6.7)**	(8.3)
Impairment of loans to subsidiary undertakings	16	**-**	-	**(3.2)**	-
Provision for liabilities and charges	26	**(3.3)**	(2.1)	**(3.3)**	(2.1)
Gain on disposal of Prepaid Cards Business	10	**0.6**	0.8	**0.6**	0.8
Profit for the year before taxation		**2.0**	1.5	**2.2**	3.0
Taxation expense	8	**(1.9)**	(1.5)	**(1.7)**	(3.0)
Result after taxation for the financial year		**0.1**	-	**0.5**	-

Statements of Comprehensive Income for the year ended 31 December 2013

	Note	2013 £m	2012 £m	2013 £m	2012 £m
Result for the financial year		**0.1**	-	**0.5**	-
Other comprehensive (expense) / income:					
Items that may be reclassified to income statement					
Movement on available for sale reserve		**(7.0)**	6.8	**(7.0)**	6.8
Income tax on items that may be reclassified to income statement	19	**1.3**	(1.6)	**1.3**	(1.6)
Total items that may be reclassified to income statement		**(5.7)**	5.2	**(5.7)**	5.2
Items that may not be reclassified to income statement					
Actuarial remeasurements on retirement benefit obligations	31	**2.1**	(6.7)	**2.1**	(6.7)
Income tax on items that will not be reclassified to income statement	19	**(0.6)**	1.5	**(0.6)**	1.5
Total items that will not be reclassified to income statement		**1.5**	(5.2)	**1.5**	(5.2)
Total comprehensive expense for the financial year		**(4.1)**	-	**(3.7)**	-

The notes on pages 38 to 71 form part of these Accounts.

Balance Sheets at 31 December 2013

	Note	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
ASSETS					
Cash and balances with the Bank of England		**297.0**	364.4	**297.0**	364.4
Loans and advances to banks	11	**113.2**	175.4	**112.9**	175.3
Debt securities	12	**477.3**	574.3	**477.3**	574.3
Derivative financial instruments	33	**21.4**	38.1	**21.4**	38.1
Loans and advances to customers	14	**2,700.7**	2,727.6	**2,687.2**	2,707.2
Fair value adjustments for hedged risk	15	**13.6**	40.0	**13.6**	40.0
Assets pledged as collateral	13	**-**	54.0	**-**	54.0
Investment in subsidiary undertakings	16	**-**	-	**23.2**	41.7
Property, plant and equipment	17	**21.4**	23.0	**13.2**	14.6
Investment properties held for sale	18	**4.3**	14.0	**-**	-
Deferred tax assets	19	**9.8**	11.6	**10.1**	11.0
Other assets	20	**11.0**	17.7	**20.8**	31.3
TOTAL ASSETS		**3,669.7**	4,040.1	**3,676.7**	4,051.9

The notes on pages 38 to 71 form part of these Accounts.

Balance Sheets at 31 December 2013

	Note	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
LIABILITIES					
Due to Members	21	**3,236.1**	3,445.4	**3,236.1**	3,445.4
Fair value adjustments for hedged risk	15	**4.5**	17.5	**4.5**	17.5
Due to other customers	22	**122.7**	160.8	**122.8**	163.9
Deposits from banks	23	**11.4**	77.2	**11.4**	77.2
Debt securities in issue	24	**7.5**	8.0	**7.5**	8.0
Derivative financial instruments	33	**13.1**	40.0	**13.1**	40.0
Current tax liabilities		**0.2**	0.2	**-**	-
Other liabilities	25	**10.4**	19.0	**15.9**	27.3
Provisions for liabilities and charges	26	**5.1**	5.0	**5.1**	5.0
Retirement benefit obligations	31	**2.0**	5.7	**2.0**	5.7
Deferred tax liabilities	19	**-**	0.6	**-**	-
Subordinated liabilities	27	**59.0**	58.9	**59.0**	58.9
Subscribed capital	28	**29.7**	29.7	**29.7**	29.7
Reserves		**168.0**	172.1	**169.6**	173.3
TOTAL LIABILITIES		**3,669.7**	4,040.1	**3,676.7**	4,051.9

These Accounts were approved by the Board of Directors on 24 February 2014 and signed on its behalf by:

Phil Moorhouse, Chairman
Catherine Vine-Lott, Chairman of Audit Committee
Jim Willens, Chief Executive

The notes on pages 38 to 71 form part of these Accounts.

Statements of Movement in Members' Interests for the year ended 31 December 2013

GROUP	General reserve £m	Available for sale reserve £m	Total £m
At 1 January 2013	165.8	6.3	172.1
Movement in the year	1.6	(5.7)	(4.1)
At 31 December 2013	**167.4**	**0.6**	**168.0**

	General reserve £m	Available for sale reserve £m	Total £m
At 1 January 2012	171.0	1.1	172.1
Movement in the year	(5.2)	5.2	-
At 31 December 2012	**165.8**	**6.3**	**172.1**

SOCIETY	General reserve £m	Available for sale reserve £m	Total £m
At 1 January 2013	167.0	6.3	173.3
Movement in the year	2.0	(5.7)	(3.7)
At 31 December 2013	**169.0**	**0.6**	**169.6**

	General reserve £m	Available for sale reserve £m	Total £m
At 1 January 2012	172.2	1.1	173.3
Movement in the year	(5.2)	5.2	-
At 31 December 2012	**167.0**	**6.3**	**173.3**

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

The notes on pages 38 to 71 form part of these Accounts.

Cash Flow Statements for the year ended 31 December 2013

	Note	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Cash outflows from operating activities	29	**(257.1)**	(71.3)	**(267.1)**	(76.2)
Payment into defined benefit pension scheme		**(2.2)**	(2.1)	**(2.2)**	(2.1)
Net cash outflows from operating activities		**(259.3)**	(73.4)	**(269.3)**	(78.3)
Cash (outflows) / inflows from investing activities					
Purchase of property, plant and equipment		**(0.6)**	(1.7)	**(0.6)**	(1.8)
Sale of investment properties		**8.6**	0.9	**-**	-
Sale of property, plant and equipment		**0.1**	-	**-**	0.1
Decrease in loans to subsidiary undertakings		**-**	-	**18.5**	5.8
Purchase of investment securities		**(625.5)**	(1,005.7)	**(625.5)**	(1,005.7)
Sale and maturity of investment securities		**766.0**	1,236.3	**766.0**	1,236.3
Net cash inflows from investing activities		**148.6**	229.8	**158.4**	234.7
Net cash outflows from financing activities					
Interest paid on subordinated liabilities		**(3.4)**	(2.6)	**(3.4)**	(2.6)
Interest paid on subscribed capital		**(3.6)**	(3.6)	**(3.6)**	(3.6)
Repayments under finance lease agreements		**(0.1)**	(0.2)	**(0.1)**	(0.2)
Net cash outflows from financing activities		**(7.1)**	(6.4)	**(7.1)**	(6.4)
Net (decrease) / increase in cash		**(117.8)**	150.0	**(118.0)**	150.0
Cash and cash equivalents at start of year		**528.0**	378.0	**527.9**	377.9
Cash and cash equivalents at end of year	29	**410.2**	528.0	**409.9**	527.9

The notes on pages 38 to 71 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) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC); as adopted for use in the EU; and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to building societies reporting under IFRS.

The Board has reviewed medium and long term plans with particular emphasis on examining forecast liquidity, capital and profitability of the Group and the risks to those forecasts through a variety of stress scenarios. The outcome of this review is that the Directors are satisfied that the Society and the Group have adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Society and the Group have been prepared on a Going Concern basis.

The Annual Accounts have been prepared under the historical cost convention except for those financial assets and hedging instruments which are required by IAS 39, and investment properties which are required under IAS 40, to be carried at fair value. 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 and its subsidiary undertakings, all of which have accounting periods ending 31 December. Subsidiaries are entities over which the Society has the power to control the financial and operating policies so as to obtain benefits from its 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 (for example, early redemption charges) are taken into account.

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

Dividend Income
Dividends receivable are recognised in the Income statements in 'Dividend income' when the right to receive payment is established.

Financial Assets
In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Group classifies its financial assets into the following categories:

Loans and Receivables
The Group's mortgage assets and similar loans are classified as loans and receivables and measured at amortised cost using EIRM. In accordance with EIRM, incremental up-front costs and fees receivable which are directly related to the loans (including administration and completion fees, arrangement fees, procuration fees and commissions paid to agents) are deferred and released to income over the effective life of the mortgage assets. Historical and forecast mortgage redemption data and management judgement are used to estimate the expected lives of mortgage assets.

At Fair Value through Profit and Loss
The Group enters into derivative financial instruments to hedge its exposures relating to interest rates, index risk relating to savings products (equities, house prices and inflation) and longevity risk on equity release mortgages. At the balance sheet date the Group has entered into contracts which lead to derivatives designated as either fair value hedges or cash flow hedges in accordance with the risks that the hedges have been set up to mitigate. In accordance with the Treasury Policy Statement and the Building Societies Act 1986 the Group does not hold or issue derivative financial instruments for trading purposes.

In accordance with IAS 39, all derivative financial instruments (both assets and liabilities) are initially and on an ongoing basis, assessed to determine whether they are highly effective in offsetting the changes in fair value of hedged items. Derivatives are recognised at fair value on the date the derivative contract is entered into, and subsequently re-measured at their fair value with changes going through the Income Statements along with changes in fair value attributable to the hedged risk of the hedged items. The aggregate fair value adjustment of the hedged item is included on the balance sheet under the heading "Fair value adjustments for hedged risk". Any gain or loss arising from an ineffective portion is recognised immediately in the Income Statements under the heading "Gains less losses on financial instruments and hedge accounting".

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.

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host instrument and where the hybrid instrument is not measured at fair value, the embedded derivative is separated from the host instrument with changes in the fair value of the embedded derivative recognised in the Income Statements.

Fair values are obtained in line with the three tier hierarchy described in IFRS7 from quoted market prices in active markets, valuation techniques using specialist tools and confirmations from counterparties.

Significant Accounting Policies Continued

Available for Sale
These assets are non-derivative financial instruments where the intention is to hold for an indefinite period of time. They are initially measured at fair value, with subsequent fair value movements recognised directly in Members' Interests, until the asset is derecognised or impaired, at which point the cumulative gain or loss previously recognised in Members' Interests is recognised in the Income Statements. Interest received on the asset is recognised immediately in the Income Statements.

Held to Maturity
These are non-derivative financial assets with fixed maturities that the Group has a positive intention and ability to hold until maturity. Held to maturity investments are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Interest on held to maturity investments is included in the Income Statements and reported as interest receivable and similar income.

Cash and Cash Equivalents
For the purpose of the Cash Flow Statements, 'Cash and cash equivalents' comprises 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.

Impairment of Financial Assets
Individual assessments are made against all those known loans and advances in arrears, in possession, where an event of default has occurred, where fraud has been identified or where any other potential loan servicing issues arising from assessments or professional advice are known. The value of those loans and advances that are considered to be impaired is reduced on an individual basis. Impairment calculations are carried out by considering future discounted cash flows as per rules laid out in international accounting standard, IAS39. In considering future cash flows the Society estimates the future valuation of the security less anticipated disposal costs, any irrecoverable hedging costs, and other payments and charges, which are then discounted using the original effective interest rate based on the Groups approved strategy for the loan at the balance sheet date. Collective impairment allowances are also made to reduce the value of those loans and advances where there has been an event which may give rise to impairment but of which the Society is not yet aware at the balance sheet date, with the result that the amount advanced may not be recovered in full. For the purposes of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Any impairment loss or allowance is recognised in the Income Statements.

Loans are classed as renegotiated when their terms have changed during the year. The Group applies a policy of capitalising arrears on residential loans with the customer's agreement, once the customer has made six contractual monthly mortgage repayments following the instance of non-payments. Capitalisation is only applied where there is no realistic alternative and this is expected to be of long-term benefit to the borrower.

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 and capital protection bond fair value adjustments are also held on the balance sheet at fair value. The remaining Group financial liabilities including shares, deposits, debt securities, subordinated liabilities and Permanent Interest Bearing Shares are subsequently measured at amortised cost, using the EIR method.

Investment Properties
At the balance sheet date the investment properties in the Group's Kings Manor Properties Limited subsidiary have been classified as Held for Sale, having met the conditions laid out in IFRS5. They are held at fair value representing the agreed sales proceeds of the property portfolio net of disposal costs.

Property, Plant, Equipment and Depreciation
On transition to IFRS, the Group elected to adopt the exemption in IFRS 1 which permits an entity to use, on transition to IFRS, a value, which is not depreciated cost, as the 'deemed cost' of the asset. Property, plant and equipment is stated at cost (or 'deemed 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 and leasehold buildings:

With a residual lease term of greater than fifty years	- 2% per annum straight line
Other leasehold buildings	- over the term of the lease

Equipment, fixtures, fittings and motor vehicles:

Refurbishment expenditure	- 6.67% to 10% per annum, straight line
Equipment, fixtures and fittings	- 10% per annum, straight line
Computer equipment	- 20% per annum, straight line
Motor vehicles	- over the term of the lease

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.

Lease Purchase and Leasing
The Group enters into lease purchase contracts and finance and operating leases. Assets held under lease purchase contracts and finance leases are capitalised in property, plant and equipment at the fair value of the asset at the inception of the lease, with an equivalent liability categorised under other liabilities. Assets are depreciated in accordance with the relevant Group policy, over the lower of the useful life of the asset and the term of the lease. Finance charges are allocated to accounting periods over the life of each lease on a straight line basis or using the sum of digits method, depending on the cash flows attached to the agreement. Rentals under operating leases are charged on a straight line basis over the lease term. Both finance charges and rentals are recognised in administrative expenses in the Income Statements.

Significant Accounting Policies Continued

Taxation
Corporation tax is charged on profits adjusted for tax purposes. Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements of the individual entities. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and 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 Group has adopted IAS 19(Revised 2011) in the year; the revised standard updates the recognition, presentation and disclosure requirements for retirement benefit plans.

For the year ended 31 December 2013, Operating Income is £0.3m lower than it would have been prior to the adoption of the revised IAS 19. This difference arises on replacing the interest cost on defined benefit obligation and expected return on scheme assets with a single interest charge on the net retirement benefit liability, as well as recognition in the Income Statements of scheme administration expenses. If the revised standard had applied in the prior year, other Operating Income would have been £0.3m lower, with an equivalent increase in Other Comprehensive Income. The comparative figures in the Income Statements and Statements of Comprehensive Income have not been restated for the adoption of IAS 19 (revised 2011) as the impact on the Society's results would be insignificant. There would be no other impact on the Group's net assets or reserves as a consequence of retrospectively applying the revised IAS 19.

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. Contingent liabilities have not been recognised.

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, identified as the Board of Directors) 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 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 assumptions are made are as follows:

Pensions
Significant judgements are required in relation to the assumptions for the valuation of the pension scheme surplus or deficit including discount, interest and mortality rates, inflation 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 31 to the Annual Accounts.

Effective Interest Rate (EIR)
To calculate the appropriate EIR, certain assumptions are made in respect of the expected lives of specific asset portfolios which take into account such factors as the terms of the particular product, historic repayment data and prevailing economic conditions. These estimates are reviewed on a regular basis to ensure they reflect the portfolio's actual performance.

Impairment of Financial Assets
On loans fully secured on residential property the key assumptions in assessing the underlying value of the assets held as security for the loans is based on historic data and prudent expectations around future conditions. An estimate of forced sale adjustments (covering house price falls and disposal costs) has an impact on the level of provisioning for possession and arrears exposures.

A forced sale adjustment that was higher by 5% would increase residential provisions by £0.1m.

Loans secured on commercial property or land are more individually significant. Provision is made against loans in arrears, possession or Law of Property Act 1925 (LPA) receivership, or where a trigger event raises the likelihood of future problems servicing the loan. The key assumptions used in the discounted future value calculations used to determine the level of impairment required in respect of individual financial assets include:

- Predictions of the future value of underlying assets held as security for loans advanced, based on historic data, professional advice and expectations around future conditions including tenancy levels;
- Any sale adjustments, disposal costs, fees or other cash flows applicable;
- Any applicable adjustments arising on hedging instruments relating to the loan as employed by the Society; and
- Timing of cash flows.

Impairment of Treasury Assets
Treasury investments are regularly reviewed for objective evidence of impairment. In determining whether objective evidence exists, the Group considers, amongst other factors, financial difficulties of the counterparty, missed payments in breach of contractual arrangements, appointment of an administrator and current market conditions. Provision is made against treasury assets with reference to information provided by administrators on recoverability and also against traded market values. A 1% increase in the average recovery and market value assumption would reduce the current provision by £0.3m (and vice-versa).

Fair Value of Derivatives and Financial Assets
Fair values are determined by the three tier valuation hierarchy as defined within IFRS 7, Financial Instruments.

Where available, quoted market prices are used to facilitate valuations made. Financial valuation models using observable input data are used to value derivative financial instruments for which no active market exists. Further details are given in Note 33 to the Accounts.

Financial Services Compensation Scheme Provision
As explained in Note 26, the Society is committed to paying a levy to the Financial Services Compensation Scheme (FSCS). The provision for these costs in this year's accounts relate to payments to be made in future periods. The actual payments to be made are subject to change because they are dependent on the realisation of the assets of the institutions which have triggered the claims against the FSCS and future interest rates.

Significant Accounting Policies Continued

The Society has estimated its obligations to the Scheme with reference to currently available external information on both interest due on the loans and the amount of capital shortfall on the loans made to failed financial institutions.

Taxation
The Group is subject to tax in three jurisdictions and, consequently, estimates are required in determining the provision for corporation tax. As shown in Note 19 to the Annual Accounts the Group has deferred tax assets which are considered recoverable given the Society and Group plans over the planning horizon.

Accounting Developments
At the date of approval of these financial statements the following new and amended International Financial Reporting Standards are mandatory for the first time for the financial year beginning 1 January 2013.

- IAS 1 Presentation of Items of Other Comprehensive Income- retains the 'one or two statement' approach, requiring separate subtotals for those elements which may be 'recycled' and those elements that will not.
- IFRS 1 Government Loans- accounting for Government support. Not applicable to the Society.
- IFRS 7 Financial Instruments: Disclosures – these amendments require an entity to disclose information about rights of set-off and related arrangements (e.g. collateral agreements). The disclosures provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position.
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements- creates a new, and broader, definition of control than under the previous IAS 27.
- IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures- represents a significant change for parties currently accounting for interests in jointly controlled entities using proportionate consolidation. Not applicable to the Society.
- IFRS 12 Disclosures of Interests in Other Entities- sets out the disclosure requirements in respect of IFRS 10 and IFRS 11.
- IFRS 13 Fair Value Measurement - describes how to measure fair value where fair value is required or permitted by IFRS;
- IAS 19 Employee Benefits (Revised) - amendments which represent a significant further step in reporting gains and losses outside of profit and loss, with no subsequent recycling. Actuarial remeasurements will be recognised immediately in other comprehensive income; and
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine-applies to waste disposal functions. Not applicable to the Society.

Developments not effective at 31 December 2013
There are a number of new or amended standards which become effective in 2014, and beyond, which allow for early adoption but the Society is not taking up any of those standards before their mandatory date.

- IFRIC 21 Accounting for Levies- clarifies the trigger point for recognising a provision based on a government imposed levy as being the 'obligating event that triggers payment'.
- IAS 32 Offsetting Financial Assets and Financial Liabilities – these amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency.
- IAS 36 Recoverable amount disclosures for non financial assets- these amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable.
- IFRS 9 Financial instruments will supersede IAS 39 giving classification and measurement, impairment and hedge accounting requirements for financial instruments. The Society is monitoring the development of IFRS 9 closely. In 2013 the implementation date for the standard was revised from 2015 to an undefined future period.

2 Interest receivable and similar income

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
On loans and advances to customers	**105.5**	116.3	**105.7**	116.8
On debt securities				
- interest and other income	**11.8**	18.8	**11.8**	18.8
- profits net of losses on realisation	**7.9**	9.1	**7.9**	9.1
On other liquid assets				
- interest and other income	**2.0**	2.9	**2.0**	2.9
Net expense on derivatives hedging assets	**(32.2)**	(36.8)	**(32.2)**	(36.8)
	95.0	110.3	**95.2**	110.8

3 Interest payable and similar charges

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
On shares held by individuals	**86.5**	97.1	**86.5**	97.1
On subscribed capital	**3.6**	3.6	**3.6**	3.6
On deposits and other borrowings				
- subordinated liabilities	**3.4**	2.6	**3.4**	2.6
- to other depositors and borrowers	**2.2**	3.1	**2.2**	3.1
Net income on derivatives hedging liabilities	**(24.1)**	(16.0)	**(24.1)**	(16.0)
	71.6	90.4	**71.6**	90.4

4 Other income and charges

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Other income				
Fee and commission income	**8.4**	11.5	**5.5**	8.0
Other operating income	**17.7**	17.3	**17.4**	16.7
	26.1	28.8	**22.9**	24.7

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Other charges				
Fee and commission expense	**1.4**	0.9	**1.4**	0.9

5 Income from shares in subsidiary undertakings

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Received from subsidiary undertakings	**-**	-	**3.1**	-

6 Administrative expenses

	Note	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Staff costs	7	**23.1**	23.2	**21.5**	20.2
Rentals under operating leases for land and buildings					
- payable to third parties		**1.4**	1.6	**1.4**	1.6
- payable to subsidiary undertaking		**-**	-	**0.1**	0.1
Other administrative expenses		**10.1**	9.7	**9.7**	8.7
		34.6	34.5	**32.7**	30.6

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

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Fees payable to the Society's auditors for audit of Society and consolidated financial statements	**0.2**	0.2	**0.2**	0.2
Fees payable to the Society's auditors for other services	**0.1**	0.1	**0.1**	0.1
	0.3	0.3	**0.3**	0.3

Fees payable to the Society's auditor for the audit of consolidated financial statements includes **£24k** (2012: £24k) attributable to subsidiary companies. Fees payable to the Society's auditor for other services includes **£1.5k** (2012: £14k) for tax services, and **£140k** (2012: £95k) for other non-audit services.

7 Staff costs

	Note	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Wages and salaries		**19.2**	19.9	**17.9**	17.2
Social security costs		**1.7**	1.8	**1.5**	1.6
Pension costs for defined contribution plans		**2.2**	1.5	**2.1**	1.4
	6	**23.1**	23.2	**21.5**	20.2

Directors' emoluments are disclosed in the Remuneration Committee report on page 28.

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

	GROUP 2013	GROUP 2012	SOCIETY 2013	SOCIETY 2012
Full time	**673**	699	**642**	663
Part time	**203**	205	**202**	204
	876	904	**844**	867
Principal Office	**662**	678	**653**	670
Branches	**214**	226	**191**	197
	876	904	**844**	867

8 Taxation expense

	Note	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Current tax					
UK corporation tax on profit at 23.25% (2012: 24.5%) for the year		**-**	-	**-**	-
Group relief for the year		**-**	-	**(0.3)**	-
(Over) / under provision in respect of previous years		**-**	(0.3)	**-**	0.6
Total current tax		**-**	(0.3)	**(0.3)**	0.6
Deferred tax					
Current year	19	**1.9**	1.5	**2.2**	1.8
Under / (over) provision in respect of previous years		**-**	0.3	**(0.2)**	0.6
Total deferred tax		**1.9**	1.8	**2.0**	2.4
Total taxation expense in the Income Statements		**1.9**	1.5	**1.7**	3.0
Analysis of taxation expense 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:					
Profit before taxation		**2.0**	1.5	**2.2**	3.0
Profit before taxation at the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)		**0.5**	0.4	**0.5**	0.7
Expense / (income) not taxable / deductible for tax purposes:					
Expenses		**0.1**	0.1	**0.8**	0.1
Non-taxable dividend income received		**-**	-	**(0.7)**	-
Rate change		**1.3**	1.0	**1.3**	1.0
(Over) / under provision in respect of previous years		**-**	-	**(0.2)**	1.2
Total taxation expense		**1.9**	1.5	**1.7**	3.0

Factors affecting future tax charges

The Society has unrelieved trading losses which are expected to affect future taxable profits.

In addition to the changes in rates of Corporation tax disclosed above a further reduction of 2% to the main rate was announced in the March 2013 UK Budget Statement to 21% for the financial year 2014-2015. This change has been substantively enacted at the balance sheet date and, therefore, is included in these financial statements. A further reduction of 1% to 20% by the Financial year 2015-2016 was also enacted and has been reflected in deferred tax assets 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 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, provisions, FSCS levy and exceptional items is also assessed as this provides information on underlying business performance excluding legacy portfolio impairment charges, levies outside of managements direct control and non-recurring items.

No segment information is presented on geographical lines, because substantially all of the Group's activities are in the United Kingdom.

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.

Year to 31 December 2013	**Member Business £m**	**Solutions Business £m**	**Total £m**
Net interest receivable	**23.4**	**-**	**23.4**
Other income and charges	**8.8**	**15.9**	**24.7**
Losses recognised on revaluation of investment properties	**(1.1)**	**-**	**(1.1)**
Gains less losses from financial instruments and hedge ineffectiveness	**0.5**	**-**	**0.5**
Administrative expenses	**(26.2)**	**(8.4)**	**(34.6)**
Depreciation	**(1.7)**	**(0.6)**	**(2.3)**
Operating profit before impairments, provisions, FSCS levy and exceptional items	**3.7**	**6.9**	**10.6**
Impairment credit on loans and advances to banks	**0.8**	**-**	**0.8**
Impairment charges on loans and advances to customers	**(6.9)**	**0.2**	**(6.7)**
Provision for liabilities and charges	**(3.3)**	**-**	**(3.3)**
Gain on disposal of Prepaid Cards business	**-**	**0.6**	**0.6**
(Loss) / profit for the year before taxation	**(5.7)**	**7.7**	**2.0**
Taxation expense			**(1.9)**
Profit after taxation for the financial year			**0.1**
Total assets	**3,665.7**	**4.0**	**3,669.7**

Year to 31 December 2012	Member Business £m	Solutions Business £m	Total £m
Net interest receivable	19.9	-	19.9
Other income and charges	11.7	16.2	27.9
Losses recognised on revaluation of investment properties	(1.0)	-	(1.0)
Gains less losses from financial instruments and hedge ineffectiveness	0.7	-	0.7
Administrative expenses	(25.6)	(8.9)	(34.5)
Depreciation	(2.0)	(0.6)	(2.6)
Operating profit before impairments, provisions, FSCS levy and exceptional items	3.7	6.7	10.4
Impairment credit on loans and advances to banks	0.7	-	0.7
Impairment charges on loans and advances to customers	(9.1)	0.8	(8.3)
Provision for liabilities and charges	(2.1)	-	(2.1)
Gain on disposal of Prepaid Cards business	-	0.8	0.8
(Loss) / profit for the year before taxation	(6.8)	8.3	1.5
Taxation expense			(1.5)
Result after taxation for the financial year			-
Total assets	4,035.7	4.4	4,040.1

10 Gain on Disposal of Prepaid Cards Division

On 21st December 2011 the Society sold its Prepaid Cards division (PPC) to Wirecard AG ("the Buyer").

The total purchase price was £10m payable as £7.5m in cash on the date of legal completion and £2.5m payable as deferred consideration based on the financial performance of PPC in 2012 and 2013. As the deferred consideration is based solely on financial performance measures this meets the definition of a derivative under IAS39 and is therefore recognised at fair value. The valuation of the derivative is based on a prudent and probability based assessment of expected future performance with the cash receivable discounted back to present value at the year-end.

	2013 £m	2012 £m
Net Gain on disposal	0.6	0.8

11 Loans and advances to banks

Repayable from the date of the Balance Sheets in the ordinary course of business as follows:

	GROUP		SOCIETY	
	2013 £m	2012 £m	2013 £m	2012 £m
Accrued interest	-	0.3	-	0.3
On demand	1.0	1.1	0.7	1.0
In not more than three months	131.1	182.2	131.1	182.2
In more than three months but not more than one year	-	11.5	-	11.5
Gross loans and advances to banks	132.1	195.1	131.8	195.0
Less: allowance for losses on loans and advances to banks	(18.9)	(19.7)	(18.9)	(19.7)
	113.2	175.4	112.9	175.3

Allowance for losses on loans and advances to banks

	GROUP and SOCIETY 2013 £m	2012 £m
Balance at 1 January	19.7	20.4
New provisions during the year	-	-
Amounts released for the year	(0.8)	(0.7)
At 31 December	18.9	19.7

At 31 December 2013 the Society had loans and advances to Icelandic banks totalling **£23.4m** (2012: £25.4m), against which allowance for losses of **£18.9m** (2012: £19.7m) has been made. The Society sold its exposure to Glitnir in October 2013 and received the funds subsequent to the year-end. Book value reflected the final agreed sales price less disposal costs.

12 Debt securities

	GROUP and SOCIETY 2013 £m	2012 £m
Transferable debt securities		
Issued by public bodies - listed	98.7	-
Issued by other borrowers - unlisted	378.6	574.3
	477.3	574.3

These have remaining maturities as follows:		
Accrued interest	2.9	6.0
In not more than one year	37.6	17.5
In more than one year but not more than five years	359.6	477.2
In more than five years	77.2	73.6
	477.3	574.3

The Directors consider that the primary purpose of holding securities is to comply with prudential requirements. All transferable 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 being available for sale and are recognised, both initially and subsequently, at fair value with changes recognised directly in other comprehensive income.

Unlisted debt securities are primarily AAA related holdings of RMBS and covered bonds.

Under IAS 39 as amended, certain financial instruments were reclassified with effect from 1 July 2008. The table below sets out the financial instruments reclassified and their carrying and fair values:

	31 December 2013		31 December 2012	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Fair value through profit or loss financial instruments reclassified to held to maturity financial instruments	6.4	5.8	4.7	3.4

13 Assets pledged as collateral

At the end of 2013 the Group has no assets pledged as collateral under repurchase agreements with banks (2012: £54.0m).

The nature and carrying amounts of the assets pledged as collateral are as follows:

	Group and Society Asset		Group and Society Related liability	
	2013 £m	2012 £m	2013 £m	2012 £m
Debt securities pledged	-	54.0	-	55.2

14 Loans and advances to customers

	GROUP		SOCIETY	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Loans fully secured on residential property	**2,418.5**	2,408.7	**2,405.0**	2,388.3
Loans fully secured on land	**290.0**	316.7	**290.0**	316.7
Other loans	**22.7**	29.7	**22.7**	29.7
Gross loans and advances	**2,731.2**	2,755.1	**2,717.7**	2,734.7
Less: allowance for losses on loans and advances	**(30.5)**	(27.5)	**(30.5)**	(27.5)
	2,700.7	2,727.6	**2,687.2**	2,707.2

Loans and advances to customers have remaining contractual maturities as follows:

	GROUP		SOCIETY	
	2013 £m	2012 £m	**2013 £m**	2012 £m
On demand	**10.5**	13.4	**10.5**	13.4
In not more than three months	**109.1**	127.7	**109.1**	127.6
In more than three months but not more than one year	**91.8**	121.2	**91.7**	121.0
In more than one year but not more than five years	**338.5**	337.1	**337.6**	336.0
In more than five years	**2,181.3**	2,155.7	**2,168.8**	2,136.7
Gross loans and advances	**2,731.2**	2,755.1	**2,717.7**	2,734.7
Less: allowance for losses on loans and advances	**(30.5)**	(27.5)	**(30.5)**	(27.5)
	2,700.7	2,727.6	**2,687.2**	2,707.2

Where a loan is repayable by instalment, each such instalment has been treated as a separate repayment in the maturity analysis set out above. The Group's experience is that in many cases mortgages are redeemed before their scheduled maturity date. As a consequence, the maturity analysis illustrated above may not reflect actual experience.

Allowance for losses on loans and advances

GROUP and SOCIETY

	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total		
	Individual £m	Collective £m	Individual £m	Collective £m	Individual £m	Collective £m	Individual £m	Collective £m	Total £m
Balance at 1 January 2013	2.3	0.6	18.7	5.5	0.3	0.1	21.3	6.2	27.5
Charge / (write-back) for the year	0.8	(0.2)	6.1	-	-	-	6.9	(0.2)	6.7
Written off during the year	(1.6)	-	(4.2)	-	-	(0.1)	(5.8)	(0.1)	(5.9)
Interest suspended	0.2	-	2.0	-	-	-	2.2	-	2.2
At 31 December 2013	**1.7**	**0.4**	**22.6**	**5.5**	**0.3**	**-**	**24.6**	**5.9**	**30.5**

GROUP and SOCIETY

	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total		
	Individual £m	Collective £m	Individual £m	Collective £m	Individual £m	Collective £m	Individual £m	Collective £m	Total £m
Balance at 1 January 2012	1.9	0.3	13.0	1.3	0.4	0.1	15.3	1.7	17.0
Charge / (write-back) for the year	0.6	0.3	4.5	3.0	(0.1)	-	5.0	3.3	8.3
(Written off) / written back during the year	(0.4)	-	(0.7)	0.7	-	-	(1.1)	0.7	(0.4)
Interest suspended	0.2	-	1.9	0.5	-	-	2.1	0.5	2.6
At 31 December 2012	**2.3**	**0.6**	**18.7**	**5.5**	**0.3**	**0.1**	**21.3**	**6.2**	**27.5**

15 Fair value adjustment for hedged risk

As disclosed in the statement of accounting policies, when specific criteria are met, the Group applies fair value hedge accounting and the adjustments to assets and liabilities are included on the balance sheet under the heading 'Fair value adjustment for hedged risk'. The fair value adjustment for hedged risk for assets for the Group and Society was **£13.6m**, (2012: £40.0m). The fair value adjustment for hedged risk for liabilities for the Group and Society was **£4.5m**, (2012: £17.5m).

16 Investments in subsidiary undertakings

SOCIETY

	Shares £m	Loans £m	Total £m
Investments in subsidiary undertakings			
Cost			
At 1 January 2013	6.0	36.3	42.3
Additions	-	1.1	1.1
Repayments received	-	(16.5)	(16.5)
At 31 December 2013	**6.0**	**20.9**	**26.9**
Provisions			
At 1 January 2013	0.6	-	0.6
Write Offs	-	3.1	3.1
At 31 December 2013	**0.6**	**3.1**	**3.7**
Net book amount at 31 December 2013	**5.4**	**17.8**	**23.2**

	Shares £m	Loans £m	Total £m
Investments in subsidiary undertakings			
Cost			
At 1 January 2012	6.0	42.1	48.1
Additions	-	2.0	2.0
Repayments received	-	(7.8)	(7.8)
At 31 December 2012	**6.0**	**36.3**	**42.3**
Provisions			
At 1 January 2012	0.6	-	0.6
Write Offs	-	-	-
At 31 December 2012	**0.6**	**-**	**0.6**
Net book amount at 31 December 2012	**5.4**	**36.3**	**41.7**

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. In 2013 the Society's loan to Kings Manor Properties Limited was written down to the value of the subsidiary's net assets, an adjustment of £3.1m.

Name of principal subsidiary undertakings	Principal activity
Kings Manor Properties Limited	Residential property rental
Newcastle Financial Services Limited	Provision of financial services
Newcastle Mortgage Loans (Jersey) Limited	Mortgage lending
Newcastle Portland House Limited	Commercial property rental
Newcastle Strategic Solutions Limited	Provision of specialised products and services
Newton Facilities Management Limited	Provision of managed IT services

All the above subsidiary undertakings, except for Newcastle Mortgage Loans (Jersey) Limited, which is incorporated and operates in Jersey, are incorporated in England and Wales and operate in the United Kingdom.

17 Property, plant and equipment

GROUP

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2013	6.7	12.2	28.5	47.4
Additions	-	-	0.6	0.6
Disposals	-	-	(0.1)	(0.1)
At 31 December 2013	**6.7**	**12.2**	**29.0**	**47.9**
Accumulated depreciation				
At 1 January 2013	0.8	3.0	20.6	24.4
Charge for the year	0.1	0.2	2.0	2.3
Disposals	-	-	(0.2)	(0.2)
At 31 December 2013	**0.9**	**3.2**	**22.4**	**26.5**
Net book amount at 31 December 2013	**5.8**	**9.0**	**6.6**	**21.4**

GROUP

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2012	6.7	12.2	27.0	45.9
Additions	-	-	1.7	1.7
Disposals	-	-	(0.2)	(0.2)
At 31 December 2012	**6.7**	**12.2**	**28.5**	**47.4**
Accumulated depreciation				
At 1 January 2012	0.7	2.8	18.5	22.0
Charge for the year	0.1	0.2	2.3	2.6
Disposals	-	-	(0.2)	(0.2)
At 31 December 2012	**0.8**	**3.0**	**20.6**	**24.4**
Net book amount at 31 December 2012	**5.9**	**9.2**	**7.9**	**23.0**

17 Property, plant and equipment Continued

SOCIETY

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2013	6.7	0.9	26.4	34.0
Additions	-	-	0.6	0.6
Disposals	-	-	(0.1)	(0.1)
At 31 December 2013	**6.7**	**0.9**	**26.9**	**34.5**
Accumulated depreciation				
At 1 January 2013	0.8	0.1	18.5	19.4
Charge for the year	0.1	-	1.9	2.0
Disposals	-	-	(0.1)	(0.1)
At 31 December 2013	**0.9**	**0.1**	**20.3**	**21.3**
Net book amount at 31 December 2013	**5.8**	**0.8**	**6.6**	**13.2**

SOCIETY

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2012	6.7	0.9	24.9	32.5
Additions	-	-	1.7	1.7
Disposals	-	-	(0.2)	(0.2)
At 31 December 2012	**6.7**	**0.9**	**26.4**	**34.0**
Accumulated depreciation				
At 1 January 2012	0.7	0.1	16.4	17.2
Charge for the year	0.1	-	2.3	2.4
Disposals	-	-	(0.2)	(0.2)
At 31 December 2012	**0.8**	**0.1**	**18.5**	**19.4**
Net book amount at 31 December 2012	**5.9**	**0.8**	**7.9**	**14.6**

Included within Equipment, fixtures, fittings and motor vehicles are assets under finance leases, which comprise motor vehicles and a long lease hold property that have the following net book amounts.

	GROUP and SOCIETY 2013 £m	2012 £m
Cost		
At 1 January	**0.9**	1.0
Accumulated depreciation	**(0.1)**	(0.1)
Net book amount at 31 December	**0.8**	0.9

18 Investment properties held for sale

	GROUP 2013 £m	2012 £m
Fair value		
At 1 January	14.0	15.9
Net losses from fair value adjustments	(1.1)	(1.0)
Disposals	(8.6)	(0.9)
At 31 December	4.3	14.0

The residential investment property business does not fall into the Group's simplified building society model and the decision was taken to dispose of this portfolio of assets in 2012. At 31 December 2013 all assets remaining on balance sheet were sold subject to contract. The asset carrying amount has been fair valued to reflect the agreed sale price of the remaining units.

A revaluation deficit of £1.1m has arisen on valuation of investment property to fair value as at 31 December 2013 (2012: £1.0m) and this has been taken to the Income Statement.

The historical cost of the Group's investment property as at 31 December 2013 is **£5.6m** (2012: £15.6m).

Investment property rental income (included within other income) and direct operating expenses (included within administrative expenses) for the Group are as shown below:

	GROUP 2013 £m	2012 £m
Income from rental properties	0.3	0.7
Operating expenses relating to rental properties	(0.3)	(0.2)
Net rental income from rented properties	-	0.5

19 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a tax rate of **20%** (2012: 23%).

The movement on the deferred tax account is shown below.

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
At 1 January	11.0	12.9	11.0	13.5
Income Statements expense	(1.9)	(1.5)	(2.2)	(1.8)
Over / (under) provision in respect of prior years	-	(0.3)	0.2	(0.6)
Credited / (debited) on items taken directly through reserves	0.7	(0.1)	0.7	(0.1)
Transfer of capital losses from subsidiary undertaking	-	-	0.4	-
At 31 December	9.8	11.0	10.1	11.0

Deferred tax assets and liabilities are attributable to the following items.

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Deferred tax assets				
Short term timing differences	0.6	1.3	0.3	0.7
Other items	0.8	1.2	0.8	1.2
Trading losses	7.3	7.5	7.3	7.5
Depreciation in excess of capital allowances	1.1	1.6	1.7	1.6
	9.8	11.6	10.1	11.0
Deferred tax liabilities				
Accelerated capital allowances	-	(0.6)	-	-
	-	(0.6)	-	-
Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	0.8	1.5	0.6	0.9
Deferred tax asset to be recovered in more than 12 months	9.0	10.1	9.5	10.1
	9.8	11.6	10.1	11.0
Deferred tax liabilities				
Deferred tax liability to be recovered in less than 12 months	-	-	-	-
Deferred tax liability to be recovered in more than 12 months	-	(0.6)	-	-
	-	(0.6)	-	-

The deferred tax expense in the Income Statements comprises the following temporary differences:

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Short term timing differences	(0.7)	(0.8)	(0.4)	(1.0)
Other items	(0.5)	0.3	(0.9)	0.3
Trading losses	(0.8)	(2.4)	(0.8)	(2.6)
Depreciation in excess of capital allowances	0.1	1.1	0.1	0.9
	(1.9)	(1.8)	(2.0)	(2.4)

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

20 Other assets

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Receivable from subsidiary undertakings	-	-	3.2	7.6
Interest receivable on financial instruments	2.0	5.8	2.0	5.8
Prepayments and accrued income	7.0	9.4	13.5	15.8
Other	2.0	2.5	2.1	2.1
	11.0	17.7	20.8	31.3

21 Due to Members

	GROUP and SOCIETY 2013 £m	GROUP and SOCIETY 2012 £m
Held by individuals	3,236.0	3,445.3
Other shares	0.1	0.1
	3,236.1	3,445.4

Repayable from the date of the Balance Sheets in the ordinary course of business as follows:

	2013 £m	2012 £m
Accrued interest	39.2	40.4
On demand	1,646.7	1,686.9
In not more than three months	927.1	1,008.2
In more than three months but not more than one year	437.1	569.7
In more than one year but not more than five years	183.3	140.1
In more than five years	2.7	0.1
	3,236.1	3,445.4

Included within due to member balances above is **£98.5m** (2012: £159.6m) of Capital Protection Bonds. The fair value includes adjustments of **£16.8m** (2012: £20.4m) which are attributable to changes in benchmark equity and interest rates. The Society is contractually required to pay only the par value of the shares on maturity.

22 Due to other customers

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Amounts owed to subsidiary undertakings	-	-	0.1	3.1
Other	122.7	160.8	122.7	160.8
	122.7	160.8	122.8	163.9

Repayable from the date of the Balance Sheet in the ordinary course of business as follows:

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Accrued interest	0.6	0.7	0.6	0.7
On demand	3.5	4.4	3.5	4.4
In not more than three months	48.1	67.2	48.2	70.3
In more than three months but not more than one year	43.5	88.4	43.5	88.4
In more than one year but not more than five years	27.0	0.1	27.0	0.1
	122.7	160.8	122.8	163.9

23 Deposits from banks

Repayable from the date of the Balance Sheets in the ordinary course of business as follows:

	GROUP and SOCIETY 2013 £m	GROUP and SOCIETY 2012 £m
Accrued interest	-	0.1
In not more than three months	4.4	17.4
In more than three months but not more than one year	1.0	59.7
In more than one year but not more than five years	6.0	-
	11.4	77.2

24 Debt securities in issue

	GROUP and SOCIETY 2013 £m	GROUP and SOCIETY 2012 £m
Certificates of deposits	7.5	8.0

Debt securities have remaining maturities as follows:

	2013 £m	2012 £m
In not more than three months	1.0	3.0
In more than three months but not more than one year	6.5	5.0
	7.5	8.0

25 Other liabilities

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Amounts payable to subsidiary undertakings	-	-	6.2	9.5
Third party income tax withheld	0.8	1.3	0.8	1.3
Obligations under finance leases	1.1	1.1	1.1	1.1
Other creditors	1.2	8.6	0.9	8.5
Accruals and deferred income	7.3	8.0	6.9	6.9
	10.4	19.0	15.9	27.3

Obligations under finance leases fall due as follows:

	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Within one year	0.1	0.1	0.1	0.1
In one to two years	0.1	0.1	0.1	0.1
In two to five years	0.1	0.1	0.1	0.1
In more than five years	0.8	0.8	0.8	0.8
	1.1	1.1	1.1	1.1

These liabilities are secured by charges over the assets to which they relate.

There is not a material difference between the minimum lease payment at the balance sheet date and their present value.

26 Provisions for liabilities and charges

GROUP and SOCIETY

	Repositioning Programme £m	FSCS Levy £m	Other Provisions £m	Total £m
Opening Provision at 1 January 2013	**0.8**	**3.8**	**0.4**	**5.0**
New Provisions during the year	**-**	**2.0**	**1.3**	**3.3**
Amounts utilised / released during the year	**(0.2)**	**(2.7)**	**(0.3)**	**(3.2)**
Closing Provision at 31 December 2013	**0.6**	**3.1**	**1.4**	**5.1**

GROUP and SOCIETY

	Repositioning Programme £m	FSCS Levy £m	Other Provisions £m	Total £m
Opening Provision at 1 January 2012	1.1	3.1	4.2	8.4
New Provisions during the year	-	2.1	-	2.1
Amounts utilised during the year	(0.3)	(1.4)	(3.8)	(5.5)
Closing Provision at 31 December 2012	0.8	3.8	0.4	5.0

Provision for Financial Services Compensation Scheme Levy

In common with all regulated UK deposit takers, the Society pays a levy to the Financial Services Compensation Scheme (FSCS) which covers a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes, using the rights that have been assigned to it. During the latter part of 2008 claims against the FSCS were triggered by the transfer of Bradford and Bingley's retail deposit business to Abbey National (now Santander) and the defaults of Kaupthing Singer and Friedlander, Heritable Bank and Landsbanki (Icesave). Further defaults arose in relation to London Scottish Bank and Dunfermline Building Society. The FSCS has met these claims by way of loans received from HM Treasury.

The FSCS is liable to pay interest on the loans from HM Treasury and has a further liability where there are insufficient funds available from the realisation of the assets of the relevant institutions to repay fully the respective HM Treasury loans.

The Society has recognised a provision of £3.1m at 31 December 2013 for the scheme years 2013/14 and 2014/15 which is calculated with reference to the eligible deposits the Society held at 31 December 2012 and 31 December 2013. Interest payable has been calculated using the latest available information published by the FSCS and with reference to the expected 12 month LIBOR rates over the relevant period. The Society has also provided for its share of the capital levy at 31 December 2013 based on the latest FSCS information.

As further information is provided by the FSCS the Society will continue to update its estimate of the amount of FSCS levies it will ultimately be required to pay.

Provision for Repositioning costs

The Society established a £4m provision in 2010 to cover costs and fees associated with its programme of cost reduction, business simplification and property rationalisation. At 31 December 2013 £0.6m (2012: £0.8m) of the provision remained, relating to vacant properties that the Society is currently marketing with property agents.

Other provisions

Other provisions include amounts provided for on Prepaid Card debtors and settlement liabilities for Prepaid Card programmes, which remain with the Society following the disposal of the Prepaid Cards Division. Other provisions include an estimate of the costs of potential consumer redress which is currently the subject of a detailed review.

Mortgage Payment Protection Insurance (MPPI)

The Society has established a small provision of £10k (2012: £23k) against MPPI mis-selling claims. The provision covers costs of dealing with claims rather than any compensation payable. The Society has never sold single premium policies with charges loaded up front and the Society has no issues with regard to systemic mis-selling of MPPI.

Notes to the Accounts for the year ended 31 December 2013

27 Subordinated liabilities

	GROUP and SOCIETY 2013 £m	2012 £m
7.375% fixed rate subordinated notes 2015	**9.6**	9.6
8.190% fixed rate subordinated notes 2017	**25.0**	25.0
6.625% fixed rate subordinated notes 2019	**25.0**	25.0
Less: unamortised issue costs	**(0.1)**	(0.1)
Less: unamortised capital exchange costs	**(0.5)**	(0.6)
	59.0	58.9

On a winding up, the subordinated notes rank behind the claims against the Society of all depositors, creditors and investing Members (other than holders of deferred shares i.e. permanent interest bearing shares) of the Society. The notes are repayable at the Society's option and with the prior consent of the Financial Conduct Authority, on any interest date within five years of the maturity date.

On 10 May 2010 the Society announced that a Capital Agreement had been approved by holders of certain classes of the Society's existing subordinated debt and permanent interest bearing shares. The Capital Agreement involved adding a conversion feature such that the relevant instruments would convert into profit participating deferred shares (PPDS) should the Society's core tier 1 capital ratio fall below 5%. In return for this feature an increase in coupon was agreed as follows:

£11 million 6.375% fixed rate subordinated notes due 2015 (increase in coupon of 1%);

£25 million 7.19% fixed rate subordinated loan due 2017 (increase in coupon of 1%); and

£10 million 12% permanent interest bearing shares (increase in coupon of 0.25%)

The relevant instruments cease to be convertible and the coupon uplift falls away if the Society's core tier 1 capital ratio exceeds 12%.

In the event of conversion, the PPDS would qualify as core tier 1 capital of the Society and be eligible for a dividend payment based on a percentage of the Society's annual post-tax profits. This percentage, which would be determined at the time of conversion, would be equivalent to that proportion of the Society's core tier 1 capital which the PPDS represent immediately after conversion (the "Participation Percentage"). Any such dividend would be at the sole discretion of the Society's board of directors and any dividends would be non-cumulative. The PPDS would be deferred shares for the purposes of Section 119 of the Building Societies Act 1986, as amended, and would be perpetual instruments with no maturity date or right to repayment other than on a winding-up. The PPDS would also absorb the Participation Percentage of any consolidated post-tax losses recorded by the Society, any such amount being debited to a reserve account maintained by the Society for the purpose of the PPDS (the PPDS Reserve Account). Any net profits which are eligible to be paid to holders of PPDS as dividends but which are not so paid would be credited to the PPDS Reserve Account. No dividends may be paid on the PPDS in years where the Society incurs consolidated post-tax losses or where the PPDS Reserve Account is in deficit as a result of previous years' losses.

The conversion feature is considered to be an embedded derivative requiring separate recognition. There was a gain arising on the recognition of the embedded derivative in May 2010 of £0.1m although as this is based on an internal cashflow model with no observable market data, this gain was not recognised in accordance with IAS 39. The fair value of the embedded derivative has not changed materially as at 31 December 2013 and therefore a market value of £nil has been recorded.

On 2 October 2012 the coupon on the £25m 2017 subordinated debt increased by 1% to 8.19%.

28 Subscribed capital

	GROUP and SOCIETY 2013 £m	2012 £m
12.625% permanent interest bearing shares	**10.0**	10.0
10.750% permanent interest bearing shares	**10.0**	10.0
12.250% permanent interest bearing shares	**10.0**	10.0
	30.0	30.0
Less: unamortised issue costs	**(0.1)**	(0.1)
Less: unamortised capital exchange costs	**(0.2)**	(0.2)
	29.7	29.7

The subscribed capital was issued for an indeterminate period and is only repayable in the event of the winding up of the Society.

The £10.0m 12.25% permanent interest bearing shares were included in the Capital Agreement as described in Note 27.

29 Note to the Cash Flow Statements

Reconciliation of profit before taxation to net cash outflow from operating activities	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Profit before taxation	**2.0**	1.5	**2.2**	3.0
Depreciation and amortisation	**2.3**	2.6	**2.0**	2.4
Interest on subordinated liabilities	**3.4**	2.6	**3.4**	2.6
Interest on subscribed capital	**3.6**	3.6	**3.6**	3.6
Decrease in derivative financial instruments	**(10.2)**	(11.1)	**(10.2)**	(11.1)
Increase in other financial liabilities at fair value through profit or loss	**13.4**	6.8	**13.4**	6.8
Changes in retirement benefit obligations	**(2.0)**	5.2	**(2.0)**	5.2
Other non-cash movements	**22.1**	30.2	**21.1**	29.4
Net cash inflow before changes in operating assets and liabilities	**34.6**	41.4	**33.5**	41.9
Decrease in loans and advances to customers	**23.9**	238.6	**17.0**	233.3
Decrease in shares	**(209.3)**	(316.0)	**(209.3)**	(316.0)
Decrease in amounts due to other customers and deposits from banks	**(103.9)**	(26.8)	**(106.9)**	(26.8)
Decrease in debt securities in issue	**(0.5)**	(8.0)	**(0.5)**	(8.0)
Increase / (decrease) in other assets, prepayments and accrued income	**6.7**	3.4	**10.5**	(0.8)
(Decrease) / increase in other liabilities	**(8.6)**	(3.9)	**(11.4)**	0.2
Net cash outflow from operating activities	**(257.1)**	(71.3)	**(267.1)**	(76.2)

Cash and cash equivalents	GROUP 2013 £m	GROUP 2012 £m	SOCIETY 2013 £m	SOCIETY 2012 £m
Cash and balances with the Bank of England	**297.0**	364.4	**297.0**	364.4
Loans and advances to banks repayable on demand	**1.0**	1.1	**0.7**	1.0
Investment securities	**112.2**	162.5	**112.2**	162.5
At 31 December	**410.2**	528.0	**409.9**	527.9

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.

Notes to the Accounts for the year ended 31 December 2013

30 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. Subsequently, the Society has voluntarily agreed to provide continued support to all of its subsidiary undertakings, insofar as any liabilities are not covered by legislation.

(ii) In common with other financial institutions, the Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000. Details are given in Note 26.

(iii) In 2008, the Society received grant aid of £0.3 million in relation to the premises at Cobalt Business Park. In certain circumstances this grant could become repayable.

(iv) Commitments

The Society has no capital commitments for the acquisition of property, plant and equipment at 31 December.

	GROUP and SOCIETY 2013 £m	GROUP and SOCIETY 2012 £m
Irrevocable undrawn committed loan facilities	**78.3**	56.3

Payments under non-cancellable operating lease agreements

Total minimum lease payments:

	GROUP and SOCIETY 2013 £m	GROUP and SOCIETY 2012 £m
Within one year	**1.5**	1.5
In one to five years	**4.9**	5.1
Over five years	**3.8**	4.2
	10.2	10.8

31 Retirement benefit obligations

Group and Society Pension schemes
The Society operates a UK registered trust based pension scheme that provides defined benefits. The Scheme was closed to new entrants in 2000 and closed to 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 one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:
- Deferred members: members with deferred benefits in the Scheme who are not yet receiving their pension.
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgoings (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The majority of benefits receive increases linked at least partly 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 2013 was 18 years.

Future funding obligation
The Trustees are required to carry out an actuarial valuation of the Scheme every 3 years. The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 30 June 2010. In respect of the deficit in the Scheme as at 30 June 2010, the Society agreed to pay £2.0m a year increasing at 5% a year for 10 years starting in 2011 with a final payment of £1.65m in 2021. An updated valuation for 2013 is in progress and a revised recovery plan will be agreed between the Trustees and the Society in 2014.

Assumptions
The initial results of the actuarial valuation as at 30 June 2013 have been updated to 31 December 2013 by a qualified independent actuary. The assumptions used were as follows:

Significant actuarial assumptions	2013	2012
Discount rate	4.60%	4.50%
RPI inflation	3.40%	3.00%
CPI inflation	2.40%	2.35%
Mortality assumption		
Mortality (post-retirement)	S1PA CMI_2013_M/F [100%] (yob)	S1PA CMI_2011_M/F [100%] (yob)
Other actuarial assumptions		
LPI pension increases	3.30%	2.90%
Revaluation of deferred pensions in excess of GMP	3.30%	2.90%
Life expectancies (in years)		
For an individual aged 62		
Male	24.5 years	24.6 years
Female	26.9 years	27.1 years
For an individual aged 62 (42 in 2013)		
Male	26.0 years	26.1 years
Female	28.5 years	28.7 years

Risks
Through the Scheme, the Society is exposed to a number of risks:

Changes in bond yields: a decrease in corporate bond yields would increase the Scheme's obligations, however this would be partially offset by an increase in the value of the Scheme's bond holdings.

Life expectancy: if Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's obligations.

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.

Sensitivity analysis Assumption	Change in assumption	Change in defined benefit obligation
Discount rate	+0.5% / -0.5%	+8% / –9%
RPI and CPI inflation	+0.5% / -0.5%	+4% / –4%
Assumed life expectancy	+ 1 year	+3%

31 Retirement benefit obligations Continued

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.

Assets
The assets of the Scheme were invested as follows:

Asset class at market value	2013 %	2012 %
Equities and growth	50.1	47.3
Bonds	18.7	13.3
Gilts	28.4	35.5
Cash	2.8	3.9
Total	100.0	100.0
Actual return on assets over year	6.7	3.6

All assets listed above have a quoted market price in an active market.

Reconciliation to the Balance Sheets

	2013 £m	2012 £m
Market value of assets	82.6	76.7
Present value of defined benefit obligation	84.6	82.4
Funded status	(2.0)	(5.7)
Pension liability recognised in the Balance Sheets before allowance for deferred tax	(2.0)	(5.7)

Analysis of changes in the value of the defined benefit obligation over the year

	2013 £m	2012 £m
Value of defined benefit obligation at start of year	82.4	74.4
Interest cost	3.7	3.6
Benefits paid	(2.7)	(2.1)
Actuarial losses: experience differing from that assumed	1.2	-
Actuarial losses: changes in demographic assumptions	0.1	0.1
Actuarial (gains)/losses: changes in financial assumptions	(0.1)	6.4
Value of defined benefit obligation at end of year	84.6	82.4

Analysis of changes in the value of the Scheme assets over the year

	2013 £m	2012 £m
Market value of assets at start of year	76.7	73.3
Interest income	3.4	3.6
Actual return on assets less interest	3.3	-
Employer contributions	2.2	2.1
Benefits paid	(2.7)	(2.1)
Administration costs	(0.3)	(0.2)
Market value of assets at end of year	82.6	76.7

31 Retirement benefit obligations Continued

Amount recognised in Income Statements

	2013 £m	2012 £m
Administration costs	0.3	0.2
Net interest	0.3	-
Amount charged to Income Statements	0.6	0.2

Amounts recognised in Statements of Comprehensive Income

	2013 £m	2012 £m
Actuarial losses on defined benefit obligation	(1.2)	(6.5)
Actual return on assets less interest	3.3	0.1
Amounts recognised in Statements of Comprehensive Income	2.1	(6.4)

32 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 16 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.

Deposits and investments held by directors and their close family members

	2013 £000	2012 £000
At 31 December	470	485

Amounts deposited by Directors and members of their close families earn interest on the same terms and conditions applicable to other customers.

Other transactions
Mrs CRR Vine-Lott ceased her Chairmanship of Openwork Holdings Limited on 31 December 2013. During 2013, commission of **£2.9m** (2012: £6.8m) was received by one of the Society's subsidiary companies, Newcastle Financial Services Limited from Openwork. During the same period Newcastle Financial Services paid **£nil** (2012: £36,461) to Openwork in respect of a franchise fee/regulatory support charges. All transactions are on an arm's length basis.

32 Related parties Continued

Year ended 31 December 2013

	Interest paid to Society £000	Interest received from Society £000	Rent received from Society £000	Other amounts paid to Society £000	Other amounts received from Society £000
Kings Manor Properties Limited	245	-	-	8,673	-
Newcastle Financial Services Limited	-	-	-	3,100	-
Newcastle Mortgage Loans (Jersey) Limited	1,019	-	-	7,890	-
Newcastle Portland House Limited	-	7	97	-	-
Newton Facilities Management Limited	-	-	-	-	-

Year ended 31 December 2012

	Interest paid to Society £000	Interest received from Society £000	Rent received from Society £000	Other amounts paid to Society £000	Other amounts received from Society £000
Kings Manor Properties Limited	590	-	-	1,325	-
Newcastle Financial Services Limited	-	1	-	-	-
Newcastle Mortgage Loans (Jersey) Limited	1,402	-	-	6,630	-
Newcastle Portland House Limited	-	10	66	-	-
Newton Facilities Management Limited	-	-	-	1	2

At the year end the following unsecured balances were outstanding.

	Amounts owed by Society 2013 £000	Amounts owed to Society 2013 £000	Amounts owed by Society 2012 £000	Amounts owed to Society 2012 £000
Kings Manor Properties Limited	499	5,021	188	16,569
Newcastle Financial Services Limited	2,803	2,750	9,116	6,740
Newcastle Mortgage Loans (Jersey) Limited	-	13,225	-	20,286
Newcastle Portland House Limited	2,933	14	2,928	3
Newton Facilities Management Limited	73	10	73	60
Newcastle Strategic Solutions Limited	505	487	505	487

33 Financial instruments

These disclosures are given on a Group basis, as the risks of the organisation are managed on a Group basis. The Society basis is not materially different from the Group basis for any of the disclosures in this note.

Categories of financial instruments

The accounting policies note (Note 1 on page 38) describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. 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.

Group as at 31 December 2013	Note	Amortised cost £m	Available for sale £m	Held to maturity £m	Fair value through income statements £m	Total £m
Financial assets						
Cash in hand and balances with Bank of England		297.0	-	-	-	297.0
Loans and advances to banks	11	113.2	-	-	-	113.2
Debt securities	12	-	470.9	6.4	-	477.3
Derivative financial instruments	33	-	-	-	21.4	21.4
Fair value adjustments for hedged risk	15	-	-	-	13.6	13.6
Loans and advances to customers	14	2,700.7	-	-	-	2,700.7
Assets pledged as collateral	13	-	-	-	-	-
Total financial assets		**3,110.9**	**470.9**	**6.4**	**35.0**	**3,623.2**
Financial liabilities						
Due to Members - shares	21	3,219.3	-	-	16.8	3,236.1
Fair value adjustments for hedged risk	15	-	-	-	4.5	4.5
Due to other customers	22	122.7	-	-	-	122.7
Deposits from banks	23	11.4	-	-	-	11.4
Debt securities in issue	24	7.5	-	-	-	7.5
Derivative financial instruments	33	-	-	-	13.1	13.1
Subordinated liabilities	27	59.0	-	-	-	59.0
Subscribed capital	28	29.7	-	-	-	29.7
Total financial liabilities		**3,449.6**	**-**	**-**	**34.4**	**3,484.0**

Cash in hand and balances with the Bank of England: Cash held for liquidity and operational purposes earning interest income.

Loans and advances to banks: Cash lent to financial institutions to generate an interest income return.

Debt securities: Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding central banks. 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 to which it is linked. The Group does not operate a derivative financial instruments trading book. Exposures in the treasury portfolio are held for liquidity purposes or in the case of fair value exposures on derivatives, for hedging purposes.

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.

Loans and advances to customers: cash lent to individual Members of the Society.

Assets pledged as collateral: debt securities pledged to banks under contractual repurchase agreements, the assets acting as security on underlying funding transactions.

33 Financial instruments Continued

Group as at 31 December 2012	Note	Amortised cost £m	Available for sale £m	Held to maturity £m	Fair value through income statements £m	Total £m
Financial assets						
Cash in hand and balances with Bank of England		364.4	-	-	-	364.4
Loans and advances to banks	11	175.4	-	-	-	175.4
Debt securities	12	-	569.6	4.7	-	574.3
Derivative financial instruments	33	-	-	-	38.1	38.1
Fair value adjustments for hedged risk	15	-	-	-	40.0	40.0
Loans and advances to customers	14	2,727.6	-	-	-	2,727.6
Assets pledged as collateral	13	54.0	-	-	-	54.0
Total financial assets		**3,321.4**	**569.6**	**4.7**	**78.1**	**3,973.8**
Financial liabilities						
Due to Members - shares	21	3,425.0	-	-	20.4	3,445.4
Fair value adjustments for hedged risk	15	-	-	-	17.5	17.5
Due to other customers	22	160.8	-	-	-	160.8
Deposits from banks	23	77.2	-	-	-	77.2
Debt securities in issue	24	8.0	-	-	-	8.0
Derivative financial instruments	33	-	-	-	40.0	40.0
Subordinated liabilities	27	58.9	-	-	-	58.9
Subscribed capital	28	29.7	-	-	-	29.7
Total financial liabilities		**3,759.6**	**-**	**-**	**77.9**	**3,837.5**

Due to Members – shares: cash deposits made by customers held by the Society.

Due to other customers: cash deposits made by non-members of the Society.

Deposits from banks: deposits made by financial institutions with the Society.

Debt securities in issue: debt securities issued by the Society.

Subordinated liabilities: loan notes issued by the Society incurring fixed annual interest expense.

Subscribed capital: Permanent Interest Bearing Shares issued by the Society, only repayable in the event of the winding up of the Society.

33 Financial instruments Continued

Fair values of financial assets and liabilities

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.

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 as illustrated on page 64. If the Society's intended use of an asset or liability changes the accounting adopted for the item is revisited for reclassification.

GROUP

		Carrying value		Fair value	
	Note	2013 £m	2012 £m	2013 £m	2012 £m
Financial assets					
Cash and balances with the Bank of England		297.0	364.4	297.0	364.4
Loans and advances to banks	11	113.2	175.4	113.2	175.5
Debt securities held to maturity	12	6.4	4.7	4.2	3.4
Loans and advances to customers	14	2,700.7	2,727.6	2,729.1	2,781.9
Assets pledged as collateral	13	-	54.0	-	54.0
Financial liabilities					
Due to Members - shares	21	3,236.1	3,445.4	3,267.3	3,492.1
Due to other customers	22	122.7	160.8	122.7	161.1
Deposits due to other banks	23	11.4	77.2	11.4	77.3
Debt securities in issue	24	7.5	8.0	7.8	8.3
Subordinated liabilities	27	59.0	58.9	71.7	67.5
Subscribed capital	28	29.7	29.7	41.6	39.4

Loans and advances to banks

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 other customers

The fair value of shares represents the discounted amount of estimated future cashflows paid to shareholders.

Deposits due to other banks

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.

Debt securities

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Subordinated liabilities

The fair value of subordinated liabilities is calculated based on discounted cash flows reflecting the contractual liabilities.

Subscribed capital

The fair value of subscribed capital is calculated based on discounted cash flows reflecting the contractual liabilities.

Fair value measurement

The following table summarises the fair value measurement basis used for assets and liabilities held on the Balance Sheet at fair value:

33 Financial instruments Continued

2013
GROUP

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Debt securities - available for sale	470.9	-	-	470.9
Derivative financial instruments	-	21.4	-	21.4
Investment properties designated as held for sale	4.3	-	-	4.3
Financial liabilities				
Derivative financial instruments	-	13.1	-	13.1

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (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).

These definitions have been taken from March 2009 amendment to IFRS 13 'Improving Disclosures Financial Instruments'.

The Society uses modelling software to measure fair value movements on its hedging instruments and hedged items on a portfolio (macro) basis. Industry anticipated interest rate movements are factored into the calculations to give an expected fair value of the derivative portfolio.

Derivatives held for hedging

Derivative financial instruments used by the Group have been described previously in the Risk Management Report and footnotes to table 1 of Note 33. The derivative financial instruments are held primarily to mitigate interest rate risk across the Group's balance sheet. The Group actively monitor and manage interest rate risk using hedging as part of that strategy in line with IAS 39. Both fair value and cash flow hedge transactions have been undertaken with the fair values of the derivative instruments held at the Balance Sheet date set out below:

	2013 Notional Amount £m	2013 Fair Value Assets £m	2013 Fair Value Liabilities £m	2012 Notional Amount £m	2012 Fair Value Assets £m	2012 Fair Value Liabilities £m
At 31 December						
Interest rate swaps designated as fair value hedges	1,760.7	21.3	(13.1)	2,383.0	38.0	(39.6)
Interest rate swaps designated as cash flow hedges	200.0	0.1	-	100.0	0.1	-
Interest rate swaps	6.4	-	-	24.4	-	(0.4)
		21.4	(13.1)		38.1	(40.0)

Hedge Ineffectiveness

	2013 £m	2012 £m
Gains on hedging instruments	10.2	10.9
Losses on hedged items attributable to the hedged risk	(9.7)	(10.2)
Net gains representing ineffective portions of the fair value hedges	0.5	0.7

33 Financial instruments Continued

Liquidity risk

Liquidity risk is the risk that the Society does not hold sufficient liquid resources (resources readily transferable to cash or cash equivalents) to meet its obligations as they fall due.

For each material category of financial liability a maturity analysis is provided in Note 21 to 24, which represents the contractual maturities.

The table below analyses the Group's Financial Liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period at the Balance Sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

Maturity has been defined by the earliest contractual date of repayment with reference to product terms and conditions. However, management information, both internally generated and through experience, indicates deposits are likely to be repaid later than the earliest date on which repayment is contractually required. The amounts disclosed in the table are contractual undiscounted cash flows and reflect a worst case repayment scenario.

GROUP

At 31 December 2013	**Repayable on demand**	**Up to 3 months**	**Between 3 and 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Due to Members - shares	**1,685.9**	**927.1**	**437.1**	**183.3**	**2.7**	**3,236.1**
Due to other customers	**4.1**	**48.1**	**43.5**	**27.0**	**-**	**122.7**
Deposits from banks	**-**	**4.4**	**1.0**	**6.0**	**-**	**11.4**
Debt securities in issue	**-**	**1.0**	**6.5**	**-**	**-**	**7.5**
Derivative financial instruments	**-**	**-**	**-**	**1.6**	**11.5**	**13.1**
Fair value adjustments for hedged risk	**(0.4)**	**(0.4)**	**0.9**	**2.2**	**2.2**	**4.5**

At 31 December 2012	Repayable on demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Due to Members - shares	1,727.3	1,008.2	569.7	140.1	0.1	3,445.4
Due to other customers	5.1	67.2	88.4	0.1	-	160.8
Deposits from banks	0.1	17.4	59.7	-	-	77.2
Debt securities in issue	-	3.0	5.0	-	-	8.0
Derivative financial instruments	-	-	0.5	4.0	35.5	40.0
Fair value adjustments for hedged risk	-	-	(0.3)	17.8	-	17.5

Credit risk

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 on page 29 of the Annual Report and Accounts, maintain oversight of the Retail and Commercial Credit Committees. The Committees are involved in the monitoring of the Group's assets with view to customer default or other recoverability difficulties.

Note 14 of the Accounts on page 48 contains details of total mortgage assets.

The average loan to value (LTV) ratio of the Group's loans and advances to customers is estimated to be **65.5%** (2012: 65.1%). Further LTV and payment performance information is shown opposite:

33 Financial instruments Continued

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)	**2013 £m**	**2013 %**	2012 £m	2012 %
<70%	**1,018.1**	**65.7**	1,011.3	71.0
70% - <80%	**227.2**	**14.6**	173.0	12.2
80% - <90%	**160.5**	**10.3**	112.0	7.9
>90%	**145.6**	**9.4**	126.1	8.9
	1,551.4	**100.0**	1,422.4	100.0

The table below provides further information by payment due status:

	2013 £m	**2013 %**	2012 £m	2012 %
Neither past due nor impaired	**1,529.0**	**98.5**	1,395.6	98.1
Past due up to 3 months but not impaired	**13.6**	**0.9**	15.8	1.1
Impaired and past due 3 to 6 months	**5.0**	**0.3**	5.0	0.3
Impaired and past due over 6 months	**3.7**	**0.2**	5.7	0.4
In possession	**0.1**	**0.1**	0.3	0.1
	1,551.4	**100.0**	1,422.4	100.0

Against past due and possession cases, **£60.2m** (2012: £72.0m) of collateral is held.

No loans that would be past due or impaired have had terms renegotiated.

Specialist residential mortgage book

The Specialist residential mortgage book consists of buy-to-let and residential investment loans.

Loan to value (indexed)	**2013 £m**	**2013 %**	2012 £m	2012 %
<70%	**46.9**	**35.7**	24.9	12.2
70% - <80%	**29.4**	**22.3**	53.2	26.0
80% - <90%	**37.9**	**28.8**	65.1	31.9
>90%	**17.3**	**13.2**	61.1	29.9
	131.5	**100.0**	204.3	100.0

The table below provides further information by payment due status:

	2013 £m	**2013 %**	2012 £m	2012 %
Neither past due nor impaired	**100.5**	**76.4**	138.2	67.6
Past due up to 3 months but not impaired	**20.9**	**15.9**	39.4	19.3
Not past due but impaired	**2.5**	**1.9**	3.0	1.5
Impaired and past due over 6 months	**1.6**	**1.2**	2.6	1.3
LPA receivership	**3.1**	**2.4**	10.8	5.3
In possession	**2.9**	**2.2**	10.3	5.0
	131.5	**100.0**	204.3	100.0

Against past due, LPA receivership and possession cases, **£48.1m** (2012: £70.6m) collateral is held.

No loans that would be past due or impaired have had terms renegotiated.

33 Financial instruments Continued

Commercial lending book

The commercial lending book comprises:

GROUP	2013 £m	2013 %	2012 £m	2012 %
Loans secured on commercial property	267.1	25.8	293.8	26.5
Loans secured on serviced apartments	24.0	2.3	24.2	2.2
Loans to Housing Associations	744.3	71.9	791.0	71.3
	1,035.4	100.0	1,109.0	100.0

Loans secured on commercial property

Loan to value	2013 £m	2013 %	2012 £m	2012 %
<70%	45.0	16.8	43.3	14.8
70% - <80%	102.9	38.5	87.8	29.9
80% - <90%	34.9	13.1	60.6	20.6
>90%	84.3	31.6	102.1	34.7
	267.1	100.0	293.8	100.0

Valuations are carried out on a regular basis and movements into higher LTV bands represent latest valuations, consistent with falls in commercial property values since loan origination.

The table below provides further information by payment due status:

	2013 £m	2013 %	2012 £m	2012 %
Neither past due nor impaired	191.0	71.5	240.2	81.8
Not past due but impaired	38.1	14.3	21.1	7.2
Impaired and past due up to 3 months	4.9	1.8	-	-
Impaired and past due over 6 months	16.8	6.3	10.1	3.4
Impaired LPA receivership	16.3	6.1	22.4	7.6
	267.1	100.0	293.8	100.0

During 2013 three loans had payment arrears capitalised, which is considered to be forbearance. Total balances on loans where arrears have been capitalised was £30.1m, with the capitalisation amounting only to £0.1m. No provisions have been required against these loans.The Society extended the loan term on five loans maturing in 2013 with total balances of £8.6m, on original commercial terms and conditions. A further three loans maturing in 2013 with total balances of £6.6m were also extended, but were transferred onto the latest commercial terms conditions, which are more favourable to the Society in terms of the rights afforded by the documentation. Such extensions are granted to give the borrower more time to sell the security property or to aid amortisation of the debt prior to sale of the security property. There are no specific provisions against any of these loans but they are covered by the collective provision. In addition, the Society extended the loan term (on original commercial loan terms and conditions) of one impaired loan that matured in 2013, totalling £3.2m. The loan is currently in arrears and the related security property vacant and as such, a shortfall may arise at the revised maturity date, for which a provision of £1.2m is in place at the 2013 year end.

Loans secured on commercial property are diversified by industry type and an analysis is shown below:

	2013 £m	2013 %	2012 £m	2012 %
Retail	146.2	54.7	160.5	54.7
Office	37.7	14.1	42.6	14.5
Industrial	50.7	19.0	56.5	19.2
Hotel / Leisure	19.1	7.2	19.9	6.8
Student Accommodation	12.8	4.8	12.7	4.3
Other	0.6	0.2	1.6	0.5
	267.1	100.0	293.8	100.0

33 Financial instruments Continued

Loans to Housing Associations Loan to value (unindexed)	2013 £m	2013 %	2012 £m	2012 %
<70%	336.1	45.2	329.4	41.6
70% - <80%	146.9	19.7	164.6	20.8
80% - <90%	261.3	35.1	226.9	28.7
>90%	-	-	70.1	8.9
	744.3	100.0	791.0	100.0

Loans to Housing Associations are secured on residential property.

No Housing Associations Loans are past due or impaired.

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 use of derivative instruments. The sensitivity to interest rate movements is measured using dynamic stress tests for a series of parallel rate shifts over various time periods.

The table below shows the impact of various interest rate scenarios on Group profit before tax, against the Society's current interest rate view.

A positive item is an increase in margin and a negative item is a reduction.

	+1% £m	+2% £m	-1% £m	-2% £m
At 31 December 2013				
Next 12 months	1.7	3.3	-	-
Next 2 years	1.6	2.9	-	-
Next 3 years	1.3	2.7	-	-
At 31 December 2012				
Next 12 months	1.9	3.8	-	-
Next 2 years	1.1	3.2	-	-
Next 3 years	1.4	2.8	-	-

The main risk measure used by ALCO is an immediate 200 basis points parallel shift in rates.

However due to the low interest rate environment experienced over the last year, the rate shocks for interest rate reductions have been amended to -0.10% and -0.20%.

Due to the low interest rate environment, the interest rate shifts for -1% and -2% are not currently reported to ALCO.

An immediate 2% upward movement in interest rates would increase Members' interests by **£5.7m** (2012: £1.7m increase).

The derivative gains less losses for the year in respect of fair value hedges comprise gains on derivatives of **£10.2m** (2012: £10.9m gain) and associated losses on hedged items of **£9.7m** (2012: £10.2m loss).

Currency risk

The Group has no exposure to currency risk.

Equity risk

The Group has no material direct exposure to equity risk. The Group has a number of structured products which have an embedded derivative attached to them i.e. the return payable is derived from the performance of an underlying index. Under IAS 39 both the underlying product and the derivative are fair value accounted through the Income Statements. The fair value amounts are approximately equal and offsetting so there is no material charge or credit in the accounts.

1 Statutory percentages

	2013 %	Statutory %
Lending limit	**13.22**	25.00
Funding limit	**4.19**	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

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.

	2013 %	2012 %
Lending limit excluding all IAS39 adjustments for derivative financial instruments and fair value adjustments for hedged risk	**12.20**	13.59

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, as amended by the Building Societies Act 1997, 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:	2013 %	2012 %
Gross capital	**7.60**	7.05
Free capital	**7.02**	6.20
Liquid assets	**26.28**	30.18
Result for the year as a percentage of mean total assets	**-**	-
Management expenses as a percentage of mean total assets	**0.96**	0.88

The above percentages have been prepared from the Annual Accounts.

Gross capital represents the aggregate of the general reserve, available for sale reserve, subordinated liabilities 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 plus any other liquid assets which qualify as prudential liquidity, but exclude liquid assets pledged under repo agreements.

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.

Mean total assets is the average of the 2013 and 2012 total assets.

Directors at 31 December 2013

	Date of Birth	Date of Appointment	Business Occupation
DJ Buffham	**13.08.59**	**24.05.10**	**Company Director**
	Other Directorships: Newton Facilities Management Limited; Northern Homes and Estates Limited; William Leech (Investments) Limited; William Leech Foundation Limited; Zytronic PLC.		
RJ McCormick FCA, FCIIA	**09.05.49**	**16.08.07**	**Business Consultant**
	Other Directorships: Newcastle Strategic Solutions Limited; Grassington Hub Limited; Threshfield Quarry Development Trust Limited.		
RD Mayland FCA	**22.05.53**	**27.06.05**	**Company Director**
	Other Directorships: Norprime Limited; Community Services North East Limited.		
PJ Moorhouse FCCA	**18.01.53**	**31.10.11**	**Company Director**
	Other Directorships: Newton Facilities Management Limited; Newcastle Strategic Solutions Limited; Cumbria NHS Partnership Foundation Trust; Molins Public Limited Company; Transflex Vehicle Rental Limited (appointed 20 January 2014).		
J Morris BA, FCA	**13.09.56**	**31.10.11**	**Chartered Accountant**
AM Russell BA, FCA, CPA	**18.03.67**	**01.07.10**	**Building Society Deputy Chief Executive/Finance Director**
	Other Directorships: Newcastle Financial Services Limited; Newcastle Mortgage Loans (Jersey) Limited; Newcastle Portland House Limited; St. Cuthberts Care Limited.		
CRR Vine-Lott MBA, FCISI, FCIM, ACIB	**30.01.60**	**01.01.10**	**Director in Financial Services**
	Other Directorships: Just Retirement Group Holdings Limited; Just Retirement Group PLC; Just Retirement (Holdings) Limited; Just Retirement Limited; Just Retirement Solutions Limited; Openwork Holdings Limited (ceased 31 December 2013); Openwork Services Limited (ceased 31 December 2013).		
IW Ward FCIB	**04.05.49**	**09.07.13**	**Company Director**
	Other Directorships: Newton Facilities Management Limited; I W Ward Limited; Harrogate and District NHS Foundation Trust.		
JH Willens MBA, ACIB	**07.06.56**	**04.01.10**	**Building Society Chief Executive**
	Other Directorships: Kings Manor Properties Limited; Brown Shipley & Co. Limited (appointed 1 February 2013); Buildings Societies Association (Nominations Committee and Remuneration Committee).		

Documents may be served on any of the above named Directors: "Newcastle Building Society" c/o Addleshaw Goddard LLP (Ref. GAB), at the following address: Sovereign House, PO Box 8, Sovereign Street, Leeds LS1 1HQ. The Executive Directors have service contracts which are terminable at any time by the Society on six months notice. There are no contracts for Non Executive Directors and no compensatory terms for loss of office.

Other Officers at 31 December 2013

	Business Occupation
K Anderson Assoc CIPD	**Building Society Executive**
	Other Directorships: Newcastle Portland House Limited.
P Ferguson BSc, CA	**Building Society Executive**
	Other Directorships: Newcastle Building Society Pension & Assurance Scheme (Trustee).
PG Grand FCMI, DMS, MBA	**Building Society Executive**
	Other Directorships: Newcastle Strategic Solutions Limited.
PJ Green BA (Hons)	**Building Society Executive**
	Other Directorships: Newcastle Building Society Pension & Assurance Scheme (Trustee).
S Marks ACIBS, DMS	**Building Society Executive**
SA Urwin BSc, DipM	**Building Society Executive**
	Other Directorships: Newcastle Financial Services Limited, Newcastle Mortgage Loans (Jersey) Limited.
S Watchman BSc	**Building Society Executive**
	Other Directorships: Newton Facilities Management Limited.
I Good FMAAT	**Group Secretary**

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.

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.

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 Regulation, it is designed to implement the Basel III agreement across the EU.

Commercial lending / mortgage - Loans secured on commercial property.

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.

Core Tier 1 capital - Defined by the PRA as general reserves or qualifying capital instruments which for the Society is the accumulation of retained profits.

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 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 for Lending Scheme (FLS) - The Scheme to boost the incentive for banks and building societies to lend to UK households and non-financial companies. The Scheme is designed to reduce lending rates and increase availability by making available cheaper Bank of England funding.

Funding limit - Measures the proportion of shares and borrowings not in the form of shares held by individuals.

Gilts - Gilt-edged securities 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.

Icelandic treasury investments - Treasury investments in Icelandic banks purchased prior to the collapse of the Icelandic banking system in October 2008, including Glitnir, Landsbanki, Heritable and Kaupthing Singer and Friedlander.

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 Adequacy Assessment (ILAA): - The Group's internal assessment of the liquidity levels needed to meet its regulatory liquidity requirements.

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.

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.

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.

Mortgage Market Review (MMR) - A PRA issued policy statement on reform of the lending market designed to deliver a better market for consumers that is sustainable for all participants.

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. He or she is 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 Tier 1 capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing Members of Newcastle Building Society.

Prepaid Cards business - The division of the Society licensed to issue cards loaded with electronic money which was sold in December 2011.

Prime - Prime mortgages are those granted to the most credit worthy category of residential borrowers.

Recovery and Resolution Plan (RRP) - In response to the latest financial crisis, the PRA now requires all financial institutions to prepare recovery and resolution plans, or living wills. The purpose of these plans is to mitigate the likelihood and impact of a future failure.

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 on-going 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.

Retail Distribution Review (RDR) - A process carried out by the PRA to change the way recommendations about investment products and pensions are made to investors. This also includes changing the way fees are charged for these services.

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 asset (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 division 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.

Specialist lending - Aggregate of the Group's residential investment and buy to let mortgage portfolios. No lending has taken place on this book since 2008 and the exposure to portfolio Investors is being reduced.

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 Core Tier 1 and other Tier 1 capital. Core Tier 1 capital comprises general reserves from retained profits. Other regulatory adjustments may be made for the purposes of capital adequacy. Qualifying capital instruments such as PIBS are included in other Tier 1 capital (i.e. not Core Tier 1).

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 amounts owed to credit institutions, amounts owed to other customers and debt securities in issue less.