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Connecting our communities with a better financial future

Newcastle Building Society
Annual Report & Accounts 2023

Manchester Building Society

Newcastle Building Society

Manchester Building Society is a trading name of Newcastle Building Society.

Cover photo: **Diwali Light Trail.**

Newcastle Building Society

Contents

This year's cover shows our activities to support the local community in Darlington, where we launched a new community space in our existing branch. To celebrate we sponsored a range of community events across the town during the autumn, including the Diwali light trail (pictured).

We're known for our branch innovation, which includes the creation of a network of free-to-use community rooms. These welcoming spaces are available for local people and community groups to meet in.

The addition of this space takes our total across our branch network to 15, with ambition to invest further and add more of these spaces to our existing network and new branches supporting the local communities across our region.

Performance Highlights 2023

32
(2022: 31)
Locations

95%
(2022: 95%)
Overall customer satisfaction

12.5%
(2022: 12.5%)
Common Equity Tier 1

£31.4m
(2022: £31.4m*)
Operating profit before impairments

£29.1m
(2022: £32.6m*)
Profit before tax

1,650+
(2022: 1,350+)
Colleagues

10,000+
(2022: 6,300+)
Colleague volunteering hours

+57
(2022: +58)
Colleague engagement score

£1.1bn
(2022: 1.1bn)
Gross residential lending

5,700
(2022: 5,600)
New mortgage customers

£5.0bn
(2022: £4.2bn)
Savings balance

1st July
Merged with Manchester Building Society

Mutual Value Measurement Framework
International accreditation for mutual value measurement

Investors in People
Re-accreditation of platinum status

*Restated see page 163.

> **I accept that I may be biased, but it is my belief that there is no organisation more authentic in its commitment to the region than Newcastle Building Society.**
>
> **James Ramsbotham**
> Chair

Chair's Statement

The North East is blessed with many fantastic businesses that deliver excellence for their customers and bring an incredible range of benefits to our communities. I accept that I may be biased, but it is my belief that there is no organisation more authentic in its commitment to the region than Newcastle Building Society.

2023 was yet another challenging year, with the rising cost of living and measures to curb inflation bringing huge pressure on household budgets and wider economic growth. Global conflict, the climate emergency and political division all made 2023 a difficult year and sadly there are few signs of optimism in these areas.

Rising interest rates and market volatility, especially in the first part of the year posed many questions for financial services organisations, but I'm pleased to be able to say that the Society demonstrated its agility, readiness to respond and the resilience which has served it so well over recent years.

In this context, this year's strong financial results tell a real story of success for the Society – achieving growth in savings and mortgage balances, expanding into new areas, increasing our positive impact in communities, and supporting Members through a tough year.

It is appropriate to recognise that these are the first set of financial results since Manchester Building Society joined us by the transfer of its engagements and I'd like to take this opportunity to once again welcome all Members and colleagues who are now part of our fantastic organisation.

The Society's adoption of the Mortgage Charter and provision of bespoke support for borrowers worried about making mortgage payments, as well as the work with Citizens Advice Gateshead to deliver the Helping Hand service, are just two examples of the value of being a Member.

Regulatory update

The FCA's Consumer Duty requirements came into effect in July 2023, setting higher and clearer standards of consumer protection. I'd like to recognise the many colleagues who worked quickly and effectively to implement and embed the sound changes which go further to benefit customers.

Board matters

In 2023, I was delighted to formally welcome Rory Campbell to the Board as our newest Non-Executive Director. Rory brings a wealth of experience as well as his passion for the community and delivery of our Purpose. He has already made a big impact on the Board and with wider Society colleagues, helping to shape our ambitions and plans for 2024 and beyond.

Our AGM in 2024 will mark the departure of two of our current Non-Executive Directors, Stuart Lynn and Michele Faull. Both have brought their significant experience to the benefit of the Society – Stuart in technology and Michele as a senior finance professional. We are most appreciative of their individual contributions, the professionalism with which they discharged their duties and their enthusiasm for the business. We wish both Stuart and Michele well for the future. The process to recruit successors for both roles is well underway.

Looking ahead

The Board remains committed to providing all the support required to ensure the delivery of the long-term strategy of the Society and the creation of value for Members. The Society delivers this through our service, our products and pricing, our focus on accessibility, our community collaboration and our drive to support regional employment opportunities. As a Society, we are well served by a highly capable, talented and thoroughly committed team of colleagues, including those new to us who joined after similar service to Manchester Building Society. I thank them on behalf of you, our Members and encourage them to meet the challenges which no doubt lie ahead in 2024 with just as much resolve and determination as they have demonstrated in 2023.

Across the Society, it is so often relationships that enable the creation of value and represent the unique culture of the organisation. With plans in place to evolve and even further enhance that culture, I'm convinced that whatever lies ahead in 2024 and beyond, the Society is well placed to respond commercially and reinforce its commitment to the people and places in our regions.

James Ramsbotham | Chair
29 February 2024

Chief Executive's Review

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

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

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

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

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

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

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

Performance summary

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

Further details of our financial performance for 2023 can be found in the Strategic Report.

Good value for our Members and clients

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

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

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

*Restated see page 163.

Chief Executive's Review | Continued

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

Thinking differently about branches

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

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

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

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

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

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

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

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

Services to the wider savings market

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

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

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

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

Shaped by our Members

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

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

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

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

A catalyst for positive change in our communities

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

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

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

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

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

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

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

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

Chief Executive's Review | Continued

Our role as a regional employer

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

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

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

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

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

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

Looking ahead

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

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

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

Andrew Haigh | Chief Executive
29 February 2024

Mrs Fitzgerald, Gosforth customer and Member

Strategic Report

Our Purpose, strategy and stakeholders

Purpose and Strategic Pillars

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

Our Purpose

Connecting our communities with a better financial future.

What we do

We operate nationally through digital and mortgage intermediary channels, but the heart of our business is in face-to-face delivery and the lasting, inter-generational relationship we build in our regions and communities. We operate in 32 locations on high streets stretching across the North East, Cumbria and North Yorkshire and following our merger with Manchester Building Society in 2023, we are considering how we might grow in the North West under the Manchester Building Society brand. We care about where we are from and are deeply committed to making a positive difference for the people and places that make up our heartland.

We are owned by our Members (not shareholders), which allows us to focus on what's really important – delivering great value through the products we offer, providing our customers with amazing service and building a sustainable, successful business that benefits our Members, communities and regions, both now and in the future.

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

As a member-owned business, we are clear how being truly led by our Purpose of 'connecting our communities with a better financial future' means that through our five strategic pillars we can deliver a unique and sustainable business to benefit both our regions and our customers for the long term.

We help people to own their own home, to save and to plan their finances

We help our customers to save and plan their finances by offering consistently fair rates on a range of savings accounts through our branch network and online. We also help people to own their own home, taking care to personally assess each customer on their merits. We help people with very different circumstances and requirements, such as first time buyers, people borrowing in retirement and the self-employed. We offer long-term financial planning through our Newcastle Financial Advisers subsidiary, with a qualified, professional financial adviser available in all of our branches.

We build lasting, authentic relationships with our customers and partners

We're always listening to our customers and finding new ways to deliver the services they need. We're committed to maintaining financial services on our high streets and believe in the power of warm, friendly face-to-face customer conversations. Our convenient branch services are supported by our popular savings app, and online account opening and servicing options.

We aim to deliver a great place to work where people are empowered to realise their potential

We provide opportunities for our colleagues to build meaningful careers and are committed to developing talent from a range of different backgrounds. We provide opportunity for all our colleagues to make a real and positive difference to the people and places that mean the most to them.

We foster inclusion, diversity and positive change at work and in our communities

We're committed to being an inclusive organisation, both as a place to work and in our approach to our communities. We help our communities to create positive change through a variety of partnerships, including long-term relationships with the Newcastle United Foundation and the Prince's Trust. We also provide significant financial support to local good causes through our grants programme.

We care for our environment and ensure its sustainability for future generations

We fully recognise our responsibility to care for our environment and support a sustainable future for our communities. We will make positive changes to improve our own sustainability but also work with our Members and partners to help them to reduce their environmental impact.

Mutual Value

We believe that the way we deliver our Purpose needs to be explicitly and intrinsically connected to real value through the eyes of our Members and communities we serve. It is this belief that gives us the confidence to think and act differently to many other financial providers – for example, we are growing our branch network while banks continue to close their branches.

To this end, in 2023, we adopted a new framework to bring even greater focus to our delivery of Purpose and to help us drive more meaningful impact and value from our actions.

The Mutual Value Measurement (MVM®) framework was developed in Australia, by the Business Council for Cooperatives and Mutuals and Monash University in Melbourne, working with Warwick University in the UK.

The academic analysis behind the MVM framework identified six dimensions to the key value that cooperatives and mutuals generate:

Commerciality; Shaping Markets (and innovation); Member Relationships; Community Relationships, Ecosytem and Reciprocity (with strategic partners), and Mutual Mindset.

Applying this framework to our own activities has helped us understand how it is far more than our aim to deliver consistently good product rates and excellent service that we are valued for and we were delighted that, following a review of our work, in January 2024 we became the first UK mutual to be formally accredited and recognised as a 'Good Mutual Business'.

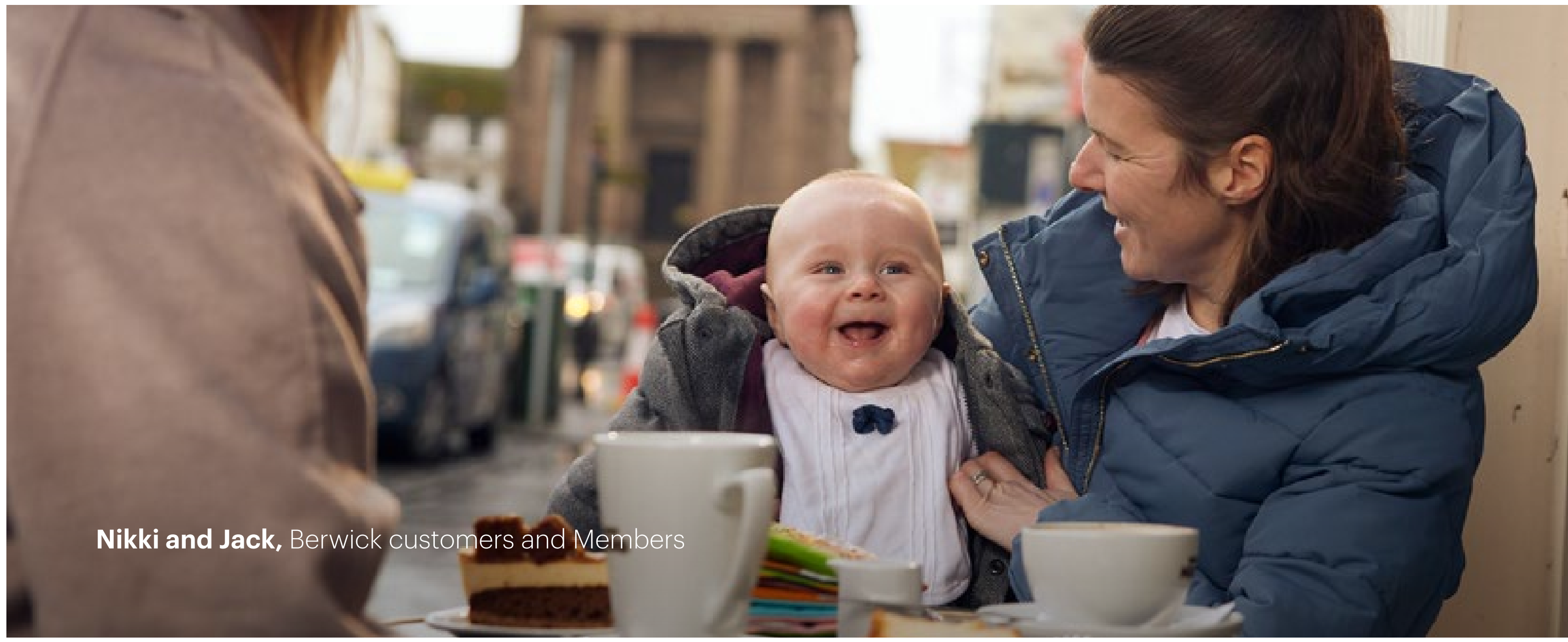
To bring additional clarity and focus to the value we deliver, we have aligned our findings from the Mutual Value Measurement framework with our Purpose and strategic intent, simplifying them into three broad areas and providing the framework for reporting the Member value we deliver each year.

Product value, service and accessibility

Membership and community

Partnerships and employment

Each year, it is our intent to report back to Members on the value we have generated across these themes and any commitment we choose to make with regard to our aims for the year ahead. By adopting this approach we will bring our Purpose-led strategy to be ever more closely aligned to the themes and actions most closely valued by our Members in how we are 'connecting our communities with a better financial future'.



Nikki and Jack, Berwick customers and Members

Strategic Report | Continued

Our strategy

Bringing together our understanding of Purpose and Member Value, in a savings, mortgage and advice business, our strategy is built around five themes:

1. Being truly Purpose-led in our approach to strategy and developing the business in a manner which delivers a business model that is 'Powered by Purpose'.
2. Building our brand through our communities, recognising that our success relies on the reputation we build with our Members, the difference we make for their communities and the degree to which our Members connect with the value we create for them across multiple dimensions.
3. Growing the scale and efficiency of the business, with appropriate infrastructure, technology, skills and culture to increase our impact and the long-term sustainability of our operations.
4. Fostering mutual advocacy, whereby our Members genuinely value the services we provide and the contribution we make to their community and region; they actively participate in the Society and become our biggest advocates, encouraging others to become part of our Society.
5. Understanding that making a positive contribution to the region's sustainability and environment is no longer a matter of choice but necessity.

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

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

Colleagues Fiona and Paul, NUF coding club

Our business model

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

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

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

How we fund our Society

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

How we use this funding in our Society

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

How we generate income

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

How we invest in a sustainable business

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

Strategic Report | Continued

Our customers

A key part of our strategy is delivering outstanding levels of service and building authentic long-lasting relationships with our Members. In 2023, we maintained our exceptionally high Net Promoter Score of +82 (2022: +82) and achieved a strong customer satisfaction score of 95% (2022: 95%), demonstrating our commitment to this strategy and something we are very proud of.

Our Voice of the Customer programme provides daily, real-time feedback from our customers, helping us to continue to develop and improve the service we deliver. In 2023 we received over 29,000 responses from our customers across all our channels including the branch network, mortgage operations, mortgage intermediaries and our financial advice subsidiary, Newcastle Financial Advisers Limited. This was a 35% increase in feedback from the previous year.

We have used this feedback to improve our processes and many Members have consented to provide testimonials to communicate across our social media platforms, sharing our customers voices' in the external environment.

We continue to explore new ways of reaching Members to involve them in the direction of the Society's goals and ambitions. 'Connected Communities', a Member initiative that we launched in 2021, is an online forum where views can be exchanged and gathered in an impartial way. To date the forum has approximately 800 members and it continues to grow. Since inception, 'Connected Communities' has captured over 2,850 comments, 230 items of content, and over 3,750 poll votes; a huge testament to the value our Members place on being part of our Society. In 2023, this has facilitated the delivery of our new accessibility website tool 'ReciteMe', consulting Members throughout the development process. ReciteMe is an assistive toolbar available on our website, www.newcastle.co.uk, helping Members with additional accessibility needs such as visual impairments, disabilities or where their first language is not English. In addition, we have involved community members to help deliver our regulatory obligations.

In response to the Consumer Duty, introduced by the Financial Conduct Authority in 2023, the Society took the decision to review all customer-facing communications to ensure we were communicating effectively, our communications had a purpose and were clearly understood. Many of our 'Connected Communities' members participated as part of the review team, providing invaluable feedback that positively impacted our journey to compliance.

Our communities

In 2023 we supported the people and places within our regions in a variety of ways, including through key long-term strategic partnerships and collaborations:

- we've given Members and colleagues a 'Helping Hand' through our tailored, confidential support and advice service delivered by Citizens Advice Gateshead. In its first full year of operation, our 'Helping Hand' service enabled recipients to receive an estimated sum in excess of £500,000 in grants and benefits which they may otherwise have not been aware of or known how to access.
- our long-term partnership with Newcastle United Foundation continues to create meaningful opportunities to improve the lives of thousands of children, teenagers, adults and families across the North East; and
- working with the Prince's Trust, colleagues gave their time and talent to support local young people in taking the next steps in their careers.

Volunteering-friendly policies enable colleagues to donate more and more of their time to local good causes and create new connections with their communities. Through the Newcastle Building Society Community Fund at the Community Foundation Tyne & Wear and Northumberland, grants are provided to local charities tackling the issues of employability, debt management, homelessness, food poverty, and the environment.

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

Our branches

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

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

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

We are also exploring opportunities to add to our 4 community branches located in libraries and community facilities in Knaresborough, Hawes, Wooler, and Yarm.

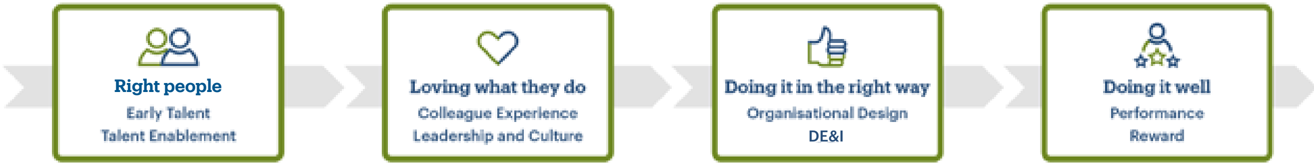
Over 3 million consumers still rely on cash, particularly people who may be vulnerable as well as many small businesses. It's important that we support consumers impacted by recent banking innovations.

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

Our colleagues

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

Our people strategy focuses on providing an immediate, ongoing and long-term framework for engaging, developing and managing our people, creating an inspiring place for people to work and be able to achieve their full potential whilst delivering the Group's ambitions with our people vision and key priorities shown below:



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

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

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

Employee Net Promotor Score or eNPS is our strategic people metric and enables us to benchmark ourselves against the financial services sector and the very best employers across the industry. Our colleague eNPS score for 2023 was +57 (2022: +58), placing us in the Top 25% of the financial services sector within Workday Peakon's (our provider) global client database. We are delighted to have also maintained our prestigious Investors in People Platinum status in 2023.

An annual pay review for all colleagues takes place on 1 April each year and in addition the Group operates the 'Sharing in our Success' bonus scheme for all colleagues below Executive level. Payments from this scheme are determined by the delivery of financial and non-financial metrics linked to the Group's strategic objectives and the personal performance of each colleague.

We consult with Unite when considering our approach to annual pay awards for colleagues, except for Executives. The 2023 pay rise for colleagues ranged from 3% to 16%, with an average increase of 6.8% received by colleagues, reflective of the cost-of-living challenges we faced during 2023.

To provide additional support with the ongoing cost-of-living pressures we also provided full-time colleagues with a minimum annual bonus of £2,500 in 2023. This benefited colleagues in our more junior roles, who we recognised were most likely to be impacted by the cost-of-living challenges.

As a result of the actions we have taken over the last 12-18 months, and positive changes in the wider economic environment, the challenges we faced attracting and retaining colleagues have eased. As such we have seen a reduction in colleague turnover from 13.2% to 12.4% and an improved ability to attract new talent into the Group.

Newcastle Building Society has overall accountability for ensuring the health, safety and wellbeing of all its Group colleagues. Through the way we work and behave, we are committed to protecting all colleagues and visitors who may be affected by our work activities.

Through an ongoing and determined commitment to continually improve health and safety at work, the Group is committed to ensuring that effective health and safety management is paramount to the business and actively contributes to our success.

Supporting colleagues with their health and wellbeing has continued to be an area of focus throughout 2023. We have raised awareness of key topics such as mental health and menopause and are working with key partnerships such as Henpicked and Andy's Man Club.

Diversity, equity and inclusion

In 2023, we refreshed our approach to diversity, equity and inclusion (DE&I) with the launch of our 'Place to Be You' strategy which aims to grow a workforce that represents the diverse communities we serve and create a culture where every colleague feels valued and included for who they are and the unique perspectives they bring.

Diversity, equity and inclusion | Continued

Drawing on insights from the data campaign launched in 2022 and feedback from colleagues, customers and community partners we have established five strategic goals for DE&I:

1 Inclusive culture
Create an environment where colleagues can be themselves at work, perform at their best and belong.

2 Leadership & governance
Create shared ownership and hold ourselves accountable for making progress.

3 Talent management
Attract, recruit, develop and retain the best diverse talent to create high performing innovative teams.

4 Inclusive by design
Remove the structural barriers to inclusion, providing fair, equitable and accessible practices for all.

5 Community & supply chain
Diversify our supply chain and community partners, collaborate with them to achieve our diversity, equity and inclusion goals together.

As a Group we are committed to removing the barriers to employment and achieving meaningful and sustainable change. An ambitious plan has been developed outlining the actions we will take to achieve these goals and this is being delivered through a robust governance framework.

Recognising that change must be led from the top, our Chief Executive, Andrew Haigh, is the overarching sponsor for DE&I and the Chair of the DE&I Steering Committee. The DE&I Steering Committee is made up of a Board Director representative and the Executive sponsors of each of our colleague networks who actively support the DE&I culture change across the organisation.

Our DE&I working group is responsible for the delivery of the 'Place to Be You Plan' and is made up of the Leads of our eight key workstreams (Accessibility, Community, Data, Employee Networks, Policy, Procurement, Resourcing and Talent) and Chairs of each of our colleague-led networks.

We have established key partnerships with a number of external organisations who are helping us to accelerate our progress and embed best practice.

Our colleague-led networks have grown during 2023 and we now have six networks in place that are sharing their lived experience and diverse perspectives, to help us to build more inclusive policies and working practices.

Throughout 2023, the organisation collaborated with the colleague-led networks to raise awareness and provide education around key topics such as gender, race, neurodiversity, disability and LGBTQ+ inclusion through a calendar of events.

In 2023, we signed the Race at Work Charter and have agreed a number of actions against the seven charter principles. We commenced the roll out of 'Let's Talk About Race' training to support colleagues in engaging in conversations about race and becoming race inclusion allies; the rollout of the training will continue throughout 2024.

Through a partnership with Lexxic we have embedded a neuro-inclusive colleague and customer experience and invested in their neurodiversity smart accreditation to help us to understand where we have opportunities to embed best practice.

We celebrated Pride across the region, with over 80 colleagues joining the Northern Pride march. To help us further our journey to becoming a leading LGBTQ+ employer, in 2023 we took part in the Stonewall Workplace Equality Index and will be using this insight to prioritise the actions we take in 2024 and beyond.

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

Since signing the Charter, we are proud to have achieved a 24% increase in female representation across senior management positions (which includes our Board, Executive Committee and Executive direct reports). We have set ourselves a target to achieve a gender balanced senior management population by 2026.

The gender diversity statistics for the Group at 31 December 2023 are as follows:

	Female		Male	
	2023	2022	2023	2022
Senior Management*	49%	38%	51%	62%
Managers	47%	44%	53%	56%
Colleagues	66%	68%	34%	32%
Overall	**61%**	**60%**	**39%**	**40%**

*Senior Management is defined as Board, Executive Committee and Executive direct reports

Our Group structure

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

The merger with Manchester Building Society completed on 1 July and its results from this date are included in the results in this Annual Report and Accounts. The merger has brought c11,000 new Members and 44 new colleagues to the Group, expanding our geographic footprint into the North West. The full Newcastle Building Society product range was made available to Manchester Building Society Members upon merger.

The merger brings additional net assets of £15.1m, primarily made up of £108.9m of lending and £120.7m of Member deposits as detailed in Note 43 of the Annual Report. The assets and liabilities acquired include prime and buy-to-let lending comparable to the Society's active lending books. They also includes a Euro denominated equity release book, commercial lending and credit impaired lending, which have been included in the Society's legacy lending. Additionally the merger improved the Group's capital and liquidity positions through the combination of both entities assets, liabilities and regulatory capital. The combined results of Manchester Building Society and its subsidiary have been included within the Member business's results for segmental reporting see note 9 of the Annual Accounts.

Newcastle Strategic Solutions

Newcastle Strategic Solutions (Solutions) provides an award winning, full savings solution for some of the UK's leading savings providers. Now entering its 20th year, it manages over 1.5 million savings accounts and more than £47 billion in savings deposits on behalf of its clients. Solutions is widely recognised as powering more savings operations than any other provider. To ensure it retains its position Solutions continues to invest heavily in technology and its people. In 2023, for example, it completed the development of a new digital savings platform that will be rolled out to its clients, including Newcastle Building Society, in 2024.

Solutions plays an important part in helping to deliver the Group's Purpose-led strategy as the Society directly benefits from its investment in technology, resilience and infrastructure. Solutions is also a large regional employer in its own right and is an important source of talented colleagues for the wider Group helping to power its employability agenda.

Newcastle Financial Advisers

Newcastle Financial Advisers, our financial advice subsidiary, provides Members with access to trusted financial advice, something we believe everyone deserves. We've been providing our financial advice service through Newcastle Financial Advisers for over 20 years now providing customers with a variety of products and excellent service tailored to their needs.

Newcastle Financial Advisers is backed by the Openwork Partnership, one of the UK's largest and longest-established financial advice networks. They have been a constant presence in the financial services market for over 45 years and have served over two generations of clients.

Newcastle Financial Advisers continues to affirm its position on the high street along with its reach in the communities we support, providing expertise, advice and support to our Members. We are proud to offer:

1. **Personalised advice and solutions:** Advice on solutions and products that are tailored to a customer's needs and help them make the most of their money.
2. **No pressure to make decisions or take products:** There is no obligation to follow the advice provided and there is no rush to make a decision. No fees are charged unless a customer proceeds to implement the advice. All costs are clearly explained.
3. **Trustworthy advisers you can always reach:** The availability of telephone and video chat options mean there is always a way to give your financial planning the attention it deserves. It's not necessary to come into a branch to have a friendly, jargon-free chat with a Newcastle Financial Adviser.
4. **Here for our Members at every stage of their life**: As circumstances change, so does the choice of products and services. Pensions, investments, life and income protection insurance, inheritance tax planning – customers can control them all in one place and react as markets change.
5. **Plenty of choice and flexibility:** Being part of the Openwork Partnership, one of the UK's largest financial advice networks, means Newcastle Financial Advisers can offer advice on a wide range of products and high-quality services.
6. **A service that's open to everyone:** Unlike some UK banks and building societies, no minimum investment is required. In fact, customers are welcome to ask for advice even if they don't take up our recommendations.

Strategic Report | Continued

Key performance indicators

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

Key performance indicators	How it is measured	Performance	Link to our strategy and Purpose
Financial – Sustainable business			
Profit before tax*	Profit before tax as reported in the income statement.	2023: £29.1m 2022: £32.6m**	To ensure we generate the necessary capital to grow the business
Operating profit before impairment and provisions	Operating profit before impairment and provisions as reported in the income statement.	2023: £31.4m 2022: £31.4m**	To ensure we generate the necessary capital to grow the business
Underlying operating profit	Underlying operating profit excludes items defined as income or expenses that arise from events or transactions that are distinct from the core activities of the Group and therefore do not represent the Group's true performance.	2023: £32.8m 2022: £26.7m**	To ensure we generate the necessary capital to grow the business.
Common Equity tier 1 ratio	Common Equity Tier 1 capital (defined by the PRA as general reserves or qualifying capital instruments which for the Society is the accumulation of retained profits as a percentage of risk weighted assets).	2023: 12.5% 2022: 12.5%	To ensure we remain financially strong and be able to protect against risks inherent in running a building society.
UK leverage ratio	A Basel III ratio which measures Tier 1 capital against total on and off balance sheet assets.	2023: 4.8% 2022: 4.8%	To ensure we remain financially strong and be able to protect against risks inherent in running a building society.
Liquidity coverage ratio	The liquidity coverage ratio measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30 day stress period.	2023: 227% 2022: 189%	Ensures the Group has sufficient liquidity to operate.
Efficiency			
Cost to income ratio	Administrative expenses, depreciation and amortisation as a percentage of total income.	2023: 77% 2022: 74%	Cost to income ratio is a measure of financial progress against internal targets and the return achieved on investment in the business.
Lending and saving			
Net interest margin	Net interest margin is a relative measure of the Group's net interest income (as disclosed in the income statements) – the difference between interest received on assets and interest paid on liabilities – divided by the Group's average total assets during the year..	2023: 1.50% 2022: 1.48%	To measure the income we generate from our mortgage and savings accounts.
Lending			
Gross mortgage lending	The value of residential lending advanced during the year.	2023: £1,103m 2022: £1,137m	Helping people own their own homes.
Net core residential lending*	Gross residential lending, less repayments of principal and redemptions during the year across core residential and retail buy-to-let mortgages.	2023: £575m 2022: £586m	Helping people own their own homes. Helping people save and plan their finances.
Savings			
Savings balances	The value of savings balances held by our Members	2023: £5,014m 2022: £4,221m	Helping people save and plan their finances
Non financial measures - Service quality and customer experience			
Customer satisfaction	Customer satisfaction is a measure of how our products and services meet customer expectations	2023: 95% 2022: 95%	Building lasting authentic relationships.
Customer engagement score (NPS)*	Customer engagement measures the loyalty of our customer relationships	2023: +82 2022: +82	Building lasting authentic relationships.
People, leadership and culture			
Colleague turnover	Colleague turnover is as an important reflection of the success of our colleague agenda	2023: 12.4% 2022: 13.2%	Being a great place to work where people can realise their potential
Colleague engagement score (eNPS)*	Colleague engagement is measured throughout the year across all colleagues. Society goals are delivered by highly engaged colleagues	2023: +57 2022: +58	Being a great place to work where people can realise their potential

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

** These indicators have been restated for the prior year adjustment details in note 45.

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

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

Our financial performance

The Chief Executive's review details the Society's performance and success throughout 2023 and should be read in conjunction with this report. The Strategic Report outlines the financial performance of the Society over 2023.

Newcastle Building Society is the largest building society based in the North East of England with assets of £6.2 billion. For 2023, we are reporting a decrease from 2022 to profit for the year before taxation, however an increase from 2022 to our underlying operating profit and we continue to operate with strong capital ratios and have robust liquidity ratios.

Financial profitability

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

Summary Group Income Statement	2023	2022 Restated
	£m	**£m**
Net interest income	86.4	75.4
Other income and charges	51.5	45.2
Total operating income	**137.9**	**120.6**
Administrative expenses	(100.1)	(83.5)
Depreciation	(6.4)	(5.7)
Operating profit before impairments and provisions	**31.4**	**31.4**
Impairment (charges) / reversals on loans and advances to customers	(1.1)	1.6
Impairment charges on tangible and intangible assets	(0.3)	(0.3)
Provision for liabilities and charges	(0.9)	(0.1)
Profit for the year before taxation	**29.1**	**32.6**

The Group's 2023 financial results demonstrate the core strength of the Group's underlying operating model. Group profit for the year before taxation was £29.1m in 2023, in comparison to £32.6m in 2022. Operating profit before impairments and provisions is considered an important reflection of the operating strength of the Group's business and have remained constant at £31.4m in both 2023 and 2022. Total operating income increased by £17.3m or 14.3%, whilst due to the continued investment into the business, administration expenses and depreciation also increased by £17.3m or 19.4%.

Alternative performance measures

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

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

On an underlying basis, operating profit before impairment and provisions was £32.8m in 2023, a difference of £6.1m in comparison to £26.7m in 2022. The key non-underlying adjustments in the year include the loss in the fair value of the equity release mortgage book of £0.5m, hedge ineffectiveness of £0.5m, the revaluation of Openwork units held of £0.2m, foreign exchange movements £0.3m, IT transformation costs £0.2m and £1.3m in transactions costs. The fair value of equity release mortgages is net of the movement in the fair value of the associated interest rate swaps. Foreign exchange movements are also excluded from underlying operating profit as they represent the uncontrollable change in the valuation of the Society's Spanish equity release book due to changes in exchange rates during the period. IT Transformation cost relate to the extensive investment in IT infrastructure which is expensed in accordance with the relevant accounting standard, but represent long term investment in the group's operations.

The following table shows a reconciliation of operating profit before impairment and provisions to underlying operating profit. Segmental information is available in note 9 and details the Member business and Solutions' business segments.

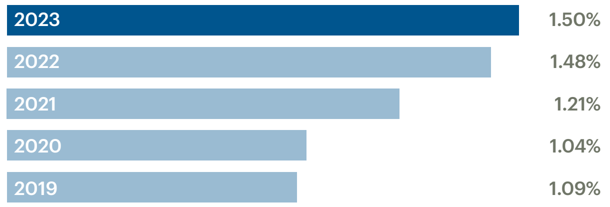
Operating Profit	2023	2022 Restated
	£m	**£m**
Operating profit before impairment and provisions	31.4	31.4
(Loss) / gain in fair value of equity release mortgages	(0.5)	1.3
Hedge ineffectiveness on accounting hedges	0.5	(8.8)
Revaluation gain on equity investments	0.2	2.1
Foreign exchange movements	(0.3)	-
Gain crystallised on sale of assets	-	(0.1)
IT transformation costs	0.2	-
Transactional costs	1.3	0.8
Underlying operating profit	**32.8**	**26.7**

Strategic Report | Continued

Net interest margin

Net interest income increased by £11.0m to £86.4m and our net interest margin was 1.50% (2022: 1.48%). Both increases driven by the rising interest rate environment (during the year the base rate rose from 3.5% to 5.25%) and significant balance sheet growth (mortgage balances increased by £602m and in savings balances by £794m). This includes the balances transferred from Manchester Building Society.

Net interest margin



Other income and charges

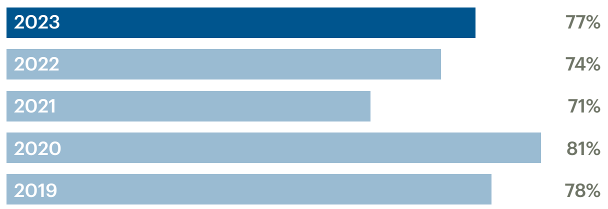
Other income and charges includes income from Newcastle Strategic Solutions Limited and Newcastle Financial Advisers Limited. Income from Newcastle Strategic Solutions Limited includes income generated from balances under management of Solutions' clients. Income from Newcastle Financial Advisers Limited relates to fee income generated through financial advice services. Other income and charges increased by £6.3m to £51.5m in 2023 from £45.2m in 2022.

Administrative expenses and depreciation

Administrative expenses increased by £16.6m or 19.9% from £83.5m to £100.1m in 2023, with depreciation expenses increasing from £5.7m to £6.4m. Overall management expenses (the sum of administrative expenditure and depreciation) increased to £106.5m from £89.2m. The increase includes colleague costs associated with reward, cost-of-living incentives and increased headcount. This investment builds capacity within Solutions to drive the change agenda which includes the IT transformation which is improving customer functionality and also enhancing the Group's infrastructure to deliver the Group's strategy and ensures our core platforms are at a leading level to provide security of data and enhanced resilience.

As a result cost-to-income ratio increased to 77% in 2023 (2022: 74%). The cost-to-income ratio reflects costs deemed to be under the control of management (administrative expenses plus depreciation as disclosed in the Income Statements) divided by total operating income, as similarly presented. Management assesses the ratio as a measure of operating efficiency and continues to look for ways to improve this metric.

Cost to income ratio



Impairment charges

Provisions for expected credit losses have been elevated since 2020 as a result of the increased risk associated with the Covid-19 pandemic. Whilst the Society has seen low levels of realised losses on the mortgage book over recent years and continuing throughout 2023, the economic outlook continues to be uncertain. In particular, inflation continued to rise and stay high longer than expected in 2023 and property values have fallen slightly in 2023. Provisions for expected credit losses against residential mortgages have therefore increased compared to the previous year.

Prime residential and buy-to-let lending

In 2023, provisions of £1.9m were booked on residential and buy-to-let mortgages newly originated and acquired in the year, reflecting the significant growth of the mortgage book, including some higher loan-to-value mortgages. In addition to the natural churn of the book over the year, the Society succeeded in winding down highly provisioned loans, overall resulting in a £0.6m reduction of the provision balance. Provisions of £0.3m at the year end relate to residential and buy-to-let mortgages of £73m acquired from Manchester Building Society on 1 July.

The Society provided £1.2m in respect to increases in credit risk for the mortgage book after origination. £0.7m of this relates to an increase in the cost of living allowances. This results in an increase in the mortgage loss provision coverage ratios from 0.09% to 0.13%.

Legacy books

The Society also successfully continued winding down its own legacy portfolios, seeing the redemption of, or capital repayments against some highly provisioned loans, reducing legacy provisions by £1.9m. Provisions of £0.3m were adding in the period relating to mortgages acquired from Manchester Building Society. A net increase in credit risk across legacy lending increase provisions by a further £0.2m.

Provision Summary

The Society saw a net impairment charge for loans and advances to customers of £1.1m in 2023 (2022: £1.6m write-back).

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

Movements in loans and advances to customers and related provisions		Opening balance	New originations in 2023	Redemptions	Movements relating to loans originated before 2023	Closing balances
Prime and buy-to-let	Loan balance (£m)	3,765.0	1,136.8	(492.4)	-	4409.4
	Provision (£m)	3.4	1.9	(0.6)	1.2	5.9
Legacy (excl housing associations	Loan balance (£m)	42.7	11.9	(11.6)	-	43.0
	Provision (£m)	3.2	0.1	(1.9)	0.4	1.8

pairment charges on tangible and intangible assets were £0.3m in 2023 (2022: £0.3m) and relates to charges in relation to IT intangible assets.

Taxation

The Group shows an effective corporation tax rate of 23% in 2023 (2022: 18%). The tax charge reflects both tax payable against 2023 profitable operations and an increase in the deferred tax assets and liabilities carried on the balance sheet primarily related to the transfer of engagements from Manchester Building Society. The effective rate paid in the current year is lower than the statutory rate of 23.5% due to differences in timing of when charges are recognised for accounting and tax purposes. In addition, there was an adjustment of £0.6m credit for previous year's research and development tax credits.

Balance sheet

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

	2023 £m	2022 Restated £m
Assets		
Liquid assets	1,250.3	959.7
Derivative financial instruments	50.9	90.4
Loans and advances to customers	4,859.7	4,257.3
Fair value adjustments for hedged risk	(13.2)	(60.9)
Non-current assets available for sale	-	0.2
Intangible assets	12.8	10.2
Property, plant and equipment	31.5	29.1
Other assets	31.2	25.1
Total Assets	**6,223.2**	**5,313.1**
Liabilities		
Shares	5,014.3	4,220.8
Deposits and debt securities	801.0	752.9
Fair value adjustments for hedged risk	-	0.3
Derivative financial instruments	61.7	54.7
Other liabilities	25.4	20.2
Subscribed capital	34.8	20.0
Reserves	286.0	244.2
Total Liabilities	**6,223.2**	**5,313.1**

Liquid assets

The Society has continued to maintain a level of high quality liquid assets throughout 2023. The Society's liquid assets comprise of assets held in cash or that can be easily convertible to cash through treasury markets (repo) or via the various Bank of England liquidity schemes. All of the liquid assets are placed with AAA rated UK institutions with the exception of gilts and deposits with the Bank of England which carry the UK Sovereign rating of AA+.

The Society's strong liquidity position is also demonstrated by the Liquidity Coverage Ratio, which was 227% as at 31 December 2023 (2022: 189%), well in excess of the regulatory requirement of 100%. The Society complied with all regulatory and internal liquidity requirements throughout the year.

Asset class	2023 %	2022 %
Cash in hand and balances with the Bank of England	45.1	52.9
Covered bonds	15.9	22.9
Residential mortgage backed securities	7.8	13.7
Gilts	6.7	7.5
Treasury Bills	15.5	2.7
Other	9.0	0.3
Total	**100.0**	**100.0**

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

The statutory liquidity percentage (liquid assets as a percentage of shares, deposits and liabilities) reported at 31 December 2023 was 19.4% compared to 19.3% in 2022.

Loans and advances to customers

The Society's strategy to grow the core lending, which includes prime residential and buy-to-let mortgages, whilst winding down legacy portfolios continued during 2023. Notwithstanding the continuing strategy to wind down legacy books, additional legacy lending was acquired by the Society in 2023 as a result of the merger with Manchester Building Society. Details of the movement in the Society's mortgage books is provided in note 39.

Loan portfolios	2023 £m	2022 £m	Movement in year %
Core lending			
Prime residential	4,020	3,370	19%
Retail buy-to-let <£1m	390	396	(2%)
Legacy Lending			
Equity release	188	166	13%
Specialist buy-to-let	13	14	7%
Housing associations	212	270	(25%)
Commercial	6	11	(45%)
Other	24	19	26%
	4,853	**4,246**	**14%**
Provisions	(8)	(7)	14%
Other accounting adjustments	15	21	(29%)
Loans and advances to customers	**4,860**	**4,260**	**14%**
	%	%	
Average LTV%	65.9	67.7	
Average ILTV%	49.3	59.0	

The balance of loans and advances to customers after provisions increased by £600m overall in 2023, this includes a net £644m increase in our core lending and £108m of mortgages transferred from Manchester Building Society. Average LTV fell during the year to 65.9% (2022: 67.7%) and Average ILTV was 49.3% (2022: 59.0%).

The increase in the carrying amount of the equity release portfolio was the acquisition of an additional £26.5m of lending from Manchester Building Society. The Group does not write new equity release mortgages. The main source of the change in valuation is market interest rates. The Society economically hedges fair value movements on the equity release portfolio due to market interest rate movements using interest rate swaps. The value of these swaps increased by £3.7m resulting in a net movement of £26.3m in the year included in the income statement.

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

Mortgage credit quality

Arrears

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

Arrears performance

3 months or more arrears

	By number of loans		By balance	
	2023	2022	2023	2022
	%	%	%	%
Core lending	0.48	0.36	0.47	0.32
Legacy lending	0.20	0.08	0.03	-
Total	**0.46**	**0.35**	**0.43**	**0.28**

*Excluding mortgages acquired from Manchester Building Society in 2023.

The percentage of mortgages in arrears by 3 months or more remains at low levels for 2023. Excluding acquired mortgages in the period, the Society's arrears position has increased from 2022 but is in line with 2021 levels.

The acquired mortgages have significantly higher arrears positions than the lending originated by the Society, but make up only £103m of total lending, so the majority of the increase in arrears in 2023 relates to these mortgages.

Overall by number of loans in arrears we have seen an increase of 0.35% to 0.87%, and by balance we have seen an increase of 0.28% to 0.65%.

Forbearance

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

Law of Property Act Receiverships and Possessions

The Society continued to experience a low level of possessions on residential loans and Law of Property Act receiver appointments. At the end of 2023 the Society had 8 properties in possession in relation to owner occupied loans and there was one exposure in relation to legacy loans being managed by a Law of Property Act receiver.

Funding

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

Retail savings balances increased by £793.5m during 2023 to £5.0bn. Wholesale funding, including drawdown on Bank of England Funding Schemes, increased during the year by £57.3m. This has resulted in the ratio of shares and deposits to wholesale balances moving from 85%/15% in 2022 to 86%/14% in 2023.

Capital

The table below shows the composition of the Group's capital ratios at the end of the year. The majority of the increase in common equity tier 1 capital relates to the profit in the year. The growth in tier 2 capital relates to the acquired permanent interest-bearing shares of Manchester Building Society.

Capital	2023	2022
	£m	£m
Tier 1 capital		
Common equity tier 1 capital	273.8	239.3
Additional Tier 1	-	-
	273.8	239.3
Tier 2 capital		
Tier 2 capital	34.8	20.0
Collective impairment allowance	-	-
	34.8	20.0
Total capital	**308.6**	**259.3**
Risk weighted assets		
Liquid assets	42.0	45.6
Loans and advances to customers	1,813.4	1,544.5
Other assets	68.7	57.4
Off balance sheet	79.5	114.3
Operational risk	182.7	148.1
	2,186.3	1,909.9
Capital Ratios	**%**	**%**
Common equity tier 1 ratio	12.5	12.5
Tier 1 ratio	12.5	12.5
Total capital ratio	14.1	13.6
UK Leverage ratio (excluding claims on central banks)	4.8	4.8

The Group complied with Individual Capital Guidance plus capital buffers, as notified by the Prudential Regulation Authority, throughout 2023. The total capital ratio was 14.1% (2022: 13.6%); Tier 1, and more importantly Common Equity Tier 1, which offers the greatest protection to Members' funds in the unlikely event of unforeseen financial stress were both 12.5% in 2023 (2022: both 12.5%). The common equity tier 1 capital ratio has remained stable in the year as growth in risk weighted assets due to higher lending levels have been offset by capital generated by retained earnings in the year, as well as retained earnings of £15.1m acquired as part of the merger with Manchester Building Society. Tier 2 capital has increased due to Manchester's Permanent Interest Bearing Shares, which also led to an improvement in the Total Capital Ratio. The leverage ratio is a simplified capital strength ratio measuring qualifying Tier 1 capital against on and off balance sheet assets. The Board monitors the leverage ratio on a monthly basis and as at 31 December 2023 the figure was 4.8% (2022: 4.8%). This is, and has remained throughout 2023, well in excess of the regulatory target of 3.25%.
The Group's total capital requirement is communicated annually by the Prudential Regulation Authority and consists of minimum regulatory capital requirements (Pillar 1) plus additional Society-specific capital requirements for credit, market, operational, counterparty, credit concentration, interest rate and pension obligation risk (Pillar 2A). The Group's total capital requirement at 31 December 2023 was £284.2m. Further detail on the Group's capital is given in the Pillar III disclosures available on the Society's website.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are detailed in the Risk Management Report.

Anti-corruption and anti-bribery

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

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

Anti-slavery and human trafficking

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

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

Outlook

Looking ahead, 2024 is likely to be another year of economic uncertainty. Whilst the slowing inflation and connected market view of reducing interest rates may signal some level of economic stabilisation, the pace of UK recovery remains less certain.

Whilst our business model continues to be highly resilient to these external challenges, we will monitor and react to the market conditions as the environment evolves, continuing to focus on our core sustainable strategy, ensuring that we support our growing Member base and 'connecting our communities with a better financial future'.

On behalf of the Board
David Samper | Chief Financial Officer
29 February 2024

We recently supported the local community in Darlington, where we launched a new community space in our existing branch. To celebrate, we sponsored a range of community events across the town during the autumn, including the Family film trail (pictured).

Zara, aged 4.

Supporting our **Communities**

2023 was a difficult year for many people, especially within our communities across the Region. Our focus was to build on our partnerships and relationships to continue to work with our communities, delivering support and creating positive and sustainable change in the most meaningful way.

In financial terms, our community funding in 2023 was £357,296, which included a contribution of £216,733 to the Newcastle Building Society Community Fund at the Community Foundation Tyne & Wear and Northumberland.

The Fund distributed £170,253 in small grants to local charities across our branch locations in 2023, focusing on our key themes of employability, debt management, homelessness, food poverty and the environment. In total 45 charities have been supported, having a positive impact on over 36,000 beneficiaries.

As the cost of living continued to put household budgets under pressure, our Helping Hand service continued to be there to support Members who needed it most.

Funded by the Society and delivered by Citizens Advice Gateshead, Helping Hand provides tailored, confidential support for our Members and colleagues. The service offers quick access to practical and direct support on a range of issues – including help with benefits, Universal Credit applications, budgeting advice, housing issues, relationship problems and emergency financial support.

In 2023, the service realised more than £400,000 in estimated financial benefit for Members through a combination of grants and benefits from the advice and support received.

Supporting our communities | Continued

The following are some of the communities who have received Grant funding through the Newcastle Building Society Community Fund at the Community Foundation Tyne & Wear and Northumberland.

Debt management

In 2023 more than £35,000 in grant funding was awarded to nine charities helping to manage issues around debt. Charities such as Grace House in Sunderland, who received a grant of £4,997 to enable it to deliver its Life@GraceHouse sessions with representatives from Citizens Advice Sunderland, helping families of children with disabilities navigate the financial challenges of day-to-day life.

Employability

In 2023 to help address barriers to employment and boost skills throughout communities, 10 charities were awarded more than £37,000 in funding. This included The Percy Hedley Foundation which was awarded a £3,000 grant to buy new branded uniforms for its adult learners.

Environment/sustainability

Nearly £30,000 of grant funding was distributed to eight charities tackling issues around the environment, including West End Women and Girls Centre, who were supported with a £3,000 grant to reconnect women and girls with their farming heritage. The centre has used its grant to cover the increasing transport costs of taking members to and from their farm, as well as to help with expansion of the farm's growing area.

Food poverty

More than £43,000 in grant funding from the Community Fund was used to help ten charities address food insecurity. Community @NE66 is one such charity working with a number of local supermarkets to ensure that fresh food which is reaching its sell by date and which otherwise might have ended up being thrown away, can be made available to people who could use it.

Housing and homelessness

The Moses Project provides essential food supplies and vital resources to those in need, addressing homelessness and food poverty within Stockton and around Teesside. They were one of four charities to receive funding to help tackle issues leading to homelessness and housing insecurity. Around £13,000 of grant funding was used in this way in 2023.

Colleague Volunteering

Volunteering-friendly policies enable colleagues to support their local communities through direct action and the donation of their time and expertise. In 2023, colleagues completed more than 10,000 hours of volunteering, undertaking activities ranging from litter-picking and tree planting to governorship, coaching and mentoring. A popular and growing volunteering activity is the delivery of 'coding club' to local school pupils by IT colleagues.

We have a long-term partnership with the Prince's Trust, including support for the Team project which involved 22 different volunteering activities, providing employability skills support such as CV creation, interview skills and confidence building for young people categorised as NEET (not in education, employment or training).

Our partnership with Newcastle United Foundation continued with further support for their award-winning NU Futures programme, with colleagues volunteering their time to help deliver employability skills workshops and financial education sessions to young people and schools across the region, reaching more than 7,000 young people in 2023.

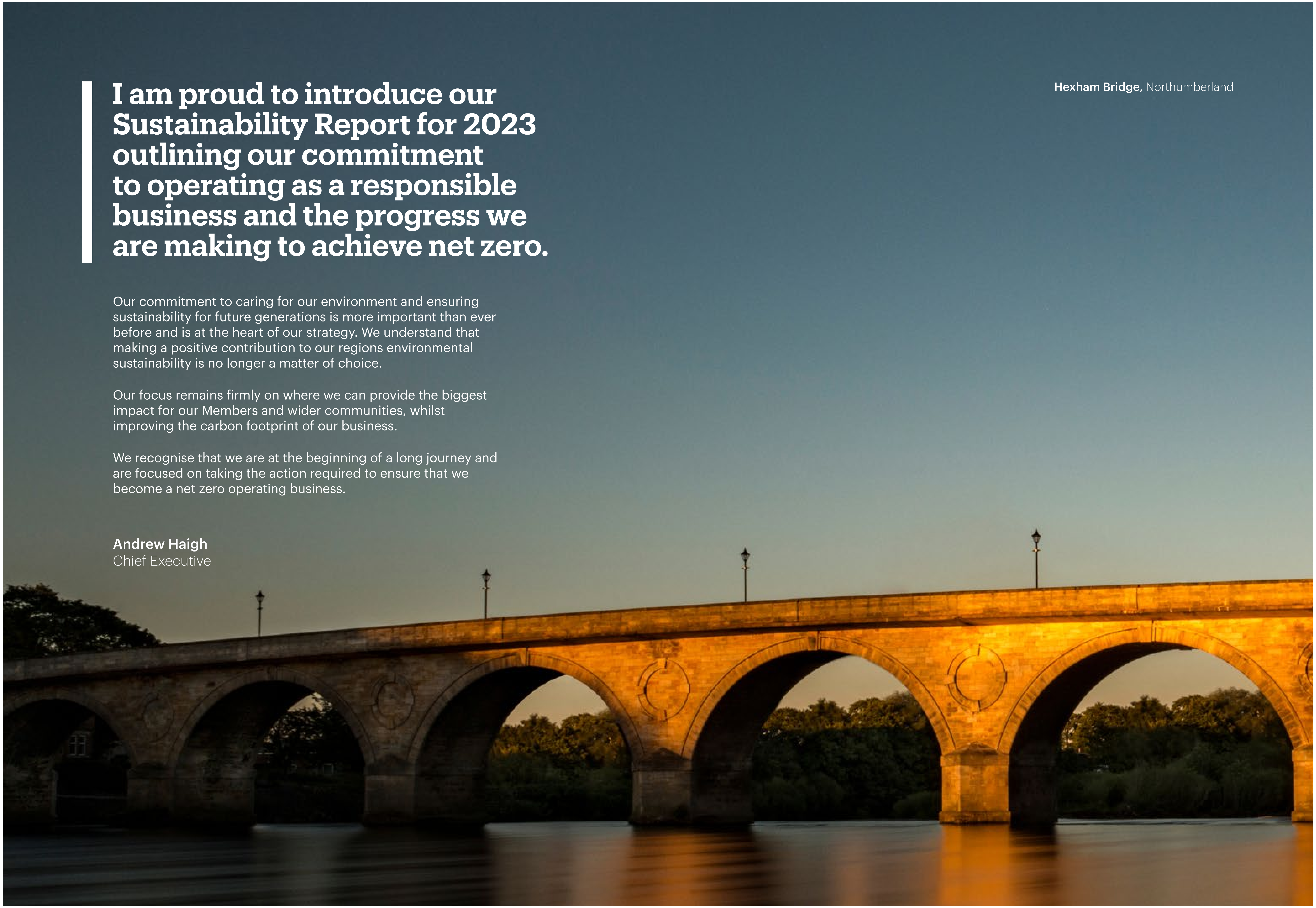
I am proud to introduce our Sustainability Report for 2023 outlining our commitment to operating as a responsible business and the progress we are making to achieve net zero.

Our commitment to caring for our environment and ensuring sustainability for future generations is more important than ever before and is at the heart of our strategy. We understand that making a positive contribution to our regions environmental sustainability is no longer a matter of choice.

Our focus remains firmly on where we can provide the biggest impact for our Members and wider communities, whilst improving the carbon footprint of our business.

We recognise that we are at the beginning of a long journey and are focused on taking the action required to ensure that we become a net zero operating business.

Andrew Haigh
Chief Executive



Hexham Bridge, Northumberland

Sustainability Report

Introduction

Our climate disclosures are aligned to the UK Government Department for Business, Strategy & Industrial Energy mandatory requirements for climate financial related disclosures, which is structured around four key pillars and aims to provide consistent disclosures and information on the Society's exposure to, and management of, climate risks and opportunities. The four pillars are:

- Governance
- Strategy
- Risk Management
- Targets and Metrics

Governance

The Society has introduced an appropriate governance structure, which identifies and manages the risks and assesses the opportunities in relation to climate change. The Society has designed the governance structure to be sufficient for the nature, scale, and complexity of its operations. As the Society has an exposure to climate related risk across its operations, it ensures that climate related considerations are embedded into its approach to governance so that appropriate decisions are made to secure a strong financial future for the Society as well as for our Members.

The governance process for assessing and managing climate-related risks and opportunities is consistent with our established risk governance framework. Climate-related risks identification and quantification refreshes are carried out on a yearly basis and feed into our Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) assessments.

Risks and opportunities are being incorporated within the Group's risk management frameworks, with this being complemented by climate specific processes where relevant.

The governance structure is as follows:

- The Board is ultimately responsible for the governance of the risks and opportunities in relation to climate change.
- Group Risk Committee is responsible for ensuring climate related risks and opportunities are being managed effectively, with the Chief Risk Officer being responsible for the day-to-day management of climate-related risks;
- Known or emerging risks are raised to the appropriate sub-risk committee;
  - Enterprise Risk Committee for climate risks to business operations (including operational resilience);
  - Credit Risk Committee for climate related risks to the Society's secured mortgages; or
  - Assets & Liabilities Committee for climate related risks to capital or liquidity.
- The Executive Committee chaired by the Chief Executive is responsible for overseeing the identification and management of climate related risks and opportunities. They work pro-actively to review any new, emerging or changing risks focusing on short-term priorities to ensure the business adapts accordingly. Discussions are focused on the Society's short term exposure to physical and transitional climate related risks and opportunities;
- Throughout 2023, the Executive Committee discussed the following risks based on detailed investigations and modelling performed by the Society;
- The physical risk exposure of flooding associated to our lending portfolio;
- The transitional risk exposure of energy performance certificate (EPC) ratings linked to our lending portfolio; and
- Short term recommendations on business climate adaptation to address the short term risk and opportunities identified.

In 2023, all Executives completed an environment and sustainability training session delivered by an external sustainability consultant. The training focused on Member value, the impacts climate change may have on the business and action required to address the impacts.

Strategy

Climate change is relevant to the Society's success as the physical effect of climate change and the transition to a low carbon economy continues to create unforeseen risk and potential economic impact. We also recognise that we have a corporate and ethical responsibility to address any negative impact we have on the wider environment because of our business operations.

Our climate strategy is built around our Society Purpose, which includes "Caring for our environment and ensuring sustainability for future generations" as one of its five strategic pillars.

The Society's climate strategy prioritises those areas that may pose the most material risks to its stability and that align to our Purpose. In doing this it recognises that it is not possible to respond to all risks so, where appropriate, strategic decisions focus on where the Society will make the most impact in the short term.

In 2023, work continued with the Executive Committee to revisit the climate strategy to ensure our goals and ambition remain accurate in supporting our transition to become a greener, sustainable society.

The climate strategy is centred around supporting the orderly transition to a greener, net zero economy. To ensure the strategy remains relevant the Society conducts annual stress tests, scenario analysis and impact exercises focusing on hypothetical but plausible scenarios, to ensure that strategic deliverables are appropriate, it also enables the society to assess its current response to and to identify opportunities to strengthen its resilience to climate related risks. Whereas we align our risk assessments to the Society's planning cycle, the Society carries out additional scenario analysis during its annual ICAAP assessment.

As part of this exercise the Society makes qualitative estimates of medium and long term climate-related capital needs relative to the capital needs disclosed by the largest UK banks as part of the 2021 Climate Biennial Exploratory Scenario.

Our response assessment considers the likelihood of the risk materialising and the expected impact on the Society.

The Society applies various timelines to these activities when looking at short term impacts. By doing so, it assesses the materiality of the type of climate-related risks the Society is exposed to, which informs business response and actions to an acceptable residual risk profile.

We have identified that our financed emmisions are our biggest emitter and we are exposed to a transitional risk as a result. We therefore monitor energy performance certificates (EPC) status of our mortgage book to gain better insight into the oppurtunities we have to reduce these emissions.

EPC status may affect credit risk and our ability to grow lending in the future via our lending policies. We are currently gathering data so we can respond to legislation as it forms and consider it in the Society's day to day operations.

Given the complexities and challenges climate change presents, we have simplified our approach to ensure that it provides the clarity to drive the positive changes required at pace across the business to address the risks the Society face in light of the changing environment.

Our current assessment of climate-related risks is over the short term and fully aligned to the Society's planning cycle (0 to 5 years). The Society however recognises that transition risks are likely to manifest over longer timeframes and will continue to enhance its measurement (quantitative and qualitatively) over the medium/long term (5+ years) during 2024.

We are considering both acute and chronic and physical risks (frequent but small floods to rare but large floods), although limited to flooding events from rivers and the sea (which we consider will have the largest impact on our portfolio).

As our measuring capability matures, we will be able to include additional assessments in terms of subsidence and coastal erosion risks.

Risk Management

The Society recognises that they are exposed to risks and opportunities presented by climate change across both its physical operations (e.g. due to physical risks to its property estate) and also its financial operations (due to transitional risk associated to financial assets such as mortgages) and is committed to managing those risks effectively.

However climate change is a complex and an inherently systemic issue and it is particularly difficult to model given the long-term, horizon nature of the exposure and the potential implications cutting across a number of key risk pillars within the enterprise risk management framework such as credit, operational, liquidity, market risk and operational resilience. We are therefore focusing on short term exposures to the Society and prioritising actions to mitigate and adapt the business to respond to the changing environment.

Overseeing day to day robust and efficient management of climate related risk belongs to the Chief Risk Officer and the risk senior leadership team.

The Head of Environment and Sustainability works closely with the Chief Risk Officer, and the risk senior leadership team to support their roles ensuring that they consider the risks associated with all elements of climate, environment and sustainability and that regulatory and legislative obligations are being fulfilled where capability internal capability allows.

Our approach

Climate related environmental events, international policy and strategy to tackle climate change, economic, social and market trends are considered as part of the Society's risk management planning and reporting, notably via the Chief Risk Officer's Report to the Group Risk Committee and the Board.

Regular review of the risk horizon carried out as part of this reporting take account of key internal and external influences to our strategic goals and informs our response to emerging risks or threats.

In 2023, this approach included an internal assessment of the Society's exposure to key risks highlighted within HM Government's National Risk Register.

Risk appetite statements and reporting are a component of the Society's risk management framework and over the past 12 months we have been assessing the coverage of metrics and monitoring against these to include indicators of physical and transitional risk exposure from climate change.

The Society is developing more specific climate related risk appetite statements which will complement our Purpose.

These activities are embedded within the Society's risk management framework and climate change risk is considered as an emerging risk by the Society.

Our approach to the identification, assessment and management of both physical and transitional risks will continue to mature as we further develop and embed the Society's strategic goals to become a sustainable Society, contributing to a sustainable future for generations to come.

Sustainability Report | Continued

Physical risks

Climate related risks to the Society in the short term of 1 to 5 years are considered to be physical risks arising from an increased frequency and severity of climate and weather-related events. These include, but are not limited to:

- pluvial flooding and the risks associated with the value of (the Society's secured) assets;
- the disruption to business-as-usual operations and supply chains; and
- the impact to the availability and cost of insurance – both directly to the Society and in-directly to homeowners and landlords as a financial commitment.

We have identified that pluvial flooding related to climate change carries the largest exposure within the current lending portfolios and short term scenario analysis has been used to assess the risk exposure the Society carries, this analysis has concluded that the risk identified is low and is not considered material to the Society.

Management information focuses on monitoring of the Society's existing lending portfolio and includes flood risk metrics. Scenario analysis in relation to physical risks is modelled over a 12-month timeline. We model flood risks for most of the book, using Government data and matching the property postcode to the Society's mortgage book.

We are currently able to make quantitative assessments about short term impacts (12 months) using data from the Environment Agency and will continue to use this resource in the interim as our capability matures.

We are seeking to strengthen our capability in relation to scenario analysis and climate related physical risks, recognising that we have identified gaps which we are addressing to ensure we fulfil regulatory expectations.

We are considering both acute and chronic and physical risks (frequent but small floods to rare but large flood), although limited to flooding events from rivers and the sea (which we consider will have the largest impact on our portfolio).

As our measuring capability matures, we will be able to include additional assessments in terms of subsidence and coastal erosion risks.

Flood Risk

The Society's exposure is to all UK regions, although it is concentrated towards the English regions (>85%). The Society has minor exposures to Northern Ireland (<£2m) and a small property portfolio of equity release properties on the south coast of Spain (<£50m).

The assessment to UK exposures has considered flooding-related acute and chronic risks. Given the limited exposure to Spain, we consider the climate-related impacts to be immaterial albeit we have made a small allowance for them.

The Society monitors physical risk driven off data extracted from the Environment Agency's extreme flood outline data (EFO) and risk of flooding from rivers and seas (RoFRS) to track the proportion of mortgage lending more exposed to climate.

	Year 31 Dec 2023		
Residential loans**	**Number**	**Exposure, £m**	**% of Book (by balance)**
Mortgages without flood rating	4,956	614	14
Mortgages with flood rating	24,159	3,882	86
Total	**29,115**	**4,496**	

**Excludes MBS originated exposures

	Year 31 Dec 2023		
Residential loans at risk	**Number**	**Exposure, £m**	**% of Book (by balance)**
Properties with very low flood risk	0	0.06	0.00
Properties with low flood risk	7	0.96	0.02
Properties with medium flood risk	12	1.82	0.04
Properties with high flood risk	20	3.71	0.08
Total	**39**	**6.55**	**0.15**

The flood data above is an estimation based on data extracted from the Environment Agency's extreme floodline outline (EFO) database. Data used spans a 12-month period from 1 Jan 23 – 31 Dec 2023. We have 29,115 residential mortgages across our portfolios - of these, we have identified that 39 properties in total that have an absolute risk exposure to flooding over a 12-month period from Jan 23 to Dec 23, with 32 carrying a medium to high risk exposure.

Flooding probabilities	
High	each year, there is a chance of flooding greater than 1 in 30 (3.3%)
Medium	each year, there is a chance of flooding between 1 in 30 (3.3%) and 1 in 100 (1%)
Low	each year, there is a chance of flooding between 1 in 100 (1%) and 1 in 1000 (0.1%)
Very low	each year, there is a chance of flooding less than 1 in 1000 (0.1%)

Transition risk

Transition risk is an exposure that may arise from potential policy (e.g. targets for more energy-efficiency homes), legal, technology and market changes associated with the process of adjusting toward a low-carbon economy.

In relation to the Society's exposure to transition risk, we commenced collecting Energy Performance Certificate (EPC) data at origination in 2022 and currently collect data for 60% of the properties coming onto the book. Where that data is not available, we are backfilling the gaps from the Department for Levelling Up, Housing & Communities database.

It is expected that EPC regulations in the next 3-5 years will potentially create mortgage prisoners and stranded properties which cannot be financed due to their energy efficiency. This would impact the Society's overall credit risk exposure when these properties come to refinance in the future.

In response to this in 2023, we introduced EPC data reporting, using internal resource to assess and monitor transition risk (current EPC estate and gaps). This reporting includes monitoring our existing lending portfolio by looking at EPC ratings. The use of EPC data continues to provide insight and supports our understanding of the impact of transition risk to the business by providing a view on the energy efficiency of the Society's housing stock.

Residential loans**	Year 31 Dec 2023	
Current EPC (31 December 23)	**Number**	**% of book**
EPC rating A/B/C	9,789	34
EPC rating D/E	11,663	40
EPC rating F/G	689	2
No rating	6,974	24
Total	**29,115**	**100**

The monitoring of absolute financed emissions on our existing mortgage book has also been introduced and together with EPC monitoring, this data is presented to the Credit Risk Committee on a 6-month rolling basis as part of our commitment to safeguard our environment and deliver sustainability for future generations alongside satisfying our regulatory obligations.

Scenario analysis

The Society conducts annual stress tests, scenario analysis and impact exercises focusing on hypothetical but plausible and sometimes extreme climate scenarios to assess the current response to the risks the business is exposed to. It also provides insight to identify opportunities to strengthen the business resilience to climate related risks.

The Society applies various timelines to these activities when looking at short term impacts, by doing so, it assesses the materiality of the type of climate-related risk the Society is exposed to, which informs business response and action to an acceptable residual risk profile.

Climate-related scenarios and stress testing is considered as part of the Society's ICAAP and ILAAP which follow the established risk governance process approved by the Board.

Flooding exposures are estimated using an external model from the Environment Agency (EA). Assumptions, model strength and limitations are provided by the EA**

Additional assumptions are made in terms of probability of default and loss given default in our credit risk related scenarios. All assumptions are subject to internal governance and approval by senior stakeholders in the Society as are assumptions used within our climate-related operational scenarios.

During 2023, one of those scenarios focused specifically on transition risks arising from abrupt housing policy changes happening in a very short period (minimum EPC ratings in in the buy-to-let portfolio). The impact was deemed immaterial.

Sustainability Report | Continued

The Society revisits yearly the operational scenarios it runs based on the key risks it faces, the greatest potential impact of those risks and the likelihood of those risks.

In addition, the Society conducted an additional scenario that involved serious and simultaneous environmental damage to its head office and to a key IT third party supplier. Climate-related operational scenarios are bespoke and developed internally using business areas from across the business.

Furthermore, in addition to the operational scenarios, during 2023 the Society carried out a credit risk quasi-qualitative impact assessment on its property portfolio under ever increasing severity assumptions that mimic increasing levels of greenhouse emissions paths. Whereas this analysis is subject to a significant degree of subjectivity, it helps the Society in stress testing its portfolio against climate-relate events.

Internal Capital Adequacy Assessment Plan (ICAAP)

In 2023, as part of the Society's ICAAP we conducted two scenarios linked to climate related risk. The scenarios concluded that at present climate related risk does not present a material risk to the Society. We will continue to include climate related scenarios within the ICAAP, so we stay ahead of the risks we face ensuring we allocate sufficient capital to such exposures, therefore managing the risk effectively.

Internal Liquidity Adequacy Assessment Plan (ILAAP)

The ILAAP considers the impact of a range of scenarios on the Society's Liquidity position. Whilst climate-related risks were considered as part of scoping the stress tests within the 2023 ILAAP, the Society concluded that currently we do not consider climate related liquidity risks to present a material exposure to our business. The Society will continue to

consider climate related risk assessments within the scope of future ILAAPs, acknowledging the evolving risks presented by climate change.

Operational resilience

Building on the business resilience as summarised above, the Society's operational resilience framework addresses how the Society would be impacted by future responses to climate related risks and opportunities.

The Society's activities are largely in the UK and its direct emissions are limited so any future carbon emissions taxes are not expected to materially impact the Society. Meanwhile, the Society's mortgage book is a dynamic asset and as such medium-term risks such as additional flooding risks associated with increases in global temperatures can be mitigated through our lending criteria reducing the immediate effect on the credit worthiness of those assets.

** https://www.data.gov.uk/dataset/4d606c86-00ab-4dd7-911d-c691bbef0e52/risk-of-flooding-from-rivers-and-sea-postcodes-in-areas-at-risk

Metrics and targets

The Society is committed to aligning to a science-based pathway to support in becoming a net zero sustainable Society. We are also committed to contributing to the UK Government's greening of UK homes agenda and aim to reduce our financed emissions accordingly in line with the UK Governments agenda whilst supporting our Members in line with our strategic goals.

This aligns with the transitional risks from energy performance certificates (EPC) on the Society's mortgage book and the impact of increased temperatures on the Society's physical assets where the risk of flooding increases. By reducing both our operational and financed emissions, it is expected that the climate change risk to the Society can be mitigated.

We are working hard to reduce absolute emissions as measured by our carbon balance sheet, across the Society year on year to bring us closer to being net zero.

Knaresborough, North Yorkshire

Carbon Balance Sheet

Greenhouse Gas Emissions Report	2023	2022*	%change	
Energy consumption (kWh)				
Natural gas	1,329,735	1,383,761 **	-3.90%	↓
Electricity	2,366,845	2,392,933	-1.09%	↓
Transport	377,933	245,769	+53.78%	↑
Total	**4,074,513**	**4,022,463**		
Greenhouse gas emissions in tonnes of carbon dioxide equivalent				
Natural gas	247.10	294.52	-16.10%	↓
Electricity	490.11	462.75	+5.91%	↑
Transport	85.62	56.68 ***	+51.06%	↑
Total	**822.82**	**813.95**		
Intensity metric				
tCO2e per sq. M	0.053	0.054	-0.69%	↓

* 2022 natural gas figures have been restated as improved consumption data has become available.
**2022 electricity figures have been restated as invoices have been rebilled.
*** The UK average grid factor increased to 0.207074 kg of CO2e per unit in 2023 from 0.19338kg of CO2e per unit in 2022. Therefore, despite reducing consumption, the emissions associated have increased.

This report (including the Scope 1 and scope 2 consumption and CO2e emissions data) has been developed and calculated using the GHG Protocol – A Corporate Accounting and Reporting Standard (World Resources Institute and World Business Council for Sustainable Development, 2004); Greenhouse Gas Protocol – Scope 2 Guidance (World Resources Institute, 2015); Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance (HM Government, 2019).

Government Emissions Factor Database 2023 version 1.1 has been used, utilising the published kWh gross calorific value (CV) and kgCO2e emissions factors relevant for the reporting period 01/01/2023 –31/12/2023.

The Society's scope 1 direct emissions (combustion of natural gas, refrigerants, and transportation fuels) for this reporting year are 332.72 tCO2e, resulting from the direct combustion of 1,707,668 kWh of fuel. This represents a carbon reduction of 5.55% from last year, ending December 2022.

Scope 2 indirect emissions (purchased electricity) for this reporting year are 490.11 tCO2e, resulting from the consumption of 2,366,845 kWh of electricity purchased and consumed in day-to-day business operations. This represents a carbon increase of 5.58% from last year, ending December 2022.

Head office uses green tariff renewable electricity and we are assessing our branch network in line with the same approach.

The Society's operations have an intensity metric of 0.053 tCO2e/m2 for this reporting year. This represents a reduction in the operational carbon intensity of 0.69% from last year, ending December 2022.

We are actively working to understand the requirements in all relevant scope 3 categories, aiming to get a clearer view of our baseline emissions across relevant categories and prioritising our efforts to address the largest negative emitters.

As regular activity resumed, post-Covid, the utilisation of our transportation increased. As travel within our operational network increased, our emissions from transportation increased in line with this. To address this increase we have moved our vehicle fleet to be 75% electric.

In 2023, we acquired Manchester Building Society, whose estate is one property totalling 510 sq. metres. As the impact of that property was negligible to our baseline, we did not need to reestablish this.

Outlook

The Group is currently working closely with the United Nations with the intention to become a signatory to the UN Principles for Responsible Banking, which will include adopting a number of UN Sustainable Development Goals. The details of this as well as our associated commitment and forward looking approach to science based Net Zero targets will be included in the 2024 Annual Report and Accounts.

Our Directors

James Ramsbotham | Chair

Appointed: August 2021

Experience: Prior to joining the Board, James was Chief Executive of the North East England Chamber of Commerce for 15 years, and Chairman of Darlington Building Society until December 2017.

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

He was a soldier for 12 years with the Royal Green Jackets and benefitted from executive education at Harvard (USA), INSEAD (France), and Oxford University, after graduating from Durham University.

Other roles: He maintains his associations with the military as an Honorary Colonel for The Rifles in County Durham and as a Deputy Lieutenant. James is a Trustee for the Foundation of Light, The Willan Trust and the Gillian Dickinson Trust and a lay member of two committees for Durham Cathedral.

James is Chair of Newcastle Financial Advisors Limited and Newcastle Strategic Solutions Limited, as well as being Chair of the Society's Nominations Committee and the Group Technology & Change Committee.

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

"Having been part of the mutual sector in various guises I am deeply committed to the unique way in which we can be catalysts for positive change in our communities."

Andrew Haigh | Chief Executive

Appointed: January 2014

Experience: With over 30 years' experience in the mutual sector, Andrew has an extensive track record in transforming and developing businesses. He has held financial services leadership roles as both an Executive and a Non-Executive Director, reinforcing the Board's depth of consumer understanding. His previous experience is drawn from a variety of sectors including financial services, technology, automotive and airline industries.

Andrew became the Society's Chief Executive in May 2015. A proven Chief Executive, Andrew has particular strength in building effective leadership teams and organisations with healthy, customer focused cultures. He also proudly drives our Society's ongoing commitment to equality, diversity and inclusion.

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

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

Adam Bennett | Non-Executive Director

Appointed: April 2019

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

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

Other roles: Adam is the Senior Independent Director and a member of the Society's Group Risk Committee, the Audit Committee and the Nominations Committee, upholding the Society's commitments to financial control, integrity and regulation. He is also Chair of the Society's subsidiary, MBS (Mortgages) Limited.

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

Rory Campbell | Non-Executive Director

Appointed: June 2023

Experience: Rory brings to the Board his extensive experience as a senior executive, Board member and advisor to leaders and organisations in a range of industries including financial services, retail, technology, professional services, education and the third sector.

He previously spent six years at John Lewis & Partners (a division of the John Lewis Partnership), including three years on the Management Board and as a standing attendee of the Audit & Risk Committee.

Reflecting the Society's values, Rory's passion for purpose, society and leadership sees him devote his time to a number of causes. He is a former independent member of the anti-poverty charity, Joseph Rowntree Foundation; a Visiting Fellow of Nottingham Business School; an Independent Chair of Trustees of Ignite Consulting Trustee Ltd, and a Fellow of The RSA.

Other roles: Rory is a co-founder of New Vantage Consulting Limited. He has been an Operating Director and Lead Consultant for The Loop Business Consulting, working with international firms as they align their strategy to purpose. Formerly, Rory spent 12 years as a senior executive in Lloyds Banking Group. He is also a member of the Society's Remuneration Committee and the Nominations Committee.

"I'm passionate about harnessing our Society's connection to Purpose. My experience enabling businesses and leaders to unlock this potential will contribute to achieving our ambitions as a Purpose-led organisation, making a meaningful difference beyond the bottom line."

Bryce Glover | Non-Executive Director

Appointed: August 2017

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

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

The majority of Bryce's career has focused on corporate and commercial banking. He was Managing Director of Commercial Banking at A&L/Santander, before joining Nationwide Building Society in 2009 as a Director heading its Commercial Division, where he managed a £22bn commercial lending portfolio and the Society's business savings accounts before heading Corporate Affairs.

He has a deep understanding of the mutual sector, having spent nine years working for the UK's largest building society, the last three as Corporate Affairs Director. He co-founded a UK SME bank which received its full banking licence in 2021.

Bryce is also Chair of the Society's Group Risk Committee and a member of the Group Technology and Change Committee and the Board of Newcastle Strategic Solutions Limited.

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

Stuart Miller | Interim Managing Director NSSL

Appointed: January 2018

Experience: Stuart became Interim Managing Director of Newcastle Strategic Solutions Limited (NSSL) in February 2023 having previously been Chief Customer Officer for the Member business since 2017.

He has over three decades' experience working in the financial services sector, including Virgin Money, where he was responsible for running branches, lounges and the ATM network; RBS International, where he was Head of Mortgages and Head of Customer Experience; and NatWest, where he ran large teams across branches and private banking.

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

As an Associate of the Chartered Institute of Bankers, Stuart also holds the Customer Experience Professionals Association qualification for senior business leaders.

"The UK savings market has gone through unprecedented change in the last 18 months following successive increases to bank base rate which have caused a huge amount of volatility for retail savings customers and providers. I am proud of the part Strategic Solutions, and most importantly our colleagues have played throughout that time in supporting our clients and their customers navigating through such a dynamic and uncertain period."

David Samper | Chief Financial Officer

Appointed: November 2018

Experience: An accomplished strategic leader with over 25 years' experience as a Chartered Accountant, David has in-depth knowledge of the issues impacting the long-term commercial sustainability of the Society's business model and balance sheet, and delivering stakeholder value.

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

David has held senior roles across a number of organisations, including Ernst & Young, NatWest Group, and Sainsbury's Bank. He has led complex corporate finance acquisitions and driven transformational change, whilst consistently delivering core commercial outperformance.

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

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

Anne Shiels | Non-Executive Director

Appointed: July 2017

Experience: Anne's extensive UK and international board-level experience working with both FTSE 100 and independently owned companies, in both regulated and non-regulated businesses, reinforces the Board's broad range of skill and competency.

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

She has held executive roles at Hallmark Cards, Lloyds Banking Group/HBOS, Safeway and Thus Plc.

Other roles: Anne is a trusted executive coach and adviser to Boards and Directors in diverse businesses in the UK and the US. She also chairs the Remuneration Committee and is a member of the Society's Audit Committee. She is also a Director of Newcastle Financial Advisers Limited.

"As the Society continues to grow, the Board leans on my track record of leading large people functions and experience facilitating transformative organisational change to develop a broader view on matters affecting the Society and assist in developing people strategies, including our approach to culture, talent, succession and reward."

Our Directors | Continued

Mick Thompson | Deputy Chair and Non-Executive Director

Appointed: January 2019

Experience: Mick brings significant accountancy experience, with a deep knowledge of audit, to support the Society's governance and audit function.

His diverse skillset and broad range of perspectives derive from vast sector experience that has seen him work in industries, including housebuilding, social housing, education, engineering, charities, and financial services.

Mick spent twenty one years as a Partner and nine years as Office Senior Partner at KPMG Newcastle.

Other roles: He is a Non-Executive Director of The Clinkard Group Limited, Atlas Cloud Limited and NorthStandard Ltd. Recognising the importance of charitable action and giving back to causes throughout the region, Mick is also a Trustee of Greggs Foundation Charity; Trustee of NUFC Foundation Charity; Trustee of Tyne and Wear Building Preservation Trust, and Regional Treasurer of The Lord's Taverners Charity.

He chairs the Society's Audit Committee, as well as being a member of both the new Group Technology and Change Committee and Remuneration Committee. Mick was also a member of the Nominations Committee, stepping down at the end of 2023. He also chairs the Newcastle Building Society Pension & Assurance Scheme Board.

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

Our Board members skills and experience contributes to delivery of a long-term and sustainable Society, details of which is found in their biographies.

Outgoing Directors

Michele Faull

Stuart Lynn

We are truly grateful to these outgoing directors for their insight and expertise that has had a significant impact on our Society's members, colleagues, and communities.

Michele Faull joined the Board in August 2021 serving for two years. Her wealth of experience working at the most senior levels in finance and risk at two of the largest mutuals has provided consistent and thoughtful guidance to the Board during her tenure. Michele's contributions as a member of both the Audit Committee and Group Risk Committee have also been highly valued.

Stuart Lynn joined the Board in April 2020 serving for three years, having initially joined the Society as a Non-Executive Director of the Newcastle Strategic Solutions business in 2018. During his time on the Board he was Chair of the Group Technology Governance Committee in 2023. The Board has benefitted from his deep understanding and experience of the potential for digital transformation that has helped to guide growth across the Group.

Sarah and Dorothy, Ashington customers and Members

Directors' Report

The Directors present their Annual Report and Accounts and Annual Business Statement for the year ended 31 December 2023, which they consider to be fair, balanced and understandable, providing Members with the information necessary to assess the Group's position and performance, business model and strategy.

Objectives and activities

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

Business review and future developments

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

The Annual Business Statement and the Credit Risk Notes, 30 to 42, contain respectively the ratios and arrears disclosures required by the Building Societies Act 1986.

Going Concern and Long Term Viability Assessment

Financial planning, risk and stress testing

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

The Strategic Report includes a description of the Group's business activities and any factors likely to affect its future development, as well as details of the Society's financial performance and position, including liquidity and capital structure. The Group's principal risks, including the strategy for managing these, are detailed in the Risk Management Report. Further details in respect to interest rate risk, liquidity risk and capital risk are provided in the notes to the Accounts (see notes 30 to 42 of the Annual Accounts).

The Group performs detailed capital and liquidity stress testing at least once per year in the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment (ILAAP) in line with regulatory requirements. The ICAAP stress test ensures that the Group's forecast of capital requirements and capital generation are resilient to 'severe but plausible' stresses to the Group's external or internal environment, far beyond the levels forecast in the most negative scenarios considered in the Group's longer term plan. The stress test demonstrates that the Group's capital buffers are sufficient to absorb the level of capital erosion considered in the stress scenario, continuing to meet minimum regulatory capital requirements. The ILAAP stress test ensures that the Group holds adequate liquid assets to meet both its business as usual liquidity needs and increased liquidity requirements that could occur as a result of entering a period of stress. The Group is forecast to hold a sufficient quantity and quality of liquid assets over the following three year period to be able to meet its liabilities as they fall due, even in the event of a severe but plausible stress scenario.

Assessment of the appropriateness of preparing the Annual Accounts on a Going Concern basis

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

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

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

Assessment of the Group's and Society's long-term viability

The Directors have assessed the long term viability of the Group and the Society over the three years to December 2026. The assessment took account of the Group's and Society's principal and emerging risks and relevant management actions and controls, including the Board's risk appetite and performance against risk limits. It considered the Group's and Society's financial forecasts, including profitability, capital and liquidity positions. It also considered the most recent Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) stress tests, complemented by further stress tests and forecasts completed as at December 2023, to ensure the viability of the Group and Society even in times of severe stress. The most significant stress scenario which was considered included an increase in unemployment to 8.5% and house price falls of 30% over the period 2024 to 2026.

Based on this assessment, the Directors have a reasonable expectation that the Group and Society will continue in operation and meet their liabilities as they fall due over the period to December 2026.

The Directors consider three years the most appropriate period for the viability assessment, as it is within the period covered by the financial forecasts and the stress testing undertaken by the Society, but does not extend too far into the future, where forecasts become increasingly more uncertain.

Risk management, principal risks and uncertainties

The Risk Management Report sets out the principal risks and uncertainties faced by the Group together with the risk management framework and risk governance structure. The Risk Management Report also details how the Group mitigates the specific key risks to which it is exposed, which are capital risk, climate change risk, concentration risk, conduct risk, credit risk (commercial, investment and residential), liquidity risk, market risk (interest rate, macro-economic) and pension fund obligation risk. In addition, the Credit Risk Notes, 30 to 42, set out the metrics associated with the key risks including sensitivity analysis and exposure level.

Mortgage arrears

As at 31 December 2023, there were 34 cases (2022: 32) where payments were 12 months or more in arrears. The capital balance of these loans was £3.8m (2022: £4.0m). The total amount of arrears on these loans was £0.6m (2022: £0.4m).

Political and charitable gifts

Community funding, including charitable donations and colleague fundraising, totalled £357,296 in 2023 (2022: £323,602).

The organisations that the Society supported and the corresponding donations made in 2023 were: £216,733 to the Newcastle Building Society Community Fund at the Community Foundation Tyne & Wear and Northumberland and £20,000 to the Disasters Emergency Committee appeal following the earthquake in Turkey and Syria.

A further £763 in Match Funding was provided as part of Mission Christmas for Forever Manchester, £3,500 to food insecurity charities as part of our Kick Out Food Poverty campaign, £26,000 for grants to Citizens Advice Gateshead, £30,300 to Walking With the Wounded and £60,000 to the Newcastle United Foundation.

In 2023 colleagues continued to deliver on the Society's Purpose of making a positive difference to the people who make up its heartland. A variety of fundraising activities secured a colleague and customer fundraising contribution of £30,816 in aid of the Newcastle Building Society Community Fund and other charities including Marie Curie, Alzheimer's Society, Cash for Kids and CHUF (the Children's Heart Unit Fund).

Volunteering was also a key focus for colleagues who gave their time and skills to good causes throughout our regions delivering more than 10,000 hours of support to local communities.

The Group has not made any political donations during 2023 (2022: nil).

Supplier Payment Policy

The Group follows an internal policy that payment to suppliers will be made within 30 days from receipt of an invoice and endeavours to meet individual supplier payment terms which may be set at shorter timescales. At 31 December 2023, the number of creditor days was 27 (2022: 28 days).

Directors

As at 31 December 2023, the members of the Board, who have served at any time during the year and continue to act as Directors, are as follows:

James Ramsbotham, Adam Bennett, Rory Campbell, Michele Faull, Bryce Glover, Andrew Haigh, Anne Laverack (business name: Anne Shiels), Stuart Lynn, Stuart Miller, David Samper and Mick Thompson. Karen Ingham retired from the Board on 26 April 2023.

At the Annual General Meeting (AGM), to be held on 24 April 2024, all of the current Directors will offer themselves up for either election or re-election, with the exception of Michele Faull and Stuart Lynn who will be stepping down at the conclusion of the meeting.

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

All Directors are Members of the Society.

Please see the Remuneration Committee Report for further information.

Independent auditors

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

Statement of Disclosure to External Auditor

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

Corporate governance

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

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

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

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

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

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

The Directors consider that the Annual Report and Accounts are fair, balanced and understandable, when taken as a whole, and that they provide the information necessary for Members to assess the Group's and Society's performance, business model and strategy. In addition to the Annual Accounts, the Act requires the Directors to prepare an Annual Business Statement and a Directors' Report for each financial year. Each contains prescribed information relating to our business and subsidiary undertakings. We are also required to provide details of Directors' remuneration in accordance with part VIII of the Act and regulations made under it.

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

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

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

- the audited Accounts for the Group and Society;
- a Strategic and Risk Report that includes a fair review of the business and a description of the principal risks and uncertainties; and
- responsibility statements (see below).

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

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

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

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

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

This responsibility statement was approved by the Board of Directors on 29 February 2024 and is signed on its behalf by:

On behalf of the Board
James Ramsbotham | Chair

29 February 2024

Report of the Directors on Corporate Governance

Introduction

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

The Code contains a set of principles that emphasise the value of good corporate governance to long-term sustainable success. The Code has at its heart the culture and purpose of an organisation: putting the relationship between organisations and their stakeholders at the heart of a set of principles designed to promote long-term sustainable growth in the UK economy.

Corporate governance procedures and processes within the Society are regularly reviewed to ensure they are aligned appropriately with the Code, including when updates or revised guidance are published. This report, together with the Audit Committee Report, the Risk Committee Report, the Remuneration Committee 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, whilst acting in the best interests of our current and future Members. James Ramsbotham is the Chair of the Society and Mick Thompson is the Deputy Chair. Further details on the composition of the Board is detailed in the Our Directors section of the Annual Report and Accounts.

In carrying out its role, the Board aims to achieve its strategic goals for the benefit of the Society's Members. The Board has responsibilities for setting the Purpose and values of the Group and believes that the interests of all stakeholders can be best served by remaining a strong and forward-looking mutual building society.

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

There is a clear division of responsibilities between the running of the Board and the Executive responsibility for the running of the Society's business. No one individual has unfettered powers of decision and the roles of Chair and Chief Executive are exercised by different people within the Society.

Adam Bennett is the Senior Independent Director, providing a sounding board for the Chair and, where necessary, serving as an intermediary for the other Directors.

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

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

Matters reserved to the Board

The responsibilities of the Board are set out in the Board's Terms of Reference, which can be found on the corporate governance section of the Society's website. The Board's Terms of Reference are reviewed on a regular basis.

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

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

- **Financial reporting and internal controls** – approval of stock exchange announcements, half year and final annual results; approval of the Annual Report and Accounts including the Strategic Report, Risk Management Report, Report of the Directors on Corporate Governance, and the Remuneration Committee Report; approval of the Pillar 3 disclosures; ratification of the Going Concern and business viability review following review and approval by the Audit Committee; approval of any significant changes in accounting policies or practice based on the recommendations of the Audit Committee; and ensuring an adequate internal control environment is in existence. The Board delegates oversight of internal controls to the Audit Committee.
- **Risk management and regulatory** – ensuring an adequate risk management framework is in place and that good customer outcomes are a central focus to business processes. This includes approval of risk appetite, oversight of risk governance, reviewing the top risks, ensuring the strategy and risk appetite are consistent, and approving the ICAAP. Oversight of the assessment of the financial risks from climate change that affect the Society and actions to address these risks within the Society's overall business strategy and risk appetite. The Board delegates oversight of risk management to the Group Risk Committee, as well as oversight of compliance with regulations (including by the Prudential Regulation Authority and the Financial Conduct Authority). Assessment, at least on an annual basis, of the Society's delivery of good outcomes for Members and customers, including but not limited to the Consumer Duty Annual Board Report.
- **Senior Managers and Certification Regime** – ensuring that the Society meets its obligations under the Senior Managers Regime (SMCR), including: reviewing at least annually the SMCR Policy; and maintaining a responsibilities map for all prescribed responsibilities and ensuring all prescribed responsibilities have been allocated.
- **Operational resilience** – the Board retains oversight and approval of the Operational Resilience strategy and matters prescribed in regulatory requirements.
- **Board membership and senior management issues** – approval of changes to the structure, size and composition of the Board, following recommendations from Nominations Committee; ensuring that adequate succession planning for the Board and senior management is in place following recommendations from the Nominations Committee; and approving and overseeing appointments to the Boards of subsidiary companies.
- **Appointment and/or re-appointment or removal of the External Auditor** – to be put to Members for approval, following a recommendation from the Audit Committee.
- **Remuneration** – agreeing the Remuneration Policy for the Directors and other senior executives, following recommendations from the Remuneration Committee.
- **Delegation of authority** – approval of the responsibilities of the Chair, the Chief Executive and the Senior Independent Director; approval of the delegation of authorities to the Chief Executive; ratifying the terms of reference for Board Committees and subsidiary companies; and receiving minutes and/or reports from the Chairs of the Board Committees and subsidiary companies.
- **Corporate governance matters** – to ensure that a formal evaluation of the effectiveness of the Board is undertaken and to facilitate an assessment by external consultants at an opportune time; determining the independence of Directors; reviewing the Group's overall corporate governance arrangements; agreeing the Directors' Conflicts of Interest Policy and other relevant policies; approval of the Notice of any General Meeting of the Society including all resolutions to be put forward to Members; and insurance: approval of overall levels of insurance for the Group, including Directors & Officers liability insurance.
- **Whistleblowing** – receive reports from Audit Committee regarding the adequacy of arrangements for colleagues to raise concerns, in confidence, about possible wrongdoings in financial reporting or any other matter. To formally approve any changes to the reporting arrangements for colleagues to raise concerns, following a recommendation from Audit Committee. To routinely receive reports from Audit Committee regarding any report for concern that has been received from colleagues and to ensure that arrangements are in place for the proportionate and independent investigation of such matters and appropriate follow up action.
- **The Society's Defined Benefit Pension Scheme** – the consent of the Board is required to amend the Pension Scheme's Trust Deed and Rules; and the Board approves of the appointment/removal of Society nominated Trustees.

Board changes

In 2023, Karen Ingham stepped down as a Non-Executive Director at the 2023 AGM on 26 April 2023. Rory Campbell was appointed to the Board as a Non-Executive Director on 17 June 2023.

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

At the Annual General Meeting (AGM) all current Directors will offer themselves up for either election or re-election, with the exception of Michele Faull and Stuart Lynn who will be stepping down at the conclusion of the meeting.

The biographies of all of the Directors standing for election or re-election are detailed in the Our Directors section.

Management information

The Chair is responsible for ensuring that the Directors receive accurate, timely and clear information to enable the Board to discharge its duties effectively. The Board meet at least 10 times per year, at appropriate times during the financial reporting period. Board members receive meeting packs in advance of each Board meeting. Management information is provided to Directors throughout the year and the content of the Management Information is regularly assessed to ensure it remains relevant to the Society's operations and business model. A rolling Board agenda is tabled at each Board meeting to ensure that all key areas are covered in a timely manner during the year and sufficient time is set aside at each meeting to ensure that constructive discussion and challenge can take place.

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

Board performance, effectiveness and evaluation

The Board recognises the importance of reflecting on the effectiveness of the Board. In compliance with the Code this is undertaken both through formal and rigorous annual internal reviews of the Board, its committees, the Chair and individual Directors and through an externally facilitated review every 3 years. In 2022, an external effectiveness review was undertaken by BVALCO Limited (BVALCO), with the key findings being presented to the Board in October 2022.

During 2023, the Board continuously reflected on the key findings of the external review undertaken by BVALCO, including participating in a facilitated session. Progress on recommendations made within the report have been tracked by the Nominations Committee and the Board. The effectiveness of the Board has been enhanced by introducing changes to the format of Board meetings and reporting. There is now dedicated time within the agenda of every Board and Committee meeting for the Directors to openly discuss and reflect on the effectiveness of the meeting. This encourages a process of continuous development, improvement, and self-reflection.

In compliance with the Code, Non-Executive Directors hold the Executive Directors to account against agreed performance objectives. As part of this scrutiny, throughout 2023, the Chair met separately with the Non-Executive Directors without the Executive Directors present. The conclusions of the scrutiny undertaken by the Non-Executive Directors concluded that all Executive Directors were fulfilling their duties and performing against their agreed performance objectives.

Board Committees

The Board delegates certain matters to Board Committees. Each committee comprises of Executive and/or Non-Executive Directors who have the most relevant experience to consider those matters delegated by the Board. The roles and responsibilities of each committee are set out in their individual Terms of Reference, which are reviewed on an annual basis. The Chair of each committee reports to the Board at a subsequent meeting on matters discussed at each committee meeting.

Similar to the Board, each committee carries out a review of its own effectiveness, and where improvement opportunities have been identified the individual committees are responsible for tracking action points. These reviews are carried out on an annual basis and concluded satisfactorily in 2023.

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

Audit Committee

Details of the Audit Committee are contained in the Audit Committee Report. Through the work of the Audit Committee and the Internal Audit Services department during 2023, the Directors have carried out a review of the Group's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls.

Group Risk Committee

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

Remuneration Committee

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

Non-Executive Director Remuneration Committee ("NED RemCo")

Established in January 2022, NED RemCo reports to the Board and its overarching purpose is to consider, agree and recommend to the Board an overall remuneration approach for Non-Executive Directors together with recommendations for individual fees. The Committee is chaired by the Society Chair.

Group Technology Governance Committee

During 2023, the Group Technology Governance Committee's authority governed the strategic direction of the Group's technology capabilities and advised the Group Board with regard to progress against the agreed strategy. In 2023, the Committee was chaired by Stuart Lynn, a Non-Executive Director.

In January 2024, the Group Technology Governance Committee was replaced with the Group Technology and Change Committee, chaired by James Ramsbotham. The Group Technology and Change Committee's authority is to govern the strategic direction of the Group's technology and change activities and to advise the Group Board with regards to progress against the overall agreed strategy and deliverables.

Nominations and Governance Committee (Nominations Committee)

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

During 2023, the members of the Nominations Committee were James Ramsbotham (Committee Chair), Anne Shiels and Mick Thompson. Since the end of 2023, Anne Shiels and Mick Thompson are no longer members of the Committee. Adam Bennett and Rory Campbell were appointed as members of the Nomination Committee.

The Nominations Committee operates to a rolling agenda to ensure it discharges its full responsibilities. In 2023 it met on four occasions.

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

The main objectives of Nominations Committee are summarised as follows:

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

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

Appointments to the Board

The Nominations Committee follows a stringent recruitment process when making appointments to the Board. This process is tailored to meet the requirements of each particular vacancy and the method of attracting candidates is adapted depending on the nature of the skills required for the vacancy. Board appointments must be ratified by the full Board following the Nominations Committee recruitment process. External consultants and advisers are normally utilised to ensure there is a robust list of suitable candidates with which to fill a vacancy. For the recruitment of a Non-Executive Director in 2023, Nominations Committee was assisted by Nurole. Other than advising the Society on the recruitment of a Non-Executve Director in 2023, Nurole have no other connection with the Society or any individual Director on the Board.

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

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

Succession planning

The Board delegates responsibility to the Nominations Committee to give full consideration to succession planning for the Board and its committees. The Nominations Committee reviews succession planning on a regular basis, ensuring that the challenges and opportunities facing the Society are taken into account when considering what skills, experience and expertise are needed on the Board in the future.

Diversity of the Board

The Board recognises and embraces the benefits of having a diverse Board which utilises a range of factors including skills, industry experience, background, race, gender and the other characteristics, experience and qualities of its Directors. In regard to gender ratios, throughout 2023 there were two female Directors on the Board, namely Michele Faull and Anne Shiels, following Karen Ingham's resignation from the Board at the AGM on 26 April 2023. Michele Faull is stepping down as a Director at the end of the AGM on 24 April 2024.

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.

Election or re-election to the Board

All Directors are required to seek election or re-election at the forthcoming Annual General Meeting (AGM), to be held on 24 April 2024, with the exception of Michele Faull and Stuart Lynn who are stepping down at the end of the meeting.

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

Independence of Directors

The Terms of Engagement for Non-Executive Directors require that they declare to the Society any other external interests and appointments. Details of the Director's external appointments are set out in the Annual Business Statement.

The Nominations Committee carries out an annual review of the independence of Non-Executive Directors against the circumstances set out in the Code. Following the review undertaken by the Nominations Committee in January 2024, the Committee were satisfied that all Non-Executive Directors, including the Chair, were considered to be independent; this was subsequently agreed by the Board.

Conflicts of interests

The Group Secretary maintains a register of all other directorships and interests of the Directors to ensure the Board has good governance arrangements in place to manage and identify any potential or actual conflicts of interests.

The Nominations Committee and the Board review the registers at least annually to ensure that all declarations remain acceptable.

One of the Non-Executive Directors, Bryce Glover, was a Director of Recognise Bank Limited until 28 April 2023. Bryce Glover had previously advised the Board of the existence of the relationship under the policy for dealing with conflicts of interest and procedures were in place within the Society to manage the position. However, Bryce Glover has resigned from the Board of Recognise Bank Limited and therefore there is no longer a conflict of interest.

Time commitments

As part of their formal appraisal Non-Executive Directors discuss the time commitment with the Chair, to ensure that they can devote sufficient time to undertake their role effectively, the Nominations Committee take into account the time commitment when considering a request from a Non-Executive Director to take any external appointments held within other organisations. Following the review of other commitments, the Nominations Committee were satisfied that all Directors have sufficient time to properly discharge their duties as Directors of the Society.

Assessment of Directors

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

Skills and continuous development

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

Nominations Committee oversees the ongoing 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 Nominations Committee discharges its duties in this area effectively, a Board skills matrix and a training menu for Non-Executive Directors are in place.

During 2023, the Board received a number of internal training sessions on the specific topics and areas of interest to ensure that they maintain a process of continuous professional development. In addition to internal training sessions, the Board has also attended external training courses, such as those provided by the Building Society Association.

Culture

The Board is responsible for assessing and monitoring the culture of the Society; as such, one of the matters reserved to the Board, within its Terms of Reference, is for the Board to oversee and set the tone for the culture, values and behaviours of the Group. At the heart of the Society's Purpose is a passion for building lasting, valued customer relationships and meaningful careers for colleagues. As a Purpose-led Society, the Board provides clear leadership to ensure that all policy, practices and behaviours are aligned to our Purpose, values and strategy. The Board monitors culture in a number of ways throughout the year, receiving a range of Management Information reported to the Board at regular intervals. This ensures that the Board has a good understanding and oversight of how the culture is embedded within the Society.

Relations with Members

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

As part of our usual activity we run a number of Member engagement events every year in locations across the North East where Members can share their feedback with the Chief Executive, Executive Team and Non-Executive Directors. During 2023, we held Member engagement sessions with over 300 Members. We have a daily online customer satisfaction survey which is reviewed every morning by the Chief Executive, Executive team and senior managers. Following its introduction in 2021, the digital Member forum (Connected Communities) has provided a forum where Members can share their views with us across a range of topics. The forum's feedback shapes a range of decision making, including grant giving, product and service development and what Members want in the future. Our social media channels continue to be used by customers to provide feedback and request additional information. We are committed to maintaining face-to-face financial services and our investment into our branch network has continued throughout 2023. As part of our branch innovation, we have created a network of free-to-use community rooms across our branch network and also in community partnership branches in Knaresborough, Yarm, Hawes and Wooler.

Through our community and charity support activities we are able to engage with both our Members and the communities we serve. Following the launch of the Newcastle Building Society Community Fund at the Community Foundation, we have provided a growing volume of financial grants to North East community projects, some of which are nominated by our Members. We intend this financial support for our heartland communities will continue to grow in scope and scale. We work hard to make a difference and help our communities make positive changes. In support of our community and charity activities, we have developed our relationships with the Prince's Trust, Citizens Advice Gateshead and the YMCA North Shields.

One of the Board strategy days, held in 2023, involved the Board getting out into the community with visits to branches, the Community Foundation, the YMCA North Shields and Citizens Advice Gateshead. This provided the Board with another opportunity to understand the challenges faced by communities, see how we have made an impact to date and to consider how we can help our communities further.

The FCA introduced new rules with effect from 31 July 2023 in regard to Consumer Duty. Being a mutual society, the interests of our Members are already at the heart of our strategy and Purpose. The introduction of the Consumer Duty principles, where a firm must act to deliver good outcomes for customers, further supports the five pillars of our strategy. The Board has appointed Rory Campbell, Non-Executive Director, as Consumer Duty Champion. The interests of our Members are already a key focus of Board discussions and decision making. However, the appointment of the Consumer Duty Champion further supports the Board to ensure that good customer outcomes are raised and considered in all relevant discussions and decisions.

The views of Members are very important to the Board. This section sets out how we engage with Members. The Board regularly receives reports on service performance, Member feedback, complaints, compliance with the Consumer Duty, Member numbers and the benefits of mutuality.

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

Relations with colleagues

The Code sets out the responsibility for a Board to have appropriate workforce policies and practices, which reinforces a healthy culture. Being one of the five pillars of our strategy, we strive to be a 'great place to work, where people can realise their potential'. This pillar ensures that the wellbeing of our colleagues is at the forefront of our Purpose and is a key component of Board discussions and decision making.

To support our colleagues, we have launched a number of networks within the Society such as the Diversity, Equity and Inclusion Network, LGBTQ+ Network, Women in Leadership, Menopause Network and Disability Network. The networks have been imperative in shaping our policies and practices across the organisation. The Board recognises the strength of embracing different views, experiences and perspectives.

The Society has a well-established "Colleague Forum", chaired by a member of the Executive Team. This formally recognised group consists of colleagues who represent all areas across the entire Group and who support leaders in the delivery of key organisational and people matters that are focused on creating a great colleague experience.

The Code required the Board to create a culture which aligns corporate values with strategy and to assess how they preserve value over the long term. As a Purpose-led Society we expect all colleagues to embrace the Society's Purpose, values and behaviours. In addition, a third party agency is used to organise surveys and capture comments made by colleagues, in confidence, which are then acted upon by senior management. It has been agreed that culture will be formally reviewed by the Board at regular intervals with the aim of preserving long term sustainable success.

Further details of our People Strategy is set out within the Strategy Report.

Newcastle Strategic Solutions Limited (NSSL)

NSSL Board members:

James Ramsbotham (Chair), Stuart Lynn (Non-Executive Director), and Bryce Glover (Non-Executive Director, appointed as Director of NSSL on 8 December 2023) and Stuart Miller (Interim Managing Director NSSL, appointed 9th February 2024).

In 2023, Karen Ingham (Non-Executive Director) resigned from the NSSL Board on 26 April, Phil Grand (former Managing Director NSSL) resigned from the Board on 31 March 2023 and Andrew Ward (former Finance Director NSSL) resigned from the Board on 29 December 2023.

Interim arrangements were made for the operational oversight of the business following the resignation of Phil Grand and pending appointment of a new Managing Director.

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

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

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

Newcastle Financial Advisers Limited (NFAL)

NFAL Board members are:

James Ramsbotham (Chair), Anne Shiels (Non-Executive Director), and Stuart Miller (Interim Managing Director NSSL, appointed 9th February 2024). Iain Lightfoot was appointed as Managing Director of NFAL with effect from 20 April 2023.

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

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

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

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

Report of the Directors on Corporate Governance | Continued

Board and Board Committee Membership Attendance Record

The table below sets out the number of meetings attended by Directors during 2023, with the number in brackets representing the maximum number of meetings the Director was eligible to attend.

In addition to the scheduled meetings as set out in the Board meeting table below, the Board held two strategy days in 2023 to discuss the future direction of the Society.

Director	Board	Audit Committee	Group Risk Committee	Remuneration Committee	Nominations Committee	Group Technology Governance Committee	NSSL	NFAL
Adam Bennett	13 (13)	6 (6)	5 (5)			5 (6)		
Rory Campbell**	8 (8)							
Michele Faull	11 (13)	5 (6)	5 (5)					
Bryce Glover	13 (13)		5 (5)	5 (5)				
Andrew Haigh	13 (13)					6 (6)		
Karen Ingham***	5 (5)		2 (2)				1 (1)	
Stuart Lynn	12 (13)					6 (6)	7 (7)	
Stuart Miller	13 (13)							7 (7)
James Ramsbotham	13 (13)	5 (6)	5 (5)		4 (4)		7 (7)	6 (7)
David Samper	12 (13)							
Anne Shiels	13 (13)	6 (6)		5 (5)	4 (4)			6 (7)
Mick Thompson	12 (13)	6 (6)		3 (5)	4 (4)			

** appointed to the Board on 17 June 2023

*** resigned as Director on 26 April 2023

Annual General Meeting (AGM)

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

All Members who are eligible to vote at the Annual General Meeting are encouraged to participate, either in person or online, or by using their proxy voting form. The use of the online voting system is encouraged and for each vote placed online, the Society will be donating £2 to the Newcastle Building Society Community Fund at the Community Foundation.

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

On behalf of the Board
James Ramsbotham
29 February 2024

Audit Committee Report

Audit Committee

Members of the Audit Committee at 31 December 2023 were:
Mick Thompson (Committee Chair), Adam Bennett, Anne Shiels, and Michele Faull

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

Directors' remuneration, including for members of the Audit Committee, is detailed within the Remuneration Committee Report. The Report of the Directors on Corporate Governance also sets out the process for review of effectiveness of Board sub-committees, including the Audit Committee. The Audit Committee concluded that it was operating effectively as part of its 2023 review on 29 November 2023.

Audit Committee meetings:

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

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

Key roles and responsibilities as delegated by the Board:

The Committee's responsibilities are delegated from the Board and details of the delegated responsibilities are available on the Society's website **www.newcastle.co.uk/about-us/governance/our-committees.** All Board members have access to minutes from Audit Committee meetings and the Chair of the Audit Committee updates the Board at every meeting on recent Audit Committee activity.

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

Financial reporting:

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

This responsibility is discharged through:

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

In 2023, the main areas of significant financial reporting considered by the Audit Committee were as follows:

- **Merger accounting:** In the current year, the Society merged with Manchester Building Society. The merger is accounted for as an acquisition under IFRS 3, and all Manchester Building Society's assets and liabilities had to be recognised at fair value on the merger date of 1 July 2023. Significant judgement was involved, in particular in the fair value of the Spanish equity release book and that of credit impaired residential and commercial mortgages, as well as the recognition of deferred tax (see below). Determining the appropriate accounting for the merger was a significant accounting project, starting in November 2022 and concluding in the second half of 2023. The Audit Committee challenged management on all accounting areas relevant to the merger and are satisfied that they have been accounted for and valued correctly. The Audit Committee in particular agrees that there are no unrecognised intangible assets and that no goodwill or negative goodwill should be recognised on the transaction. The Audit Committee has also reviewed the disclosures on merger accounting (see note 43 of the Annual Accounts) and considers them appropriate, balanced and understandable.

- **Deferred tax:** The tax implications of the merger with Manchester Building Society are complex. The Society has obtained external tax advice and consulted with HMRC on its proposed treatment of judgemental tax items. The Audit Committee are satisfied that the tax treatment applied in these accounts is appropriate, but note that the accounting for tax losses incurred by Manchester Building Society after a change in legislation effective from April 2017 requires management to apply judgement (see note 19 of the Annual Accounts). The Audit Committee agrees that not recognising these deferred tax assets is appropriate before the anticipated change in tax law is substantively enacted or before conclusive legal tax advice has been obtained about the current legal position in the absence of a change in law. The Audit Committee is cognisant of the expectation that this asset is likely to be recognised in a future reporting period.
- **IFRS 9 provisioning:** The Audit Committee maintains oversight and challenge of the key model inputs driving the Group's IFRS 9 provisioning models for the residential and commercial books, with particular focus paid towards the Group's forward looking macro-economic forecast inputs. These inputs are the key judgements in calculating the provision. The Group's Model Risk Committee makes non-binding recommendations on the Group's IFRS 9 scenarios (base, upside, downside and stress), scenario inputs and scenario weightings. In 2023, the Audit Committee's attention focused on:
    - ensuring that the assumptions and methodology for provisioning for the Manchester Building Society mortgage assets are appropriate, as Manchester Building Society has brought a range of credit impaired and idiosyncratic mortgage assets to the Group. The Audit Committee has in particular satisfied itself that the classification of assets as Purchased or Originated Credit Impaired (POCI) is appropriate and recognises that the Society was largely able to use Newcastle Building Society existing models and methodologies in the provisioning of the new assets given the homogenous nature of the majority of the acquired books and the Society's specific experience of commercial mortgages. Models and economic scenarios were carefully extended to ensure that the new assets are appropriately covered.
    - considering the implication of the current economic environment and in particular the potential impact of the cost-of-living crisis and refinancing risk on the Group's existing IFRS 9 scenarios. The Audit Committee welcomed management's careful recalibration of the cost-of-living post model adjustment and remains cognisant of the uncertainty surrounding both the UK's future economic path and its impact on future credit losses.

    Overall, the Audit Committee has concluded that the Society's provisions are appropriate and reasonable.
- **Equity release accounting and valuation:** In respect of the valuation of the legacy, equity release portfolios, the Audit Committee reviews and challenges the key model inputs. In particular, the determination of the discount rate used to calculate the value of projected cash flows; the actuarial assumptions determined with the advice of an independent actuary; and the assumptions used to value the No Negative Equity Guarantee, such as future property price growth and volatility. In the current year, a particular focus was on the following topics:
    - the appropriate discount rate for the cash flows arising from the UK and Spanish equity release portfolios, the Audit Committee is aware of the methodology and the benchmarking involved in calculating an appropriate rate.
    - the Spanish equity release portfolio acquired as part of the merger with Manchester Building Society. Management has calibrated the existing equity release valuation model and methodology to the extent possible, but the Audit Committee is well aware that the nature of the Spanish book is very different from the existing UK based books, in particular due to the high loan to values of the majority of accounts. This, together with the different geographical location, required additional judgements and assumptions.
    - the recognition of a derivative financial asset linked to the UK equity release portfolio for deferred consideration payable on the acquisition of part of the portfolio in the early 2000s. The Audit Committee is of the opinion that the adjustment is required and that it, whilst of moderate size, would have distorted the picture of the Society's performance if recognised in the Income Statement in the current year. As a result, the Audit Committee considers the adjustment material, resulting in a restatement of the comparatives (see note 46 of the Annual Accounts). The Audit Committee is satisfied that the valuation at the year end and, for the Spanish equity release portfolio, at the merger date is reasonable and in line with best market practice identified through benchmarking and accounting requirements. The Audit Committee has satisfied itself that assumptions and methodologies utilised for the UK equity release portfolio are consistent and appropriate.
- **Effective interest rate:** Loans and advances to customers are held at amortised cost, using the effective interest rate method (EIR). That implies that one-off charges and receipts, such as property valuations the Society pays for, arrangement fees and early repayment fees, are included as interest income and spread over the life of the product, rather than being recognised separately. Assumptions and estimates relating to the expected behaviour of the Society's current mortgages were reviewed based on recent experience.
- **Hedge accounting:** The Audit Committee is appraised of the Group's derivative and hedge accounting position and strategy and agrees the accounting policy for hedging, including disclosures in the Annual Report and Accounts.
- **Going Concern:** Preparing the Annual Report and Accounts under the Going Concern assumption requires the Board and Audit Committee to be satisfied that the Society will stay in business for at least 12 months from the date the Accounts are signed. In addition, the Accounts contain a statement that the Society and Group are considered viable within its Directors' Report. As a result, a detailed assessment of the Group's viability over the next three years is reviewed by the Audit Committee, which considers the Group's business operations, business planning, business management and risk management. The assessment also includes forecasts and stress testing of long-term liquidity and capital resources. The Audit Committee concluded that the adoption of the Going Concern basis to prepare the Accounts is appropriate and considers the Group viable over the next three years.
- **The Audit Committee considers matters raised by the External Auditor** and concluded there were no uncorrected adjustments required that were material to the Annual Report and Accounts.

The Audit Committee is satisfied that the key estimates and judgements are appropriate and suitably disclosed in the Annual Report and Accounts. Having undertaken the above responsibilities and considerations throughout the Group's 2023 financial year, the Audit Committee recommended to the Board that approval be given to the audited Annual Report and Accounts and Summary Financial Statements as at 31 December 2023.

Internal control and risk management:

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

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

The Audit Committee is responsible for:

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

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

During the year, the Audit Committee, through Internal Audit Services and from other management reports, reviewed the scope and effectiveness of the Group's internal controls. The coverage of the reviews in 2023 included reviewing certain controls in operation for lending, savings, financial advice, information technology and cyber security, treasury, finance, risk management, operational resilience, regulatory compliance and reporting, strategic change initiatives, and merger activities. Internal Audit Services engaged the services of KPMG LLP, Ernst & Young LLP, and RSM UK Risk Assurance Services LLP during 2023 for co-sourced internal audits to provide specialist expert input and promote knowledge transfer to Internal Audit Services.

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

Internal Audit Services:

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

A formal internal review of the qualification and effectiveness of Internal Audit Services is undertaken by the Audit Committee annually and most recently in July 2023, which concluded positively, confirming that Internal Audit Services effectively met its responsibilities.

Audit Committee Report | Continued

Additionally and in accordance with good practice, the Audit Committee also requires an external effectiveness review of Internal Audit Services at least every five years, which considers the quality, experience and expertise of the function. A review was carried out during 2019 by an external firm appointed by the Audit Committee. The review concluded that Internal Audit Services was operating effectively, and confirmed that Internal Audit Services conforms to the standards expected by the Institute of Internal Auditors. The next external review is planned for 2024.

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

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

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

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

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

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

During 2023, the External Auditor reviewed the proposed accounting with regards to the merger which was non-audit work. The Audit Committee approved this work prior to it being carried out as it was limited scope advice and closely linked to future audit engagements.

Where necessary to maintain independence, non-audit assurance work such as the CASS audit is carried out by Deloitte partners and staff that have no connection to the External Audit team. The fees paid to the External Audit firm for audit and non-audit services are set out in the Administrative Expenses note in the Annual Report and Accounts. The ratio of non-audit fees to audit fees in 2023 was 0.19:1.

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

On behalf of the Board
Mick Thompson | Chair of the Audit Committee

29 February 2024

Simon, RTProjects Administrator and Michelle, Durham University physiology student, currently on a one year work placement at RTProjects. RTProjects is a mental health charity who received a grant from us in 2023 to help fund their work.

Remuneration Committee Report

Annual statement from the Chair of the Remuneration Committee

Introduction

I am pleased to share the Directors' Remuneration Report, on behalf of the Remuneration Committee, which details the Group's approach to pay, incentives and benefits for the period 1 January to 31 December 2023. It sets out the Remuneration Policy, and remuneration details, for the Group's Executive and Non-Executive Directors, how this aligns with our broader business strategy and how it has regard to the principles of the UK Corporate Governance Code relating to remuneration, the Regulators' Remuneration Code and the disclosure requirements arising under the Capital Requirements Directive IV (CRD IV).

The Committee

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

Anne Shiels	Non-Executive Director (Chair)
Bryce Glover	Non-Executive Director & Chair of Group Risk Committee (until 12 Dec 2023)
Mick Thompson	Non-Executive Director & Chair of Audit Committee
Rory Campbell	Non-Executive Director (from 13 Dec 2023)

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

Our Purpose-led reward approach – the decisions of our Remuneration Committee in 2023

As a Society, our Purpose continues to be to 'connecting our communities with a better financial future'. This guides all the Society's actions including how we reward all our colleagues, including leaders and Board members. 2023 was another successful year for the Society but the challenges of a high inflation environment and its impact on the cost of living for both our Members and our colleagues remained a key concern. In this environment, paying our colleagues, particularly those in lower paid roles, a fair and competitive wage remained of paramount importance to the Committee. This was to help ensure both the financial wellbeing of our colleagues and that the Society remains able to attract and retain the best talent from our regions and beyond.

We took several actions to address these cost-of-living challenges during the year. Firstly, we undertook an early annual pay review for colleagues during 2023, with a proportion of the pay award brought forward to October 2022 and the remainder delivered one month earlier than usual in March 2023. Additionally, we chose to make a cost-of-living award as part of the bonus payments awarded to colleagues in 2023. This provided full-time colleagues with a minimum annual bonus of £2,500 in relation to the 2022 financial year. This benefited colleagues in our more junior roles, who we recognised were most likely to be impacted by the cost-of-living challenges. Finally, I'm pleased to confirm that the Society remains committed to being a Real Living Wage employer and that as a result of the recent increases in the Real Living Wage, which reflects the true cost of living, a substantial number of our lower paid colleagues will benefit from higher-than-average pay increases in 2024. Furthermore, the Society has also recently formed part of a city-wide action group to make Newcastle a living wage city and to encourage more employers in the region to pay the Real Living Wage, thus seeking to positively impact our communities.

I am pleased to report that because of the actions we have taken over the last 12-18 months and positive changes in the wider economic environment, the challenges we faced attracting and retaining colleagues have eased. As such we have seen a reduction in colleague turnover and improved ability to attract new talent into the Society.

We look to deliver our Purpose in several ways, including delivering a great place to work, where people are empowered to realise their potential, and fostering inclusion, diversity and positive change at work and in our communities. Our approach to reward last year reflects these priorities. We recognise that in creating a diverse workplace one size does not fit all and as such we have sought to provide colleagues with more flexibility in their reward package. To help enable this we have launched our new flexible benefits platform 'Colleague Reward' which allows colleagues to see all their flexible benefits in one place, make changes online and provides each colleague with their total reward statement. We have also improved our flexible benefits offering, including the introduction of our colleague mortgage product and improved access to financial advice for our colleagues, either through our Newcastle Financial Adviser teams or through our Helping Hands partnership with Gateshead's Citizen Advice service.

In 2024 we'll be taking further steps to ensure our approach to reward remains aligned to our Purpose by publishing our first ethnicity pay gap report and outlining the actions we'll take to address any pay gaps, improving our parental leave provision and reviewing the default rate for our pension scheme.

Director and Executive remuneration in respect of 2023

The Remuneration Committee's role is to consider, agree and recommend to the Board an overall Remuneration Policy and approach that is aligned to the Society's overall Purpose, while ensuring that it remains aligned with the long-term interests of the Society's Members and other stakeholders. We constantly strive to maintain the highest standards of governance and fairness in relation to remuneration and ensure continued alignment with our business strategy. Risk appetite and regulatory requirements are also at the forefront of the Committee's consideration and close alignment is maintained throughout the year with the Society's Risk and Audit Committees.

Significant work has been carried out over recent years to introduce a robust and equitable performance and reward framework for colleagues across the Society, in a way that is fair, affordable, reflects market practice and ensures that the organisation offers competitive total reward packages. Part of this process has been to ensure closer alignment of our Executive remuneration to our peers in the sector and the wider market. The pay increases of our Executive team therefore ranged from 0% to 14% in 2023, reflective of personal performance and alignment to market benchmarks. The average increase of the Executive team was 7%, and was broadly in line with our wider workforce, where the average increase was 7%, reflective of the high inflation environment and competitive labour market in 2023.

2023 bonus awards were made to the Executive team and reflected the Society's performance against a range of financial and non-financial metrics, in addition to an element reflecting the personal performance of each Executive. Overall levels of Executive bonus payments for 2023 were broadly on target at 30% of salary, against a maximum award of 50% of salary. The bonus has been awarded in line with the rules of the scheme and against the performance metrics agreed at the beginning of the year and as a result there was no discretion applied by the Committee.

As per prior years, 50% of Executive bonus is deferred and payable in later years, this allows the Committee to review whether the payment remains appropriate and in line with Strategy and Purpose, providing the ability to operate malus and clawback rules in place for the scheme and thus potentially reducing or cancelling the payments in cases such as, but not limited to, significant failures in risk management, material errors or the Society's financial underperformance.

The relative levels of bonus payment, against the maximum percentage award, was similar for all colleagues across the Group who participate in our 'Sharing in Our Success' bonus scheme and the bonus scheme operated in a similar way, except no bonus deferral is in place in our colleague scheme.

Further detail on how we have delivered our Purpose of being a great place to work, where people can realise their potential in 2023, can be found in our Chair's Report, Chief Executive Review and Strategic Report.

Directors' Remuneration Policy

Policy aims and principles

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

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

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

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

Directors' service agreements and notice periods

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

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

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

Policy on termination pay

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

Remuneration for Executive Directors

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

How elements support our strategy	Operation	Maximum potential value	Performance conditions and assessment
Basic salary Supports the attraction and retention of Executive Directors, reflecting their individual roles, skills and contribution and ensuring internal pay equity (ensuring colleagues within similar roles are compensated in a similar way).	Basic salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual. In setting appropriate salary levels, the Committee takes into account data for similar roles in comparable organisations as determined by the Group Job Evaluation Policy. The Society aims to position Executive Directors competitively within the reference group. Consideration is also given to internal pay equity.	Increases to base salary are determined annually by the Committee taking into account: | individual performance; | the scope of the role; | pay levels of comparable organisations; and | pay increases elsewhere in the Group.	Individual performance is taken into account when considering base increases, as well as affordability and the performance of the Group. Increases are proposed by the Chief Executive and approved by the Remuneration Committee.
Pension Supports attraction and retention of Executive Directors at a cost that can be controlled by the Society.	Generally, the Society contributes to a defined contribution pension scheme for the Executive Directors. The contribution can instead be paid in cash (which is excluded from bonus calculations) if the Executive Director so chooses.	Up to 9% of basic salary	None applicable.
Benefits Supports attraction and retention of Executive Directors; and Provides a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including car allowance, private medical insurance, life insurance, health screening and permanent health insurance. The Committee reviews benefits offered and may make changes, for example, to reflect market practice or the needs of the business. The Society offers all colleagues the option to participate in a salary sacrifice scheme in order to make use of current incentives and encourage use of electric vehicles.	The Society chooses to invest in the cost of providing benefits which may vary from year to year.	None applicable.
Executive Bonus Scheme* | Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate strategy; | Supports attraction and retention of Executive Directors; and | Supports the development of a high performance culture.	| Based on a number of performance measures and targets linked to the delivery of corporate strategy; | Measures include financial, customer, people and personal objectives; | Targets are set annually and payments are made at the discretion of the Remuneration Committee; and | Payments are made in cash in instalments over a three year period.	The maximum potential bonus opportunity is 50% of base salary. On target bonus opportunity is 30% of base salary.	Performance against pre-determined objectives will be measured by the Remuneration Committee on an annual basis and discretion may be applied under exceptional circumstances. Bonus levels take affordability into account together with specific performance measures which are set at the beginning of each financial year. For 2023, performance measures were weighted as follows | 40% financial | 30% non-financial | 30% personal objectives A financial gateway exists in the operation of the Scheme.

Notes to the table

*As noted above, the Committee has complete discretion to make payment under the Executive Bonus Scheme and also has discretion to amend or remove that Scheme where necessary to ensure the arrangements continue to meet the Committee's overriding remuneration principles.

Directors' emoluments (Audited)

The total remuneration received by Executive Directors is shown below. The information has been audited and shows remuneration for the years ended 31 December 2022 and 31 December 2023 as required under the Building Societies (Accounts and Related Provisions) Regulations 1998. There is a requirement under Rule 14 of the Society's Rules to have deposits to the value of not less than £1,000 in a Society share account in order to qualify as a Director. This means all Directors are Members of the Society. There are no requirements for a Director to own shares in the Society's subsidiary companies.

Details of other non-Society Board positions held by the Group's Directors are shown in the Annual Business Statement in the Annual Report and Accounts. None of the current Executive Directors retained any remuneration as a result of their non-Society positions. The table below has been audited as it forms part of the financial statements.

	Year	Salary or fees	Taxable benefits	Annual bonus (Note 1)	Pension contributions to defined contribution scheme (Notes 2,3 and 4)	Total contractual benefits
Executive Directors		£000	£000	£000	£000	£000
AS Haigh	**2023**	**484**	**57**	**146**	-	**687**
	2022	460	55	215	-	730
D Samper	**2023**	**318**	**41**	**97**	-	**456**
	2022	294	38	146	-	478
S Miller	**2023**	**279**	**37**	**86**	-	**402**
	2022	244	34	121	-	399
Total for Executive Directors	**2023**	**1,081**	**135**	**329**	-	**1,545**
	2022	998	127	482	-	1,607
Non-Executive Directors						
IW Ward (Retired 27 April 2022)						
	2022	22	-	-	-	22
B Glover	**2023**	**70**	-	-	-	**70**
	2022	68	-	-	-	68
A Laverack (Business name: Anne Shiels)	**2023**	**67**	-	-	-	**67**
	2022	65	-	-	-	65
K Ingham (Retired 26 April 2023)	**2023**	**22**	-	-	-	**22**
	2022	53	-	-	-	53
MR Thompson (Note 5)	**2023**	**89**	-	-	-	**89**
	2022	86	-	-	-	86
GA Bennett	**2023**	**60**	-	-	-	**60**
	2022	54	-	-	-	54
S Lynn	**2023**	**63**		-	-	**63**
	2022	61	-	-	-	61
MJ Faull	**2023**	**50**	-	-	-	**50**
	2022	48	-	-	-	48
JDA Ramsbotham	**2023**	**113**		-	-	**113**
	2022	110	-	-	-	110
R Campbell (Appointed 01 June 2023)	**2023**	**29**		-	-	**29**
						-
Total for Non-Executive Directors	**2023**	**563**		-	-	**563**
	2022	567	-	-		567
Total for all Directors	**2023**	**1,644**	**135**	**329**		**2,108**
	2022	1,565	127	482	-	2,174

Notes

1. During 2023 the Society's Executive Directors participated in the Group's annual Executive Bonus Scheme. A proportion of the Executive bonus payment is deferred and is payable in future years as shown in the Executive Bonus Payment table overleaf.
2. Mr AS Haigh has elected to take his pension contribution amounting to £43,530 (2022: £41,400) as a cash payment. He is liable for his own tax and national insurance contributions on this payment.
3. Mr D Samper has elected to take his pension contribution amounting to £28,575 (2022: £26,438) as a cash payment. He is liable for his own tax and national insurance contributions on this payment.
4. Mr S Miller has elected to take part of his pension contribution amounting to £25,125 (2022: £21,938) as a cash payment. He is liable for his own tax and national insurance contributions on this payment.
5. Mr M Thompson received £18,900 (2022: £18,000) in relation to chairing the Newcastle Building Society Pension and Assurance Scheme Board.
6. No Directors received termination payments in 2023 (2022: None).

Remuneration Committee Report | Continued

Chief Executive remuneration

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

Mr A Haigh received a 3% pay rise on base salary in March 2023. This increase is an outcome of the independent review of Executive reward, undertaken by the Committee's reward advisors Willis Towers Watson.

Chief Executive Officer (CEO) remuneration

The Companies (Miscellaneous Reporting) Regulations 2018 requires the publication of the ratio of the CEO's single figure remuneration. We have chosen to use the Government's preferred methodology (option A), which determines the total full time equivalent total remuneration for all colleagues for the relevant financial year, and compares the 25th, 50th and 75th percentiles against the CEO's single figure. We have reviewed the methodology used to calculate the CEO pay ratio figures as it was identified that we reported on 'on target' earnings rather than actual earnings in prior years and so have corrected prior year figures in the table below.

	Quartile	Base salary £	Total pay and benefis £	Ratio to CEO
2023	25th	22,729	25,848	27:1
	50th	28,113	32,761	21:1
	75th	40,620	48,946	14:1
2022	25th	22,316	26,347	28:1
	50th	27,882	33,187	22:1
	75th	39,328	46,062	16:1
2021	25th	20,623	22,438	26:1
	50th	25,987	29,087	20:1
	75th	36,773	42,329	14:1

Annual Executive Bonus

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

The Executive Bonus Scheme has been awarded in line with the rules of the Executive Bonus Scheme. 2023 pay awards for Executive Directors were paid in line with performance against metrics agreed at the beginning of the year and as a result there was no discretion applied.

Payments and deferred payments under the Executive Bonus Scheme are shown in the table below.

Executive Director	Bonus deferred from	Bonus payable in 2024 £000	Bonus payable in 2025 £000	Bonus payable in 2026 £000	Total bonus deferred £000
Andrew Haigh	**2021**	40	-	-	**40**
	2022	54	54	-	**108**
	2023	73	37	36	**146**
	Total	**167**	**91**	**36**	**294**
David Samper	**2021**	30	-	-	**30**
	2022	37	36	-	**73**
	2023	48	25	24	**97**
	Total	**115**	**61**	**24**	**200**
Stuart Miller	**2021**	23	-	-	**23**
	2022	30	30	-	**60**
	2023	43	22	21	**86**
	Total	**96**	**52**	**21**	**169**
Total		**378**	**204**	**81**	**663**

Remuneration of Non-Executive Directors

A separate Non-Executive Director Remuneration Committee reviews and approves the fees of Non-Executive Directors which are then ratified by the Board. Membership of the Non-Executive Remuneration Committee consists of the Chair of the Board, Chief Executive and Chief Financial Officer and is attended by the Chair of the Remuneration Committee and Chief People Officer. Remuneration for the Chair of the Board is recommended by the Chief Executive to the Remuneration Committee for approval and subsequent ratification by the Board.

Element	Approach
Basic fees	Reviewed annually, based on time commitment and responsibility required by Board and Board Committee meetings. The review takes into account fees paid by comparable financial services organisations. The basic fee currently paid is £50,000 (2022: £48,000).
Additional fees	Additional fees are payable for additional responsibilities, such as Committee Chair, Chair or NED of a subsidiary business or for being the Senior Independent Director. Fees range from £5,150 to £20,600 (2022: £5,000 to £20,000) depending on time commitments required.
Other items	Non-Executive Directors are not eligible to participate in any form of performance pay and do not receive pensions or other benefits in kind.

Consideration of remuneration for colleagues who are not Directors

Code Staff and Executives who are not Directors

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

The Group's colleagues

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

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

The Remuneration Committee approved the payment of the 2023 'Sharing in Our Success' Bonus Scheme, in line with the Scheme rules.

Summary of the Remuneration of Material Risk Takers

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

Category	Year	Number of colleagues	Salary or Fees £000	Other taxable benefits £000	Variable remuneration (Note 1) £000	Total remuneration £000
Executive Directors	**2023**	**3**	**1,081**	**135**	**329**	**1,545**
	2022	3	998	127	482	1,607
Other senior management	**2023**	**5**	**879**	**121**	**255**	**1,255**
	2022	6	968	135	315	1,418
Other material risk takers	**2023**	**18**	**1,827**	**234**	**314**	**2,375**
	2022	10	933	124	261	1,318
Total	**2023**	**26**	**3,787**	**491**	**898**	**5,176**
	2022	**19**	**2,899**	**386**	**1,058**	**4,343**

Notes:

1. Variable remuneration reflects participation in the Group's Executive Bonus Scheme for Executive Directors and other members of the Executive Committee and the Group's annual Corporate Bonus Scheme for all other Code Staff.
2. A review of our Material Risk Takers was undertaken in early 2023 and expanded the number of roles due to changes in the bussiness that were considered in scope for reporting purposes.

Consideration of Member views

The Society seeks the views of the Society's members on its Remuneration policy and practices via our annual AGM process. For a number of years, the Committee has invited Members to vote on the annual Remuneration Report, and Members have always voted in favour.

The Directors' Remuneration Report and Policy were last voted on in April 2023. Member approval was given to the 31 December 2022 Directors' Remuneration Report (91.23% approval with 14,463 votes for, 1,391 against and 273 withheld).

The Remuneration Committee and its advisers

The Committee's responsibilities

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

The Committee's main objectives are:

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

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

The Remuneration Committee operates within the Terms of Reference agreed by the Board. The Terms of Reference are reviewed annually and were last reviewed in September 2023. A review of the effectiveness of the Committee was also undertaken during 2023 covering areas including performance, membership, management information and administration of the Committee.

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

- overseeing compliance of the Group's approach to remuneration against the requirements of the Regulators' Remuneration Code;
- considering and agreeing pay and benefits for Executive Directors, Executives, Material Risk Takers and the Chair;
- overseeing remuneration matters across the Society and its subsidiaries;
- reviewing and benchmarking the level of pay for both colleagues and Executives;
- determining the level and approach to annual pay review for all colleagues;
- agreeing bonus metrics for the coming financial year;
- reviewing the performance for the full year and approving the level of Executive and Corporate Bonus to be paid based on achievement of various financial and non-financial key performance measures;
- agreeing changes to remuneration policies, specifically in relation to pension and parental leave for 2024;
- considering the disclosure requirements for the Remuneration Report including Pillar 3 disclosures; and
- approving the Directors' Remuneration Report.

External advice received

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

The fee for the advice was £10,200 (2022: £18,925)

On behalf of the Board
Anne Shiels | Chair of the Remuneration Committee

29 February 2024

Risk Management Report

Overview

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

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

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

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

Risk governance

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

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

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

Group Risk Committee

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

The duties of the Group Risk Committee include:

- oversight of overall risk appetite, tolerance and risk management strategy and the principal and emerging risks the Group is willing to take in order to achieve its long-term strategic objectives;
- oversight of the management of risks to which the business may be exposed, including (but not limited to) prudential risks, conduct risks, operational risks, climate change related risks, operational resilience and IT related risks including cyber;
- oversight of compliance with risk policies;
- oversight, review and recommendation to the Board in respect of approval of the Internal Capital Adequacy Assessment (ICAAP), Internal Liquidity Adequacy Assessment (ILAAP), the Recovery Plan and Resolution Pack (RRP);
- oversight of the risk sub-committees (see below); and
- review and assessment of the Group's risk appetite and associated stress testing.

During 2023, the Group Risk Committee met on six occasions and considered the following matters:

- Implementation of Consumer Duty requirements;
- The impact of rising interest rates and inflationary pressures on the cost of living for borrowers;
- Progress and maturity of operational resilience and third-party risk management practices; and
- Review and approval of key policies including (but not limited to) lending, treasury, interest rate risk and operational risk.

Credit Risk Committee

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

The Credit Risk Committee met on 13 occasions in 2023.`

Enterprise Risk Committee

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

The Enterprise Risk Committee met on 12 occasions in 2023.

Model Risk Committee

The Model Risk Committee, chaired by the Chief Risk Officer, ensures the Group's compliance with the Prudential Regulation Authority (PRA) Supervisory Statement SS3/18 'Model Risk Management Principles for Stress Testing'. The Model Risk Committee acts under the authority of the Group Risk Committee in an advisory capacity and makes non-binding recommendations concerning the Group's adherence to the Model Risk Policy. Recommendations are made by the Model Risk Committee to the Group Risk Committee on suitable macro-economic scenarios, model risk appetite, model performance (monitoring) and model limitations. Approval of the Group's macro-economic scenarios remains the responsibility of the Board.

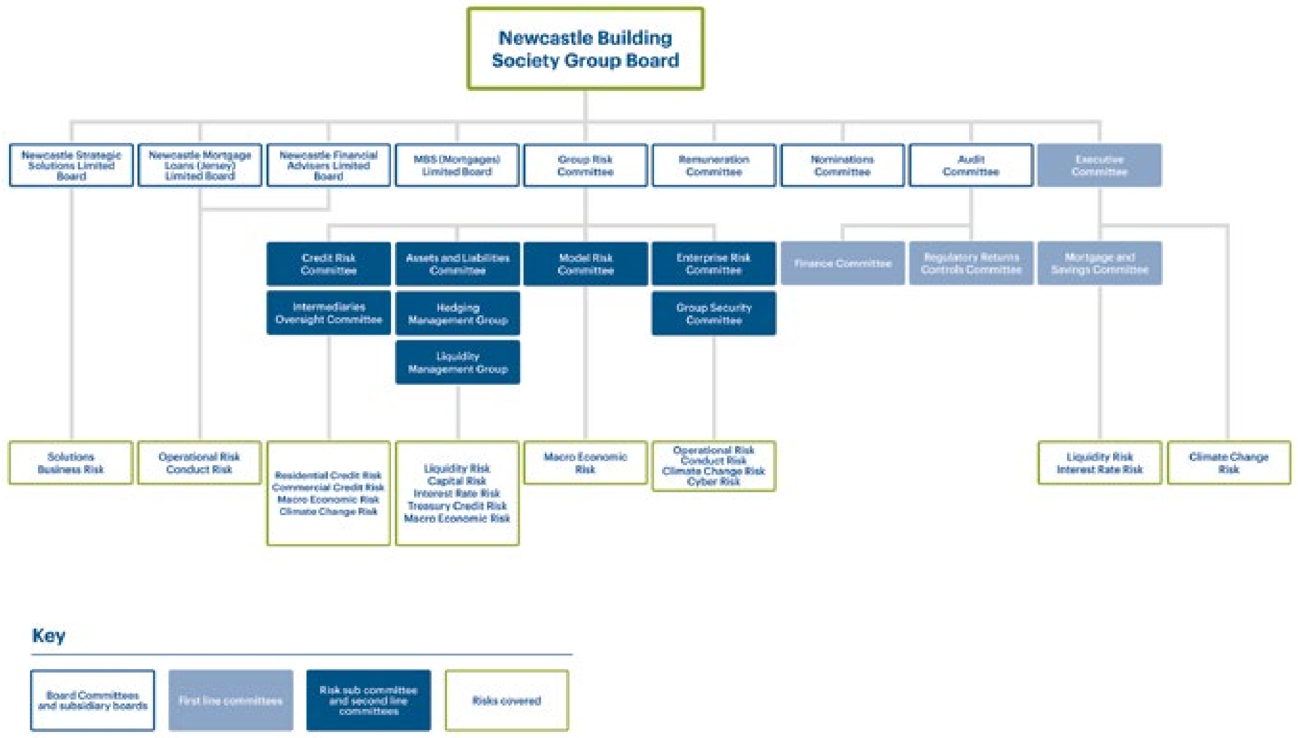
The Model Risk Committee met on five occasions in 2023.

Assets and Liabilities Committee

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

The Assets and Liability Committee met on 12 occasions in 2023.

Risk Governance Structure



Risk Management Report | Continued

Principal Risks

The Group's Purpose is 'connecting our communities with a better financial future'. To enable the Group to achieve its strategic objectives as a Purpose-led organisation, the Board ensures that systems and controls are in place so that risks are suitably identified, quantified, managed and reported.

The Board categorises the key risks in operating as a going concern as 'Principal Risks'. This report includes coverage of Cyber Risk as a Principal Risk, in the Group's Risk Framework this maps into the overarching Operational Risk pillar. In addition to the Principal Risks, Climate Risk has been included as an Emerging Risk, reflective of the increased frequency/severity of climate related events.

The current principal risks the the Group faces are:

Principal Risk	Risk Management	Commentary
Capital Risk ***(Principal Risk)***	Day-to-day capital management is delegated to the Chief Financial Officer with oversight by the Assets and Liabilities Committee, the Group Risk Committee and the Board. The Group assesses its capital position and risks through an annual Internal Capital Adequacy Assessment Process (ICAAP) in line with the regulatory requirements. The ICAAP consider the key capital risks and the amount of capital it should retain. These requirements are assessed against the current position and throughout any forward planning. The PRA sets and monitors capital requirements for the Group. Capital adequacy is measured by comparing both current and forecast capital resources to capital requirements. Capital stress testing is performed as part of the ICAAP and makes sure that the Group is resilient to a range of stresses, assessing whether capital requirements would be met under severe but plausible stress scenarios and considers what mitigating actions are available to management. The Group's policy is to maintain a strong capital base to maintain Member, creditor and market confidence and to sustain the future growth of the Group. The Group has complied with all externally imposed capital requirements and internally set limits throughout the year.	**Risk remained static in 2023.** The risk of capital consumption to risk appetite and regulatory requirements remained broadly static in 2023. In line with the Group's growth plan, the Group's Common Equity Tier 1 ratio has remained stable at 12.5% and remains comfortably above the regulatory minimum of 4.5%.
Credit Risk - Commercial ***(Principal Risk)***	The commercial loan book continues to be actively managed down. All commercial loans over £500k are subject to annual review, with summary reporting of outcomes to the Credit Risk Committee. Quarterly Lending MI provides the Credit Risk Committee with high-level detail for loans greater than £500k, emerging risks and wind-down progress. Following the merger with Manchester Building Society, reporting is provided to the Credit Risk Committee on the performance of the commercial loan books transferred.	**Risk remained static in 2023.** The Group withdrew from new commercial lending in 2008. Lending balances on commercial property continue to reduce. The legacy commercial book has remained performant throughout 2023. Throughout 2023, the Group continued to see further redemptions, and as a result the risk on the Group's legacy book is decreasing, though we continue to monitor the external macro-economic influence. The portfolio of commercial lending transferred from Manchester Building Society introduces new lending to the Group with a different risk profile and terms to the Group's legacy commercial book. The transferred portfolio has been extensively reviewed to give an understanding of the credit risk and nature of the lending.

Principal Risk	Risk Management	Commentary
Credit Risk - Residential ***(Principal Risk)***	Loans are underwritten individually based on affordability, credit score and history, acceptable collateral (including loan to value) and the Group's lending criteria. The Group does not undertake new sub-prime or self-certification lending. The Group's Lending Policy has been actively reviewed and enhanced through 2023 to ensure we respond appropriately to the macro-economic environment and market challenges. The residential book is subject to monthly reporting to the Credit Risk Committee in relation to its credit risk characteristics (including loan to value, loan to income, arrears, credit score profile, early delinquencies and arrears arising from cohorts of lending). The Group's risk appetite is expressed in terms of losses arising in a stressed scenario, and stress testing is used to ensure that the portfolio is within the Group's risk appetite. Following the Transfer of Engagements from the Manchester Building Society, reporting is provided to the Credit Risk Committee on the performance of loan books transferred.	**Retail Credit Risk increased in 2023.** This was due to macro-economic influences such as the rising interest rate environment and inflationary pressures on the cost of living for mortgage borrowers. The Group has maintained a prudent approach to underwriting critiera during 2023, whilst continuing to enhance predictive modelling and scenario analysis to inform our lending approach and controls, recognising increasing financial pressures on borrowers due to rising living costs. The volume of loans originated by the Group that are three months or more in arrears remains well within the Group's risk appetite and remains broadly consistent with levels of 2022. Actual losses on residential mortgages remain extremely low. The residential mortgage book will continue to be closely monitored for early indications of arrears. The portfolio of mortgages transferred from Manchester Building Society is closely monitored and the Group has not identified any significant change in residential credit risk since transfer.
Conduct Risk **(Principal Risk)**	The Group maintains a Conduct Risk Policy which is subject to review and approval by the Enterprise Risk Committee and Group Risk Committee, together with risk appetite statements relating to customer outcomes. Performance is measured against this with monthly reporting to the Enterprise Risk Committee with oversight from the Group Risk Committee. The implementation of Consumer Duty and outcomes based testing has been a key area of focus for the Financial Conduct Authority in 2023. The Group's programme to review and align its conduct risk management to these regulatory requirements has been robust and reinforces the Group's focus on delivering good outcomes for our customers. The merger with Manchester Building Society brings closed book products which are in scope of Consumer Duty from July 2024. These closed books are low volume in the context of overall customers of the Group and the continued provision of MI and reporting on these books to the Enterprise Risk Committee allows for assessment and tracking of any emerging conduct risks from these closed books. All new products are approved by the Mortgage and Savings Committee, which includes consideration of an assessment of risks to customer outcomes. The Group maintains a customer outcomes dashboard, which looks at evidence supporting good customer outcomes (or suggesting poor customer outcomes) and this is reviewed monthly and reported to the Enterprise Risk Committee. The Group maintains independent oversight of the management of conduct risks, through approved monitoring plans, which are risk based and reviewed quarterly, with reporting to Enterprise Risk Committee with oversight from the Group Risk Committee.	**Risk remained static in 2023.** The Group provides a simple product range of savings and mortgages to its Members. Newcastle Financial Advisers Limited provides financial advice as an appointed representative of Openwork.

Risk Management Report | Continued

Principal Risk	Risk Management	Commentary
Interest Rate Risk (Principal Risk)	Interest rate risk (IRR) exists in the Group's Banking Book only. The Group does not operate a Trading Book. The Group uses structural hedging, allocating reserves to time buckets and offsetting exposures where possible. Remaining exposures are hedged with derivatives where necessary. A suite of prescribed and idiosyncratic stress scenarios are performed on a regular basis to assess vulnerability to Net Interest Income (NII) and Economic Value of Equity (EVE). Outcomes are reported to the Assets and Liabilities Committee (ALCO) along with any mitigating management actions. Interest rate risk in the banking book (IRRBB) components are included in Funds Transfer Pricing (FTP) when considering product pricing. Product proposals also consider risks such as basis risk and maturity concentrations. Customer optionality is regularly reviewed and stressed to capture changes in customer behaviour. Interest rate risk and basis risk are monitored and reported monthly to the Assets and Liabilities Committee, including compliance with policy defined limits and metrics. The Group uses a suite of metrics to manage interest rate risks within risk appetite. These metrics are designed to address all sub-components of interest rate risk including basis risk, earnings risks, economic value risks, credit spread risks, duration and optionality risks. The Group completes regular stress testing analysis to ensure that IRRBB remains within appetite should such scenarios arise.	**Risk increased in 2023.** Risk increased due to market response to political events, monetary and fiscal policy decisions. The Group continues to maintain a robust interest rate risk framework and an effective hedging strategy. IRRBB continues to be managed within the Group's conservative risk appetite.
Investment Credit Risk (Principal Risk)	Investments are subject to a Group Risk Committee approved policy, including limits on exposures to instruments, countries and counterparties. Investments are monitored and reported daily to management, and monthly to the Assets and Liabilities Committee, including compliance with the policy. The credit default swap rates for the Group's counterparties are monitored, and alerts raised if certain criteria are met in relation to those spreads. The mark-to-market value of the Group's investments in gilts, residential mortgage backed securities, and covered bonds are monitored daily and reported to the Assets and Liabilities Committee monthly.	**Risk remained static in 2023.** Acknowledging increased market volatility in 2023, the Group maintains a robust Treasury Policy governing such activity and almost all investments are in high-quality liquid assets. The Group has increased analysis of asset-backed securities which are proving to be resilient and sufficiently overcollateralised.
Liquidity Risk (Principal Risk)	The Group ensures it holds sufficient quality and quantity of liquidity to remain a going concern after a severe but plausible stress. Cash flow forecasts are used to forecast liquidity, ensuring future compliance with limits set by the Board. Wherever appropriate, the Group ensures it takes any necessary steps to ensure it has access to any available Bank of England Schemes designed to support financial institutions, such as Term Funding Schemes. Liquidity risk is monitored against limits and metrics defined within the approved Treasury Policy and Standards, including Liquidity Coverage Ratios, whilst the Internal Liquidity Adequacy Assessment Process is subject to both the Assets and Liabilities Committee and Board approval. Stress tests are used to ensure liquidity risk is managed within risk appetite. Liquidity is monitored daily with a weekly Liquidity Management Group in place and monthly reporting to the Assets and Liabilities Committee.	**Risk remained static in 2023.** Liquidity risk overall remains within our risk appetite and the Group maintains sufficient sources of liquidity to be able to avoid having to sell investments at a discount to raise cash, even in severely stressed circumstances. The Group has £527m (2022: £518m) of TFS and TFSME drawings which are due to be repaid during 2024. The Group's plans to replace these funds are well advanced and have seen the Group extend its range of wholesale funding.

Principal Risk	Risk Management	Commentary
Macro-economic Risk (Principal Risk)	The Group actively monitors and responds to the key macro-economic indicators, taking account of wider industry economic forecasting to ensure management understand the range of possible outcomes. We continue to use outcomes based scenario modelling, to inform strategic decisions and risk management. We consider a variety of scenarios and sensitivities to reflect outcomes and to ensure we have appropriate mitigation strategies in place.	**Risk increased in 2023.** The macro-economic risks continue to create uncertainty; inflation remained stubbornly high through 2023, maintaining pressures on essential living costs such as food, fuel and utilities. Geo-political tensions have also contributed to volatility in supply chains and prices. The rises in the Bank of England base rate have led to higher mortgage rates, leading to sizeable rate increases for existing mortgage borrowers who have matured off fixed rate products. This led to Government intervention through initiatives such as the Mortgage Charter, whilst the rise in house prices slowed in 2023, following mortgage rate rises. In light of a challenging macro-economic outlook, the Group continues to monitor, forecast and plan for increases in arrears and support to our customers, though the impact of macro-economic risks has not had a material impact on the Group's credit book as at end of 2023.
Operational Risk (Principal Risk)	Operational risk is subject to a Group Risk Committee approved policy, which covers the framework for the management of operational risk. This framework includes identification, assessment against risk appetite and management of risks through controls and control testing. The framework also defines procedures for reporting risk events, response and operational losses. Key risks and key controls are mapped by all areas of the business, to understand the risk profile and to inform actions to maintain residual risks within defined appetite. Key and emerging risks, taking account of internal and external influences, together with coverage across regulatory risk categories are used to inform scenario exercises to test business resilience, control effectiveness and operational recovery. The Group's operational resilience framework is also subject to review and approval by the Group Risk Committee and the Board. This continues to mature in line with regulatory requirements, with Important Business Services and associate Impact Tolerances defined, critical dependencies identified and a programme of plausible and severe exercising maintained to test the Group's ability to recover from severe disruption within defined tolerances. Corporate insurance policies are negotiated with regard to the key risks within the Group requiring greater mitigation.	**Risk remained static in 2023.** As the Group's business model includes diversification via the Solutions business, this increases exposure to operational risk, particularly in relation to IT systems capability and human error. The merger with Manchester Building Society brings additional layers of operational risk through the use of additional systems and processes, whilst internal transformation programmes carry operational risks through implementation and deployment. The Group's operational risk framework continues to mature and remains effective for the identification, assessment and management of operational risk within approved risk appetites.

Risk Management Report | Continued

Principal Risk	Risk Management	Commentary
Cyber Risk (Principal Risk)	The Society's Cyber Security Framework comprises a suite of cyber security policies which are aligned to the controls structure of ISO27001:2022. These policies are subject to review and approval by the Enterprise Risk Committee, with the overarching Information Security Policy subject to review and approval by the Group Risk Committee. The Society maintains a cyber capability model comprised of threat management, security operations, colleague behaviour, risk profiling and risk & control self-assessment (as per the Operational Risk Framework, and governance and MI reporting.) Cyber reporting is provided to the Enterprise Risk Committee and Technology Governance Committee with summary updates/escalation to the Executive Committee, Group Risk Committee and the Board which has included cyber risk impact assessment from the continuing war between Russia and Ukraine and developments in respect of Israel and Hamas. The Society continues to invest in its Cyber Resilience capability, through initiatives such as enhancing Identity and Access Management controls, Information Security Management System, penetration testing and severe but plausible exercising. Corporate Cyber Insurance cover has been maintained at the same level of cover throughout 2023.	**Risk increased in 2023.** The external cyber threat to UK is deemed to be increasing through 2023 due to conflict involving Russia, and in the West Bank and the UK's political and military positions. Whilst this national threat has increased, the direct risk to the Society's business operations is deemed to be static to reflect the continued investment and enhancements to our cyber capbility.
Climate Change Risk (Emerging Risk)	The Group has robust operational resilience processes and responses to manage the impact of any transient localised climate change events. The Group has developed climate change scenarios which have been used in our capital modelling and stress testing. The Group actively engages with the industry as a whole to consider the potential impacts and longer-term scenarios of climate change and resulting risks.	**Risk was static in 2023.** The broader climate risk continues to increase as a result of increased frequency/severity of climate related events. The Group continues to strengthen its strategic focus on environmental sustainability. Scenario planning and modelling continue to evolve, though the Group's exposure to losses from climate change related risks remain low in the context of overall credit loss provisioning.

On behalf of the Board
Bryce Glover | Chair of the Group Risk Committee

29 February 2024

Independent Auditor's Report

to the Members of Newcastle Building Society

Report on the audit of the financial statements

1. Opinion

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

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2023 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- the Group and Society income statements;
- the Group and Society statements of comprehensive income;
- the Group and Society balance sheets;
- the Group and Society statements of movements in Members' interests;
- the Group and Society cash flow statements; and
- the related notes 1 to 45, excluding the pre-merger profit and loss disclosure of the Manchester Building Society business in note 43 which are marked as unaudited.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit that we identified in the current year were: | Fair value of equity release mortgages; | Expected credit loss (ECL) allowance on residential lending; and | Accounting and valuation of the merger with Manchester Building Society (MBS). Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £2.4m which was determined on the basis of 0.8% of net assets.
Scoping	All material entities in the Group are within our audit scope and audited to a lower materiality for the purposes of individual entity reporting. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.
Significant changes in our approach	Following our risk assessment procedures, we considered it appropriate to remove the consideration of the legacy commercial ECLs as a key audit matter. Following redemptions in the year there is no longer significant accounting judgements that involve material estimation uncertainty in respect of this mortgage portfolio. On 1 July 2023, the Society merged with MBS which required the Society to make an accounting judgement in respect of whether to account for the merger as a business combination under IFRS 3 and to determine the fair value of the identifiable assets and liabilities of MBS which involved significant estimation. We identified this to be a new key audit matter due to the proportion of time that was required to obtain assurance and conclude on the accounting and valuations in respect of the merger.

4. Conclusions relating to going concern

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

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

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

assessing the appropriateness of the going concern disclosures.

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

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

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

5. Key audit matters

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

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

5.1 Fair value of equity release mortgages

Key audit matter description	Following the transition in accounting for insurance contracts from IFRS 4 to IFRS 17 at 1 January 2023, the Group made the accounting policy choice to hold its legacy portfolio of equity release mortgages ("ERMs") at fair value through profit and loss under IFRS 9, determining fair value in accordance with IFRS 13. The ERMs had a carrying value at 31 December 2023 of £161.3m (2022: £166.3m). The fair value of the ERMs is determined using a discounted cash flow model and is reliant upon several unobservable and judgemental inputs. Our key audit matter relates to the risk of management bias in determining its estimate of the discount rate and future house price (HPI) assumptions used within the fair value model and the impact these assumptions have on the modelling of the no negative equity guarantee. This also includes consideration of repayment profiles and the credit risk associated with the assets. The Group's disclosure of the ERMs is detailed within note 13 and note 32. The associated accounting policies are detailed on page 94 with detail about critical accounting judgements in applying accounting policies and key sources of estimation uncertainty on page 98. The Audit Committee's consideration of the matter is described on page 55.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the fair valuation of ERM portfolios. We challenged the Society's valuation methodology for the ERM portfolio by: | involving our valuation specialists in the audit of the Group's valuation approach; | verifying that the ERM model is consistent with the model reviewed by our modelling specialists in the prior year, when we assessed that the model mechanics had been prepared in accordance with the contractual terms of the loans; | assessing the rate used to discount the future cash flows to present value, by independently determining a reasonable range of discount rates through utilising external data and taking into account the repayment profiles associated with the Group's borrowers and credit risks related to the assets; | involving our economics specialists to assess the future HPI forecast assumptions used; this was done by benchmarking to external information and internal consistency with assumptions used in other modelling by the Group; | testing the appropriateness of the other elements inherent in the valuation of the underlying loan assets, such as no negative equity guarantees provided by the Group; | challenging the appropriateness of the assumptions in light of current market factors; and | performing a 'stand back' assessment as to whether the fair value of the ERM portfolio determined by the Group using each of the individually assessed judgemental inputs, resulted in a reasonable outcome when combined in aggregate through the ERM model.
Key observations	Based on the work performed, we concluded that the Group's valuation methodology of the ERM portfolio was in line with the accounting standards and that each of the assumptions, as well as the overall valuation, were within a reasonable range.

5.2 Expected credit loss (ECL) allowance on residential lending

Key audit matter description	Under IFRS 9, the Group is required to determine a provision for the expected credit loss ('ECL') on loans measured at amortised cost. Estimating expected credit losses requires judgement and estimation on assumptions relating to customer default rates, likelihood of repossession, future property values, forced sale discounts and indicators of significant increases in credit risk. These assumptions are informed using historical behaviour and experience through different economic cycles as well as credit bureau data. The Group held £5.9m (2022: £3.5m)of impairment provisions at year-end in accordance with IFRS 9 against residential loans and advances to customers of £4,339.4m (2022: £3,773.8m). The Group applies four macro-economic scenarios when determining the ECL calculation: a central outlook, a downside, a severe downside and a growth scenario. The selection and probability weighting of relevant macro-economic scenarios is judgemental and has a significant impact on the ECL calculation. The level of judgement remains high in the current year due to the continuing high levels of inflation and interest rates resulting in cost of living and borrowing risks for borrowers which are not captured in the Group's core residential ECL model. The Directors have therefore determined a post model adjustment to increase the ECL by £0.9m (2022: £0.2m). This estimate was determined by using credit bureau data to identify a population of customers that may be at risk of future affordability to meet loan repayments. We have identified the selection of macro-economic assumptions, scenario weightings and the post model adjustment in respect of inflation and interest rate rises as a key audit matter; it is highly judgemental and has a significant impact on the ECL calculation. There exists a risk of bias in selecting the weightings and assumptions applied in the IFRS 9 model. The Group's loan loss provision balances are detailed within note 12. The associated accounting policies are detailed on page 95 with detail about critical accounting judgements in applying accounting policies and key sources of estimation uncertainty on page 98. The Group's consideration of the effect of the future economic environment is disclosed in note 39. The Audit Committee's consideration of the matter is described on page 57.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the loan impairment provisioning process. This included assessment of the data flows used within the models, and the level of challenge at the Model Risk Committee in respect of the assumption and methods used to determine these accounting estimates. With the involvement of our credit risk specialists, we assessed the compliance of the modelling approach and methodology with the requirements of IFRS 9. With the involvement of our credit risk specialists we assessed whether the documented modelled approach was implemented in practice and if there had been any changes to the model since our review in the prior period. We challenged the Group's consideration of the future economic environment by engaging our economic specialists to review the Group's approach as well as comparing modelled assumptions to publicly available data from peer organisations, regulators and economic commentators. We challenged management as to whether there was sufficient evidence for the level of provisions held compared to the low levels of historical loss data. We assessed, using publicly available data, whether the combination of management's modelled downside and alternative downside scenarios appropriately captured credit risk relating to the future economic environment. Working with our credit risk specialists, we assessed the methodology and valuation of the post model adjustment that was made in respect of affordability risks. We reconciled the mortgage book to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate.
Key observations	Based on the work performed, we concluded that the Group's ECL applied to the commercial mortgage book is reasonable.

5.3 Accounting and valuation of the merger with Manchester Building Society

Key audit matter description	On 1 July 2023, the Society merged with MBS with nil consideration paid. The Directors considered it appropriate to account for the transaction as a business combination under IFRS 3 and determined the fair value on the transaction date for recognition in the Society and Group's balance sheet. To determine the value of goodwill in the business combination, the Directors were required to determine the fair value of the MBS business as the deemed purchase consideration, to compare to the fair value of the acquired assets and liabilities. Based on the circumstances of the business, the Directors made a judgement that a "cost approach" using the fair value of the acquired assets and liabilities of MBS was most appropriate and concluded that no goodwill would arise from the transaction. From the merger, the Group recognised £108.9m mortgages, including £26.0m equity release mortgages located in Spain and £9.3m individually assessed credit impaired mortgages. In respect of the equity release mortgages in Spain, the Group uses judgement to determine a discount rate reflective of market conditions at the transaction date that considers risk factors such as interest, illiquidity and compensation for unexpected losses to apply to the contractual future cash flows to determine the fair value in accordance with IFRS 13. Estimation uncertainty was particularly high in respect of this judgement due to the high loan to value nature of the portfolio, in a location that does not have an active equity release mortgage market. The Directors used external market benchmarks to determine this accounting estimate. The transfer of engagements recognised in the Group from the MBS merger are detailed within note 43. The associated accounting policies are detailed on page 93 with detail about critical accounting judgements in applying accounting policies and key sources of estimation uncertainty on page 98. The Audit Committee's consideration of the matter is described on page 56.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the fair value models used for the equity release loan portfolio and the mortgages located in the UK. This included assessment of the data flows used within the models, and the level of challenge at the Model Risk Committee in respect of the assumption and methods used to determine these accounting estimates. With the involvement of our valuation specialists we challenged the Group's judgement in respect of the transaction meeting the criteria of a business combination under IFRS 3. We challenged the appropriateness of using a cost approach for determining the fair value of the MBS business, with reference to whether an income approach could reasonably determine a similar result and evaluated the appropriateness of the Group concluding that no goodwill should arise from the transaction. With the involvement of our valuation specialists, we assessed the compliance of the modelling approach, methodology and model code review for the equity release mortgages located in Spain with the requirements of IFRS 13. With the involvement of our valuation specialists, we challenged the Group's consideration of the discount rate that uses a combination of implied illiquidity premiums from the Group's UK equity release portfolio and publicly available market returns for residential Spanish real estate investment trusts which are applied to the portfolio differently based on the loan to value of the equity release mortgage. We assessed the independence and reliability of the Group's externally sourced property growth forecasts for Spain, and challenged the other modelling assumptions including property sale discounts, mortality rates and redemption rates using historical experience of MBS, and publicly available information. For the UK mortgage portfolios our valuation specialists performed an independent valuation of the MBS mortgages at the transaction date utilising our fair value models on the MBS loan data with reference to market interest rates sourced from publicly available external sources. We selected a sample of individually assessed credit impaired loans and with the involvement of our real estate valuation specialists, we independently determined the expected recoverable value of the collateral over time of the defaulted loans which represented the assets fair values at the transaction date using publicly available data and where appropriate information from the Group's UK mortgage portfolio for reference. We reconciled the mortgage book to the general ledger and substantively tested a sample of loans to assess whether the data used in the fair value models was complete and accurate.
Key observations	Based on the work performed, we concluded that the accounting of the Society's merger with MBS is appropriate and the valuation of assets and liabilities related to the merger are reasonable.

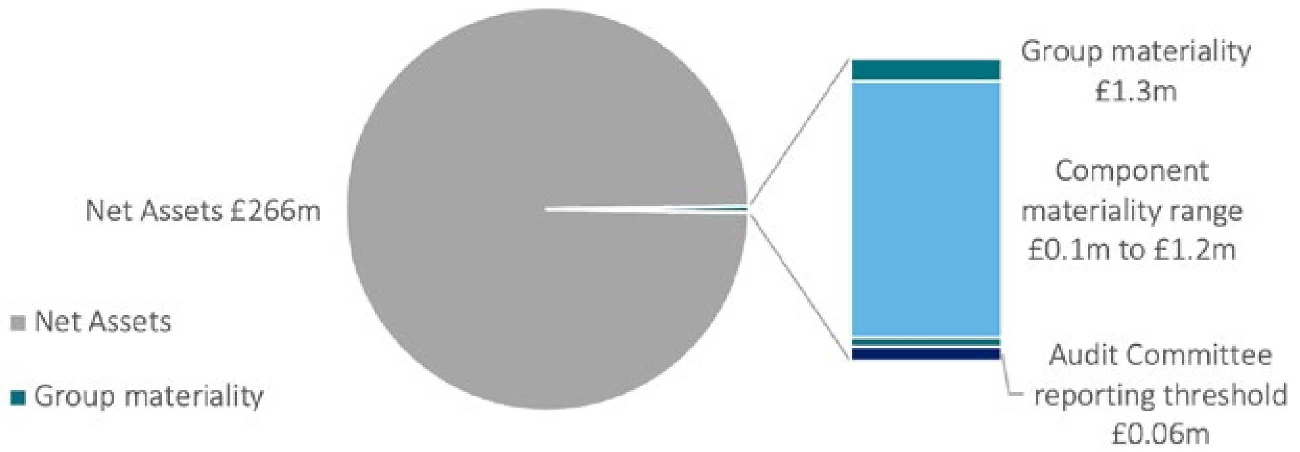
6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Society financial statements
Materiality	£2.4m (2022: £1.3m)	£2.3m (2022: £1.2m)
Basis for determining materiality	0.8% of the Group's net assets (2022: 0.5% of the Group's net assets)	0.8% of the Society's net assets (2022: 0.5% of the Society's net assets). Society materiality is capped at 95% of the Group materiality.
Key observations	In determining materiality we considered a range of possible benchmarks. The overall capital base is a key focus for the Society's Members and regulators. Net assets are also a more stable metric in comparison to profit before tax. Therefore net assets (consisting of reserves and subscribed capital) have been considered the most appropriate base on which to determine materiality.	



6.2 Performance materiality

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

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

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £118k (2022: £63k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and material subsidiaries executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £0.2m to £2.3m (2022: £0.1m to £1.2m). This provided 99% (2022: 99%) coverage of revenue, profit before tax and net assets of the Group.

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

7.2 Our consideration of the control environment

Our approach in relation to the Group's business cycles

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

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

We obtained an understanding of the relevant controls of the above-mentioned business cycles and tested the operating effectiveness of these. We also assessed the design and implementation of controls that relate to our identified significant audit risks. The Committee's assessment of the Group's internal control environment is set out on page 82.

Our approach in relation to the Group's IT systems

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

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

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

7.3 Our consideration of climate-related risks

In planning our audit, we made enquiries of management to understand the extent of the potential impact of climate change risk on the Group's financial statements.

As disclosed in note 39, The Directors concluded that there was no material impact on the financial statements. Our evaluation of this conclusion included performing enhanced risk assessment procedures over the key judgements and estimates in areas where we considered that there was greatest potential for climate change impact. This was principally in relation to the ECL.

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

8. Other information

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

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

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

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

We have nothing to report in this regard.

Independent Auditor's Report | Continued

to the Members of Newcastle Building Society

9. Responsibilities of Directors

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

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

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

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

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

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

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

11.1 Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of the Directors, management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:

  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and

  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, pensions, IT economic, credit risk, pricing and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

11.2 Audit response to risks identified

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

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

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

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

Independent Auditor's Report | Continued

to the Members of Newcastle Building Society

Report on other legal and regulatory requirements

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

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

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

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

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

In our opinion the information given on page 162 to the financial statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

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

14.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Society's members at the Annual General Meeting on 28 April 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ended 31 December 2021 to 31 December 2023.

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

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

16. Use of this report

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
29 February 2024

Durham, County Durham

Income Statements for the year ended 31 December 2023

	Note(s)	GROUP 2023 £m	GROUP 2022 Restated £m	SOCIETY 2023 £m	SOCIETY 2022 Restated £m
Interest receivable and similar income					
Interest income calculated using effective interest rate	2	**214.4**	116.6	**223.5**	117.8
Interest income recognised in respect of mortgages held at fair value	2	**11.1**	11.1	**11.1**	11.1
Net income on derivatives hedging mortgage assets	2	**34.4**	3.1	**26.3**	2.2
Total interest receivable and similar income	2	**259.9**	130.8	**260.9**	131.1
Interest payable and similar charges	3	**(173.5)**	(55.4)	**(173.5)**	(55.4)
Net interest income		**86.4**	75.4	**87.4**	75.7
Other income	4	**51.8**	45.5	**13.7**	12.6
Other charges	4	**(0.2)**	(0.3)	**(0.2)**	(0.2)
Fair value gains less losses on financial instruments and hedge accounting*	37	**(0.4)**	(0.2)	**(0.2)**	1.9
Income from dividends	4	**0.3**	0.2	**1.7**	1.6
Total operating income		**137.9**	120.6	**102.4**	91.6
Administrative expenses	6	**(100.1)**	(83.5)	**(70.6)**	(57.8)
Depreciation and amortisation	16, 18	**(6.4)**	(5.7)	**(2.2)**	(2.4)
Operating profit before impairments and provisions		**31.4**	31.4	**29.6**	31.4
Impairment (charges) / reversals on loans and advances to customers	12	**(1.1)**	1.6	**(0.9)**	1.6
Impairment charges of tangible and intangible assets	16, 18	**(0.3)**	(0.3)	**(0.1)**	(0.3)
Provisions for liabilities and charges	25	**(0.9)**	(0.1)	**(0.3)**	-
Profit for the year before taxation		**29.1**	32.6	**28.3**	32.7
Taxation expense	8	**(7.0)**	(6.0)	**(5.2)**	(6.6)
Profit after taxation for the financial year		**22.1**	26.6	**23.1**	26.1

*The fair value of the derivative liabilities has been restated. This increased 2022 derivative liabilities by £2.2m and increased 2022 profits before tax by £0.9m. Please see note 45 for details.

The notes on page 93 to 164 form part of these Accounts.

Statements of Comprehensive Income for the year ended 31 December 2023

	Note	GROUP 2023 £m	GROUP 2022 Restated £m	SOCIETY 2023 £m	SOCIETY 2022 Restated £m
Profit for the financial year		**22.1**	26.6	**23.1**	26.1
Other comprehensive income *Items that may be reclassified to Income Statement*					
Cash flow hedges					
Fair value movements recognised in equity	37	**5.8**	(3.7)	**5.8**	(3.7)
Amounts transferred to the Income Statement	37	**(0.4)**	0.1	**(0.4)**	0.1
Tax on net amounts recognised in equity	19	**(1.3)**	0.9	**(1.3)**	0.9
Financial assets measured at fair value through other comprehensive income					
Fair value changes recognised in equity		**0.6**	(2.1)	**0.6**	(2.1)
Amounts transferred to the Income Statement	32	**-**	0.1	**-**	0.1
Tax on net amounts recognised in equity	19	**(0.2)**	0.5	**(0.2)**	0.5
Total items that may be reclassified to the Income Statement		**4.5**	(4.2)	**4.5**	(4.2)
Total comprehensive income for the financial year		**26.6**	22.4	**27.6**	21.9

The notes on page 93 to 164 form part of these Accounts.

	Note	GROUP 2023 £m	GROUP 2022 Restated £m	GROUP 2021 Restated £m	SOCIETY 2023 £m	SOCIETY 2022 Restated £m	SOCIETY 2021 Restated £m
Assets							
Cash and balances with the Bank of England		**525.5**	421.9	382.2	**525.5**	421.9	382.2
Loans and advances to credit institutions	10	**109.8**	104.8	183.5	**95.8**	88.2	170.7
Debt securities	11	**615.0**	433.0	390.7	**615.0**	433.0	390.7
Derivative financial instruments	35	**50.9**	90.4	14.5	**40.6**	73.3	13.9
Loans and advances to customers	12	**4,859.7**	4,259.5	3,794.4	**4,856.8**	4,258.7	3,793.5
Deemed loan asset	14	**-**	-	-	**13.4**	22.9	2.3
Fair value adjustments for hedged risk	37	**(13.2)**	(60.9)	62.1	**(13.2)**	(60.9)	62.1
Non-current assets available for sale	17	**-**	0.2	2.4	**-**	0.2	2.4
Other assets	21	**19.9**	17.1	17.5	**10.6**	8.1	8.4
Current tax assets		**1.9**	-	-	**3.1**	0.2	-
Investments	15	**1.9**	2.1	3.9	**41.8**	38.6	43.8
Intangible assets	16	**12.8**	10.2	7.5	**1.3**	1.1	1.3
Property, plant and equipment	18	**31.5**	29.1	31.0	**13.0**	10.0	12.2
Deferred tax assets	19	**7.5**	5.7	5.4	**7.7**	5.7	5.0
Total assets		**6,223.2**	5,313.1	4,895.1	**6,211.4**	5,301.0	4,888.5

The notes on page 93 to 164 form part of these Accounts.

	Note	GROUP 2023 £m	GROUP 2022 Restated £m	GROUP 2021 Restated £m	SOCIETY 2023 £m	SOCIETY 2022 Restated £m	SOCIETY 2021 Restated £m
Liabilities							
Due to members	22	**5,014.3**	4,220.8	3,731.8	**5,014.3**	4,220.8	3,731.8
Fair value adjustments for hedged risk	37	**-**	0.3	-	**-**	0.3	-
Due to other customers	23	**262.3**	175.8	159.1	**262.3**	175.8	162.6
Amounts owed to credit institutions	24	**538.7**	577.1	587.6	**538.7**	577.1	587.6
Derivative financial instruments	35	**61.7**	54.7	150.6	**61.7**	54.7	149.7
Current tax liabilities		**-**	0.1	0.6	**-**	-	0.3
Other liabilities	25	**23.7**	18.9	22.2	**20.9**	16.7	22.3
Deferred tax liabilities	19	**1.7**	1.2	1.4	**0.7**	-	0.5
Subscribed capital	26	**34.8**	20.0	20.0	**34.8**	20.0	20.0
Total liabilities		**5,937.2**	5,068.9	4,673.3	**5,933.4**	5,065.4	4,674.8
Reserves		**286.0**	244.2	221.8	**278.0**	235.6	213.7
Total members' interest, equity and liabilities		**6,223.2**	5,313.1	4,895.1	**6,211.4**	5,301.0	4,888.5

*The fair value of the derivative liabilities has been restated. This increased 2022 derivative liabilities by £2.2m and increased 2022 profits before tax by £0.9m. Please see note 45 for details.

These accounts were approved by the Board of Directors on 29th February 2024 and signed on its behalf by

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

The notes on page 93 to 164 form part of these Accounts.

Statements of Movements in Members' Interests for the year ended 31 December 2023

Group

	General reserve £m	Fair Value Through Other Comprehensive Income £m	Cash Flow Hedge Reserve £m	Total Reserves £m
At 1 January 2023	246.5	0.4	(2.7)	244.2
Reclassification*	0.4	(0.4)	-	-
Profit for the year	22.1	-	-	22.1
Other comprehensive income				
Net movement in fair value through other comprehensive income	-	0.4	-	0.4
Net movement in cashflow hedge reserve	-	-	4.1	4.1
Total other comprehensive income	-	0.4	4.1	4.5
Transfer of engagements**	15.2	-	-	15.2
At 31 December 2023	**284.2**	**0.4**	**1.4**	**286.0**

	General reserve restated*** £m	Fair Value Through Other Comprehensive Income £m	Cash Flow Hedge Reserve £m	Total Reserves restated*** £m
At 1 January 2022	219.9	1.9	-	221.8
Profit for the year	26.6	-	-	26.6
Other comprehensive income				
Net movement in fair value through other comprehensive income	-	(1.5)	-	(1.5)
Net movement in cashflow hedge reserve	-	-	(2.7)	(2.7)
Total other comprehensive income	-	(1.5)	(2.7)	(4.2)
At 31 December 2022	**246.5**	**0.4**	**(2.7)**	**244.2**

Society

	General reserve £m	Fair Value Through Other Comprehensive Income £m	Cash Flow Hedge Reserve £m	Total Reserves £m
At 1 January 2023	237.9	0.4	(2.7)	235.6
Reclassification*	0.4	(0.4)	-	-
Profit for the year	23.1	-	-	23.1
Other comprehensive income				
Net movement in fair value through other comprehensive income	-	0.4	-	0.4
Net movement in cashflow hedge reserve	-	-	4.1	4.1
Total other comprehensive income	-	0.4	4.1	4.5
Transfer of engagements*	14.8	-	-	14.8
At 31 December 2023	**276.2**	**0.4**	**1.4**	**278.0**

	General reserve restated*** £m	Fair Value Through Other Comprehensive Income £m	Cash Flow Hedge Reserve £m	Total Reserves restated*** £m
At 1 January 2022	211.8	1.9	-	213.7
Profit for the year	26.1	-	-	26.1
Other comprehensive income				
Net movement in fair value through other comprehensive income	-	(1.5)	-	(1.5)
Net movement in cashflow hedge reserve	-	-	(2.7)	(2.7)
Total other comprehensive income	-	(1.5)	(2.7)	(4.2)
At 31 December 2022	**237.9**	**0.4**	**(2.7)**	**235.6**

* The reclassification relates to historic tax amounts which have been previously realised in the Income Statement.

** Transfer of engagements from Manchester Building Society, see note 43 for details.

***The fair value of the derivative liabilities has been restated. This increased 2022 derivative liabilities by £2.2m and increased 2022 profits before tax by £0.9m. Please see note 45 for details.

The notes on page 93 to 164 form part of these Accounts.

Cash Flow Statements for the year ended 31 December 2023

	Note	GROUP 2023 £m	GROUP 2022 Restated £m	SOCIETY 2023 £m	SOCIETY 2022 Restated £m
Net cash inflows from operating activities	28	**251.9**	101.3	**249.8**	91.4
Corporation tax paid		**(7.0)**	(4.6)	**(7.0)**	(4.4)
Cash inflows from operating activities		**244.9**	96.7	**242.8**	87.0
Cash (outflows) / inflows from investing activities					
Purchase of property, plant and equipment		**(2.0)**	(2.1)	**(1.1)**	(0.3)
Purchase of intangible assets	16	**(5.4)**	(5.0)	**(0.4)**	(0.4)
Sale of property, plant and equipment		**0.7**	2.4	**0.7**	2.4
Cash acquired on transfer of engagements	43	**42.7**	-	**42.7**	-
Additional loans to subsidiary undertakings	15	**-**	-	**(1.8)**	(1.2)
Repayment of loans to subsidiary undertakings	15	**-**	-	**0.6**	0.4
Purchase of equity investments	32	**-**	(0.3)	**-**	-
Purchase of investment securities		**(501.5)**	(275.1)	**(501.5)**	(275.1)
Sale and maturity of investment securities		**330.0**	229.8	**330.0**	229.8
Net cash outflows from investing activities		**(135.5)**	(50.3)	**(130.8)**	(44.4)
Cash outflows from financing activities					
Interest paid on subscribed capital	28	**(2.9)**	(2.3)	**(2.9)**	(2.3)
Capital payment for lease arrangements	28	**(0.9)**	(1.1)	**(0.9)**	(1.1)
Net cash outflows from financing activities		**(3.8)**	(3.4)	**(3.8)**	(3.4)
Net increase in cash		**105.6**	43.0	**108.2**	39.2
Cash and cash equivalents at start of year		**427.9**	384.9	**411.3**	372.1
Cash and cash equivalents at end of year	28	**533.5**	427.9	**519.5**	411.3

*The prior year cash flow statement has been restated due to the removal of the cash ratio deposit held with the Bank of England of £14.5m (2022: £11.4m) from cash and cash equivalents. The £14.5m difference between the Balance Sheet and the Cash and cash equivalents as detailed in Note 28 relates to the cash ratio deposit held with the Bank of England, which does not meet the criteria to be included within cash and cash equivalents because it is not readily accessible by the Society.

The notes on page 93 to 164 form part of these Accounts.

1. Material accounting policies

Basis of preparation

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

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

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

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

The Group has chosen to present the financial statements in Pound Sterling, which aligns with the Group's primary functional currency. The ultimate controlling party and parent to the Group is Newcastle Building Society.

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

Basis of consolidation

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

Business combinations between mutual organisations

Where trading operations, assets and liabilities of another mutual entity are merged into the business of the Society, the Society has assessed whether it's a business combination and then applies acquisition accounting under IFRS 3. All assets and liabilities are incorporated into the Society's Balance sheet at fair value on the date of merger. No consideration is transferred for business combinations between mutual entities, the deemed purchase consideration is determined by measuring the fair value of the acquired business. The amount of goodwill recognised on merger being the difference between fair value of the acquired assets and liabilities and the deemed purchase consideration. Any Goodwill recognised would be an intangible asset and negative goodwill (or a gain on bargain purchase) would be recognised in the Income Statement. All transaction costs are expensed as incurred. Any fair value adjustments made to the acquired assets and liabilities are released to the income statement over the assets or liabilities estimated life where those assets are held at amortised cost. Where the acquired assets are held at fair value going forwards, any change in the fair value after acquisition is recognised in accordance with the Group's relevant accounting policy for that item.

Income recognition

Interest income and expense

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

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

Fees and commissions income and charges

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

Other income

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

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

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

Financial assets

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

Financial assets held at amortised cost

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

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

Loans and advances to customers

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

Loans and advances to credit institutions

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

Cash

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

Trade receivables

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

Financial assets held at fair value through other comprehensive income

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

Debt securities

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

Financial assets held at fair value through profit and loss

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

Equity investments

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

Derivative financial instruments

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

Fair value hedge accounting

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

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

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

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

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

Cash flow hedge accounting

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

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

The Society discontinues cash flow hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss, and is included in the 'Fair value gains less losses on financial instruments and hedge accounting' line item.

Mortgage assets held at fair value through profit and loss

The Group's equity release mortgage assets' contractual cash flows are not solely payments of principal and interest and are therefore classified as fair value through profit and loss. Assets classified as fair value through profit and loss are initially recognized at fair value with any subsequent changes in fair value recognised immediately in the Income Statement.

The fair value is the present value of the forecast contractual cash flows less the value of the no-negative equity guarantee, which is calculated using an option pricing model, discounted using a suitable market rate

1. Material accounting policies | Continued

at the reporting date. Where possible inputs are market driven or when no market driven data is available, based on management judgement informed by observable data to the extent possible. Interest on equity release mortgages is recognised in accordance with the effective interest rate method, based on contractual interest rates or market interest rates as at the time of the loan's acquisition where applicable.

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

Cash and cash equivalents

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

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

Impairment of financial assets

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

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

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

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

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

Loans that are either purchased or originated credit impaired (POCI) are classified as stage 3 at initial recognition and cannot be transferred to stage 1 or 2 even if the credit quality of these assets improves. The Group has a portfolio of loans acquired as part of the Manchester transfer of engagements that meets this definition. Any change in the credit quality of the asset at each reporting date is reflected in the Income Statement.

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

See note 38 for details on the Group's provisioning methodology.

Securitisations

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

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

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

Financial liabilities

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

Property, equipment and intangible assets

Intangible assets

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

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

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

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

At each Balance Sheet date, the Group reviews the carrying value of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable value of the asset is estimated to determine

the extent of the impairment loss (if any). If the recoverable value of an asset is estimated to be less than the current carrying value, the carrying value of the asset is reduced to its recoverable value. Where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable value.

Software as a service (SaaS)

A SaaS arrangement is a type of cloud computing in which the supplier provides the customer with access to application software residing on the supplier's infrastructure. These arrangements can include other services, such as technical support, implementation and data migration. The customer typically pays a fee on a periodic basis and implementation costs may be incurred at the inception of the arrangement.

Where the Group enters into a SaaS arrangement, the Group recognises a software asset only if such an intangible asset or a software lease is received at commencement of the arrangement, otherwise, the arrangement is accounted for as a service contract.

When accounting for a SaaS arrangement as a service contract, fees paid by the Group are spread over the period to which they relate. Implementation costs associated with configuration and customisation of the software may also, where appropriate, be prepaid over the contractual period to which they relate. All other costs associated with implementation, including internal time and resources, are expensed to the Income Statement as incurred.

Freehold property and equipment

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

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

Freehold buildings

Freehold buildings	- 2% per annum, straight line

Equipment, fixtures and fittings and motor vehicles

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

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

Leasehold property

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

Leasehold buildings are depreciated on the following basis:

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

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

Investment property

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

Impairments of Property and Equipment

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

Non-current assets held for sale

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

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

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

Taxation

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

1. Material accounting policies | Continued

Pension scheme costs

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

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

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

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

Provisions

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

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

Segment information

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

Accounting developments

At the date of approval of these financial statements there are no amendments to International Financial Reporting Standards relevant to these accounts that are mandatory for the first time for the financial year beginning 1 January 2023, other than the following:

The Group's equity release mortgage assets were previously accounted for under IFRS 4, Insurance Contracts, which was replaced by IFRS 17, Insurance Contracts, on 1 January 2023. On transition to IFRS 17, the Group had a choice to transition to IFRS 17 or re-designate assets under IFRS 9. The Society has re-designated its equity release mortgages as held at fair value through profit and loss (FVTPL) under IFRS 9. This has not led to any changes in the carrying amount of those assets as the assets were held at their fair value under IFRS 4.

For these assets the contractual cash flows are not solely payments of principal and interest and are therefore classified as fair value through profit and loss. Assets classified as fair value through profit and loss are initially recognised at fair value with any subsequent changes in fair value recognised immediately in the Income Statement.

The fair value is the present value of the forecast contractual portfolio cash flows less the value of the no-negative equity guarantee, which is calculated using an option pricing model, discounted using a suitable market rate at the reporting date. Where possible, inputs are market driven or when no market driven data is available, based on management judgement informed by observable data to the extent possible. Interest on equity release mortgages is recognised in accordance with the effective interest rate method, based on contractual interest rates or market interest rates as at the time of the loan's acquisition where applicable.

Included in the equity release mortgage assets is a fixed reversion book. For this book, the repayment amount is determined at completion, but the timing of redemption is uncertain. Interest on fixed reversion loans is recognised based on the interest rate implicit in the mortgage contract. Please see note 13, Equity release mortgages for details.

Developments not effective at 31 December 2023

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

Amendments to IAS 1, Classification of liabilities as current or non-current and non-current liabilities with covenants are effective from 1 January 2024.

Amendments to IFRS 16, Lease liability in a Sale and Leaseback are effective from 1 January 2024.

Amendments to IAS 7, Supplier finance arrangements are effective from 1 January 2024.

Amendments to IAS 21, Lack of exchangeability are effective from 1 January 2025.

Critical accounting estimates and judgements in applying accounting policies

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

Estimates

Fair value of the equity release mortgage assets

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

Impairment of financial assets

The impairment of mortgage assets is determined by a weighted average of the expected credit losses of four different possible economic scenarios. Each scenario is based on a range of assumptions, including property price growth rates and unemployment rates. The scenario weightings are based on management's current expectation about the future probability of each economic scenario. Further details and sensitivity analysis are provided in notes 38 and 39.

Pensions

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

Fair Value of the assets and liabilities acquired on transfer of engagements

The valuation of identifiable assets and liabilities transferred from Manchester Building Society depends on a range of assumptions, including the most appropriate discount rates, property price growth rates, forced sale discounts and property price volatility. The fair value adjustments made are detailed in note 43.

Judgements

Fair value of derivatives and financial assets

Fair Values are determined in line with the three level valuation hierarchy as defined within IFRS 13. Judgement can be required to determine the classification of valuations into the different levels. Further details is provided in note 32.

Impairment of financial assets

The modelling of impairment of mortgage assets includes a range of management judgements, including the Society's definition of default, significant increase in credit risk and the use of post model adjustments. Further detail is provided in note 38.

Securitised assets

The mortgage assets sold to the Group's securitisation vehicle have not been de-recognised from the Society's Balance Sheet. As the Society continues to be exposed to the risks and rewards of cash flows associated with the mortgages, they do not meet the criteria for de-recognition. Further detail is provided in note 14.

Fair value of the consideration exchanged

The business combination of the Society with Manchester Building Society did not involve the transfer of any cash consideration. The deemed purchase consideration represents the fair value of the members' interests transferred. We consider the most appropriate method for determining fair value of the members' interests to be the fair value of the net assets transferred on merger, due to Manchester Building Society being in run-off, such that there were no cash flows identified that were not taken into consideration when determining the fair value of the assets and liabilities. The judgement involved the selection of an appropriate method under IFRS 13 to determine the fair value of the acquired business. Further detail is provided in note 43.

Impact of climate change

The Group has considered the impact of climate change on the valuation of the assets and liabilities held on its balance sheet and assessed that its impact is negligible to the current balance sheet position when considering the potential physical and transitional risks to the Group's operations.

2. Interest receivable and similar income

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
On loans and advances to customers	**158.0**	101.3	**167.7**	102.7
On debt securities				
- interest and other income	**21.1**	7.6	**20.9**	7.5
- profits net of losses on realisation	**-**	0.1	**-**	0.1
On other liquid assets				
- interest and other income	**35.3**	7.6	**34.9**	7.5
Interest recognised in respect to mortgages held at fair value	**11.1**	11.1	**11.1**	11.1
Net income on derivatives hedging assets	**34.4**	3.1	**26.3**	2.2
	259.9	130.8	**260.9**	131.1

Interest receivable and other income includes £5.3m (2022: £1.5m) from fixed income securities. Other than £1.0m (2022: £nil) generated on loans originating in Spain, all interest receivable and other similar income has been generated within the United Kingdom.

3. Interest payable and similar charges

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
On amounts due to Members	**135.6**	44.1	**135.6**	44.1
On subscribed capital	**2.9**	2.3	**2.9**	2.3
On deposits and other borrowings	**35.1**	9.6	**35.1**	9.6
On finance leases	**0.2**	0.1	**0.2**	0.1
Net income on derivatives hedging liabilities	**(0.3)**	(0.7)	**(0.3)**	(0.7)
	173.5	55.4	**173.5**	55.4

4. Other income and charges

	Note	GROUP		SOCIETY	
		2023 £m	2022 £m	**2023 £m**	2022 £m
Other income					
Savings management income		**43.6**	37.0	**-**	-
Regulated advice services		**6.1**	6.1	**-**	-
Fee and commission income		**1.7**	1.5	**1.7**	1.5
Income recognised under IFRS 15	5	**51.4**	44.6	**1.7**	1.5
Other operating income		**0.4**	0.9	**12.0**	11.1
		51.8	45.5	**13.7**	12.6

Other income includes income from contracts with customers of £51.4m (2022: £44.6m) which is recognised under IFRS 15. Further information is included in note 5.

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Other charges				
Fee and commission expense	**0.2**	0.3	**0.2**	0.2

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Dividend income				
Received from equity investments	**0.3**	0.2	**-**	-
Received from subsidiary undertakings	**-**	-	**1.7**	1.6
	0.3	0.2	**1.7**	1.6

Notes to the Accounts for the year ended 31 December 2023

5. Revenue from contracts with customers

1. Disaggregation of revenue from contracts with customers

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

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Solutions Business				
Savings management services, recognised over time	**41.7**	35.4	**-**	-
Savings management project and change services, recognised over time	**1.0**	0.9	**-**	-
IT services, recognised over time	**0.9**	0.7	**-**	-
	43.6	37.0	**-**	-
Member Business				
Regulated advice services, recognised at a point in time	**2.4**	4.9	**-**	-
Regulated advice services, recognised over time	**3.7**	1.2	**-**	-
Third party services, recognised at a point in time	**1.6**	1.4	**1.6**	1.4
Other services, recognised over time	**0.1**	0.1	**0.1**	0.1
	7.8	7.6	**1.7**	1.5
Total revenue from contracts with customers	**51.4**	44.6	**1.7**	1.5

In accordance with IFRS 8, 'Operating Segments', the Group reports the following segments; Member business and Solutions business. When the Group prepares financial information for management, it disaggregates revenue by segment and service type.

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

2. Unsatisfied long-term service contracts

The following table shows partially unsatisfied performance obligations resulting from fixed-price long-term contracts as at 31 December 2023 where the contract ends after the Balance Sheet date:

	GROUP	
	2023 £m	2022 £m
Aggregate amount of transaction price allocated to long-term savings management projects	**6.7**	7.5
Aggregate amount of transaction price allocate to long-term IT services	**0.7**	1.2
	7.4	8.7

In relation to savings management contracts, the Group expects to recognise approximately £2.2m of the unearned amount in 2024, and £4.5m thereafter. In relation to IT contracts, the Group expects to recognise approximately £0.7m of the unearned amount in 2024, and £nil thereafter.

3. Assets and liabilities related to contracts with customers

No contract assets or liabilities have been recognised by the Group (2022: £nil).

5. Revenue from contracts with customers | Continued

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

Savings management services, and savings management project and change services

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

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

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

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

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

IT services

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

Regulated advice services

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

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

Third party services

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

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

All services

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

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

The Group measures impairment losses on receivable balances as of the end of the reporting period at an amount equal to lifetime expected credit losses in accordance with IFRS 9, 'Financial Instruments'. Provisions held against receivable balances at 31 December 2023 are not material.

6. Administrative expenses

	Note	GROUP 2023 £m	GROUP 2022 £m	SOCIETY 2023 £m	SOCIETY 2022 £m
Staff costs	7	**71.0**	59.5	**43.3**	36.0
Short term leases for land and buildings					
- payable to third parties	18	**0.3**	0.3	**0.2**	0.2
Other administrative expenses		**27.3**	22.9	**25.6**	20.8
Transaction costs		**1.3**	0.8	**1.3**	0.8
IT transformation costs		**0.2**	-	**0.2**	-
		100.1	83.5	**70.6**	57.8

Transaction costs relate to the merger with Manchester Building Society. IT transformation costs are implementation costs of software as a service arrangements which do not meet the criteria to be capitalised.

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

	GROUP 2023 £'000	GROUP 2022 £'000	SOCIETY 2023 £'000	SOCIETY 2022 £'000
Fees payable to the Society's External Auditor for the audit of Society and consolidated financial statements	**816**	491	**816**	514
Fees payable for the audit of subsidiaries	**81**	81	**-**	-
Fees payable for other audit related assurance services	**119**	44	**119**	44
Fees payable for non-audit services	**50**	60	**50**	60
	1,066	676	**985**	618

Other audit related assurance services primarily consist of the half year review, interim profit verifications and client money assurance engagements.

Non-audit services relate to accounting advice in 2022 associated with the merger with Manchester Building Society. The 2023 non audit services relate to comfort letter work for the Society.

The fees payable to the Society's auditors above are presented excluding VAT.

7. Staff costs

	Note	GROUP 2023 £m	GROUP 2022 £m	SOCIETY 2023 £m	SOCIETY 2022 £m
Wages and salaries		**56.9**	48.0	**35.9**	29.8
Social security costs		**6.2**	5.4	**3.1**	2.7
Pension costs for defined contribution scheme		**7.9**	6.1	**4.3**	3.5
	6	**71.0**	59.5	**43.3**	36.0

Directors' emoluments are disclosed in the Remuneration Committee Report.
Total Directors' emoluments for 2023 amount to £2.1m (2022: £2.2m).

The Groups key management personnel are the Groups Material Risk Takers, the compensation of which is included within Remuneration Committee Report and totals £5.2m (2022: £4.3m)

The monthly average number of persons employed, including executive directors, during the year was:

	GROUP 2023	GROUP 2022	SOCIETY 2023	SOCIETY 2022
Full time	**1,353**	1,120	**560**	495
Part time	**299**	273	**165**	154
	1,652	1,393	**725**	649
Head Office	**1,442**	1,177	**538**	456
Branches	**210**	216	**187**	193
	1,652	1,393	**725**	649

8. Tax expenses

	Note	GROUP 2023 £m	GROUP 2022 Restated £m	SOCIETY 2023 £m	SOCIETY 2022 Restated £m
Current tax					
Current year		**6.9**	6.6	**5.7**	6.4
Adjustments in respect of previous years		**(1.2)**	(1.3)	**(1.6)**	-
Total current tax		**5.7**	5.3	**4.1**	6.4
Deferred tax					
Current year		**0.7**	0.2	**1.0**	0.4
Adjustments in respect of prior years		**0.6**	0.8	**0.1**	(0.2)
Effect of changes in tax rates		**-**	(0.3)	**-**	-
Total deferred tax	19	**1.3**	0.7	**1.1**	0.2
Total taxation expense in Income Statements		**7.0**	6.0	**5.2**	6.6

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:

	GROUP 2023 £m	GROUP 2022 Restated £m	SOCIETY 2023 £m	SOCIETY 2022 Restated £m
Analysis of taxation expense for the year				
Profit for the year before taxation	**29.1**	32.6	**28.3**	32.7
Profit before taxation at the standard rate of corporation tax in the UK of 23.52% (2022: 19%)	**6.8**	6.2	**6.6**	6.2
Expense not deductible for tax purposes				
Non-taxable dividend income received	**-**	-	**(0.4)**	(0.2)
Banking surcharge	**-**	0.4	**-**	0.4
Expenses not deductible for tax	**0.8**	0.2	**0.8**	0.2
Transfer pricing adjustment	**-**	-	**(0.7)**	0.2
Timing differences	**-**	-	**0.4**	-
Change in forward tax rates	**-**	(0.3)	**-**	-
Adjustments in respect of previous years	**(0.6)**	(0.5)	**(1.5)**	(0.2)
Total taxation expense	**7.0**	6.0	**5.2**	6.6

Factors affecting future tax charges

The Society has brought forward trading losses for tax purposes which are expected to affect future taxable profits see note 19 for details.

Notes to the Accounts for the year ended 31 December 2023

9. Segment information

Segment information

The chief operating decision maker has been identified as the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors. The operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The 'Member business' segment provides mortgage, savings, investment and insurance products to Members and customers. The 'Solutions business' segment (also referred to as Newcastle Strategic Solutions Limited (NSSL)) provides business to business services through people, processes and technology. The Board assesses performance based on profit before tax after the allocation of all central costs. Operating profit before impairments and provisions is also assessed as this provides information on underlying business performance.

Income and directly attributable costs are allocated to each segment and support costs are apportioned, based on direct salary costs and detailed allocations by budget holders.

Year to 31 December 2023	**Member Business £m**	**Solutions Business £m**	**Total £m**
Net interest income / (expense)	88.0	(1.6)	86.4
Other income and charges	(8.6)	60.5	51.9
Fair value gains less losses on financial instruments and hedge accounting	(0.4)	-	(0.4)
Administrative expenses	(47.1)	(53.0)	(100.1)
Depreciation and amortisation	(2.4)	(4.0)	(6.4)
Operating profit before impairments and provisions	**29.5**	**1.9**	**31.4**
Impairment charges on loans and advances to customers	(1.1)	-	(1.1)
Provisions for liabilities and charges	(0.3)	(0.6)	(0.9)
	28.1	**1.3**	**29.4**
Impairment charges on tangible and intangible assets			(0.3)
Profit before taxation			**29.1**
Taxation expense			(7.0)
Profit after taxation for the financial period			**22.1**

Included within other income and charges is internal revenue of £11.2m and £12.6m in relation to the Member and Solutions business respectively

Year to 31 December 2022	**Member Business Restated £m**	**Solutions Business £m**	**Total Restated £m**
Net interest income / (expense)	76.4	(1.0)	75.4
Other income and charges	(5.3)	50.7	45.4
Fair value gains less losses on financial instruments and hedge accounting	(0.2)	-	(0.2)
Administrative expenses	(38.3)	(45.2)	(83.5)
Depreciation and amortisation	(2.4)	(3.3)	(5.7)
Operating profit before impairments and provisions	**30.2**	**1.2**	**31.4**
Impairment reversals on loans and advances to customers	1.6	-	1.6
Provisions for liabilities and charges	-	(0.1)	(0.1)
	31.8	**1.1**	**32.9**
Impairment charges on tangible and intangible assets			(0.3)
Profit before taxation			**32.6**
Taxation expense			(6.0)
Profit after taxation for the financial period			**26.6**

Included within other income and charges is internal revenue of £10.2m and £9.9m in relation to the Member and Solutions business respectively.

10. Loans and advances to credit institutions

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

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
On demand	**22.9**	17.4	**8.9**	0.8
In not more than three months	**86.9**	87.4	**86.9**	87.4
	109.8	104.8	**95.8**	88.2

No provisions are held against loans and advances to credit institutions (2022: £nil). Included within loans and advances to credit institutions is collateral of £87.3m (2022: £87.7m)

11. Debt securities

	GROUP and SOCIETY	
	2023 £m	2022 £m
Transferable debt securities		
Issued by public bodies - listed	**248.9**	88.2
Issued by other borrowers - unlisted	**366.1**	344.8
	615.0	433.0

In addition to the securities above, the Society has retained notes issued by Tyne Funding No.1 PLC, an entity controlled by the Group. These are presented net of the deemed loan from the issuing special purpose vehicle. see note 14 for details. The carrying amount of debt securities includes a fair value hedge adjustment of £2.1m (2022: (£2.3m)).

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 assets held at fair value with changes recognised in other comprehensive income.

Unlisted securities are AAA rated holdings of Residential mortgage backed securities and covered bonds.

No provisions are held against debt securities (2022: £nil).

12. Loans and advances to Customers

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Loans fully secured on residential property	**4,827.0**	4,216.6	**4,823.9**	4,215.8
Loans fully secured on land	**24.4**	26.8	**24.4**	26.8
Other loans	**1.3**	1.5	**1.3**	1.5
Gross loans and advances	**4,852.7**	4,244.9	**4,849.6**	4,244.1
Allowance for losses on loans and advances	**(7.6)**	(6.6)	**(7.4)**	(6.6)
Micro fair value hedge adjustments	**9.3**	12.8	**9.3**	12.8
Effective interest rate adjustments	**5.3**	8.4	**5.3**	8.4
	4,859.7	4,259.5	**4,856.8**	4,258.7

At 31 December 2023 the Group had €31.2m of loans denominated in Euros (2022: £nil) with a carrying value of £27.1m (2022: £nil).

Effective interest rate adjustments include a £2.4m liability relating to the fair value discount applied to acquired credit impaired books.

Impairment provisions for loans and advances to Customers

	Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m
GROUP			
Balance at 1 January 2023	**3.5**	**3.1**	**6.6**
Charge / (credit) for the year	2.8	(1.7)	1.1
Utilised during the year	(0.1)	-	(0.1)
Balance at 31 December 2023	**6.2**	**1.4**	**7.6**

	Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m
SOCIETY			
Balance at 1 January 2023	**3.5**	**3.1**	**6.6**
Charge / (credit) for the year	2.6	(1.7)	0.9
Utilised during the year	(0.1)	-	(0.1)
Balance at 31 December 2023	**6.0**	**1.4**	**7.4**

	Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m
GROUP and SOCIETY			
Balance at 1 January 2022	**3.4**	**5.1**	**8.5**
Charge/ (credit) for the year	0.4	(2.0)	(1.6)
Utilised during the year	(0.3)	-	(0.3)
Balance at 31 December 2022	**3.5**	**3.1**	**6.6**

Equity release mortgage assets denominated in £

Included in Loans and advances to customers secured on residential property is a balance of £161.3m (2022: £166.3m) relating to equity release mortgages secured on properties in the UK. Equity release mortgages are held at fair value. Details on the balances and valuation of the equity release portfolio are included in notes 13 and 32.

Equity release mortgage assets denominated in €

Included in Loans and advances to customers secured on residential property is a balance of £27.1m (2022: £nil) relating to equity release mortgages secured on properties in Spain. This book was acquired as part of the transfer of engagements from Manchester Building Society. Equity release mortgages are held at fair value. Details on the balances and valuation of the equity release portfolio are included in notes 13 and 32.

12. Loans and advances to Customers | Continued

Loans and advances to customers - Securitisation

In 2021, the Society transferred beneficial ownership of a pool of mortgages of £282.7m to Tyne Funding No.1 PLC, a securitisation vehicle. The Society continues to be exposed to all risk and rewards of ownership of these mortgages, and therefore the mortgages continue to be recognised on the Society's Balance Sheet. See note 14 for details on the securitisation.

No loans and securities were transferred to securitisation vehicles in the current or prior period.

During the period, loans and advances to customers with a value £0.1m were written off during the period (2022: £nil).

Further details of the Group's provisioning methodology is given in note 38 and detailed analysis of expected credit losses is provided in note 39.

13. Mortgages held at fair value through profit and loss

The Group's equity release mortgage assets are accounted for as fair value through profit and loss. The mortgages were advanced as indeterminate length fixed interest rate contracts, to be repaid in full at maturity through sale of the mortgaged properties. Most equity release contracts contain a no-negative-equity guarantee; that is, where the value of a mortgaged property at the point of sale falls short of the contractual amount due to the Group, the shortfall is written off. Equity release mortgages are presented on Balance Sheet as part of the Group's loans and advances to customers at fair value.

	2023			2022		
	Gross mortgage balances £m	Fair value adjustment £m	Fair value presented on balance sheet £m	Gross mortgage balances £m	Fair value adjustment £m	Fair value presented on balance sheet £m
Denominated in £	151.7	9.6	161.3	160.6	5.7	166.3
Denominated in €	47.7	(20.6)	27.1	-	-	-
Total	**199.4**	**(11.0)**	**188.4**	**160.6**	**5.7**	**166.3**

The gross mortgage balances above reflect the Group's maximum pre collateral exposure to credit risk at 31 December. For details of the movement in the fair value adjustment see note 32. The Group typically expects its equity release mortgages to be repaid through sale of the underlying properties. Property collateral of £403.1m (2022: £429.6m) is held against the Group's equity release exposures denominated in £. By their nature, equity release mortgages are not considered to hold a pre-determined maturity date.

At 31 December 2023 the Group had €54.9m (2022: €nil) of equity release mortgages denominated in Euros, against which €56.8m collateral is held.

The fair value is the present value of the forecast portfolio cash flows less the value of the no-negative equity guarantee, which is calculated using an option pricing model. See note 32 for details.

Against equity release insurance contract assets the following income and charges have been recognised through the Income Statements:

	Interest income £m	Fair value change £m
31 December 2023	**11.1**	**4.4**
31 December 2022	11.1	(57.7)

The Group recognises interest income on a per asset basis using the effective interest rate method. The gross mortgage balances, as presented above, reflect the amortised cost of the Group's equity release mortgages. Changes in the fair value are included in profit and loss within fair value gains less losses on financial instruments, further details are given in note 32.

For fixed reversion contracts, the effective interest rate is considered to be the rate implicit in the mortgage contract. The balances recognised in respect to fixed reversion mortgages included in the total above are as follows:

	Reversion value £m	Book value £m	Interest income £m
31 December 2023	**12.5**	**10.4**	**0.6**
31 December 2022	17.5	15.0	0.9

The Group's equity release books are closed to new entrants with limited further advances available to existing customers at the discretion of the Group.

14. Deemed loan

In 2021, the Society securitised a pool of mortgage loans with a book value of £282.7m, by transferring their beneficial ownership at net book value to Tyne Funding No.1 PLC. Tyne Funding No. 1 PLC issued debt securities with a total value of £282.7m secured on the transferred mortgage loans. All notes have been purchased by the Society and are available as security for repurchase agreements with the Bank of England or third parties. Since the securitised mortgage loans do not meet the criteria for de-recognition from the Society's Balance Sheet, they continue to be held on the Society's Balance Sheet. The consideration received from Tyne Funding No.1 PLC is accounted for as a deemed loan. As permissible under IFRS 9, the Society has elected to present the deemed loan net of the retained loan notes issued by Tyne Funding No.1 PLC, as the notes constitute essentially the same asset as the transferred mortgages and presenting them gross results effectively in presenting the same assets twice on the Society's Balance Sheet. The carrying value of the notes reduces as coupons are paid on a quarterly basis whilst the consideration received for transfer of mortgages is repaid on a daily basis.

The net deemed loan liability presented on the Balance Sheet consists of the following items:

	Society 2023 £m	Society 2022 £m
Retained loan notes	**227.5**	248.0
Consideration received for transfer of mortgages	**(223.6)**	(241.7)
Net value of derivatives integral to the transaction	**9.5**	16.6
	13.4	22.9

At the Balance Sheet date, the securitised mortgage loans had a book value of £223.6m (2022: £241.7m). Class A notes have a coupon rate of SONIA + 58bps and a call date of 25 November 2026. In the Group accounts, any derivatives associated with the transaction are presented gross in assets and liabilities within derivative financial instruments.

15. Investments

	GROUP		SOCIETY	
	2023 £m	2022 £m	2023 £m	2022 £m
Equities	**1.9**	2.1	**0.2**	0.2
Subsidiaries	**-**	-	**41.6**	38.4
	1.9	2.1	**41.8**	38.6

Investments in equities

Equity investments relate to the Society's holdings in Abrdn PLC after demutualisation of Standard Life, and Newcastle Financial Advisers Limited's holding in units in Openwork LLP, a network of independent financial advisers, under the licence of which it operates. Equity investments are held at fair value through profit and loss. See note 32 for details.

Investments in subsidiaries
SOCIETY

	Shares £m	Loans £m	Total £m
Investment in subsidiary undertakings			
Cost			
At 1 January 2023	3.9	34.5	38.4
Additions	2.0	1.8	3.8
Repayments received	-	(0.6)	(0.6)
At 31 December 2023	**5.9**	**35.7**	**41.6**
Provisions			
At 1 January 2023 and 31 December 2023	**-**	**-**	**-**
Net book amount at 31 December 2023	**5.9**	**35.7**	**41.6**

15. Investments | Continued

	Shares £m	Loans £m	Total £m
Investment in subsidiary undertakings			
Cost			
At 1 January 2022	13.0	33.7	46.7
Additions	-	1.2	1.2
Repayments received	-	(0.4)	(0.4)
Return of investment	(9.1)	-	(9.1)
At 31 December 2022	**3.9**	**34.5**	**38.4**
Provisions			
At 1 January 2022	3.1	-	3.1
Return of investment	(3.1)	-	(3.1)
At 31 December 2022	**-**	**-**	**-**
Net book amount at 31 December 2022	**3.9**	**34.5**	**38.4**

The Society directly holds 100% of the issued ordinary share capital of all its subsidiary undertakings. Ownership of MBS (Mortgages) transferred to the Group as part of the transfer of engagements from Manchester Building Society on 1 July 2023.

The Directors believe that the carrying value of the investments in subsidiary undertakings is supported by their underlying net assets.

Name of principal subsidiary undertakings	Principal activity
Newcastle Financial Advisers Limited	Provision of financial services
Newcastle Mortgage Loans (Jersey) Limited	Mortgage lending
Newcastle Strategic Solutions Limited	Provision of specialised savings management and IT services
MBS (Mortgages) Limited	Mortgage lending

Newcastle Mortgage Loans (Jersey) Limited is incorporated and operates in Jersey. All other of the above subsidiary undertakings are incorporated in England and Wales and operate in the United Kingdom. The registered address for these entities is: 1 Cobalt Park Way, Wallsend, NE28 9EJ.

The entire share capital of MBS (Mortgages) Limited was transferred to Newcastle Building Society as part of the transfer of engagements.

Newcastle Systems Management Limited (NSML) was dissolved in January 2023 and is no longer an entity within the Group.

Further information on transactions between Group entities can be found in Note 29 Related Parties.

During the year the Society received dividends from subsidiary undertakings totalling £1.7m (2022: £7.6m) which were recognised in the Income Statement. In the prior year, £6.0m has been treated as return of capital and £1.6m has been treated as income from dividends in profit and loss.

Other controlled entities

The following entity is deemed to be controlled by the Society. Although the Society does not have a controlling shareholding, it has the right of variable returns from the entity and is able to influence these returns. In substance, the entity is therefore no different than if it was wholly-owned by the Society. As a result, it is consolidated into the Group accounts. The carrying value of the entity in the Society's Balance Sheet is nil.

Tyne Funding No.1 PLC

Tyne Funding No.1 PLC was incorporated on 30 September 2021. It is a special purpose vehicle (SPV) to facilitate the securitisation of a mortgage pool previously owned by the Society (see note 14 for details). The entity's financial period end is 31 December. Its registered office is 1 Bartholomew Lane, London, EC2N 2AX.

16. Intangible assets

Group

	Purchased Software £m	Internally developed software: Work in Progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2023	11.7	2.5	6.2	0.4	20.8
Additions	1.3	4.1	-	-	5.4
Transfers	-	(3.5)	3.5	-	-
Disposal	(0.3)	-	-	-	(0.3)
At 31 December 2023	**12.7**	**3.1**	**9.7**	**0.4**	**25.9**
Accumulated depreciation					
At 1 January 2023	8.8	-	1.5	0.3	10.6
Charge for the year	0.9	-	1.6	0.1	2.6
Impairment	-	-	0.2	-	0.2
Disposal	(0.3)	-	-	-	(0.3)
At 31 December 2023	**9.4**	**-**	**3.3**	**0.4**	**13.1**
Net book amount at 31 December 2023	**3.3**	**3.1**	**6.4**	**-**	**12.8**

Group

	Purchased Software £m	Internally developed software: Work in Progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2022	11.5	1.2	3.8	0.4	16.9
Additions	0.9	4.1	-	-	5.0
Transfers	-	(2.8)	2.8	-	-
Disposals	(0.7)	-	(0.4)	-	(1.1)
At 31 December 2022	**11.7**	**2.5**	**6.2**	**0.4**	**20.8**
Accumulated depreciation					
At 1 January 2022	8.3	-	0.9	0.2	9.4
Charge for the year	0.9	-	1.0	0.1	2.0
Impairment	0.3	-	-	-	0.3
Disposals	(0.7)	-	(0.4)	-	(1.1)
At 31 December 2022	**8.8**	**-**	**1.5**	**0.3**	**10.6**
Net book amount at 31 December 2022	**2.9**	**2.5**	**4.7**	**0.1**	**10.2**

16. Intangible assets | Continued

Society

	Purchased Software £m	Internally developed software: Work in Progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2023	3.8	-	-	-	3.8
Additions	0.4	-	-	-	0.4
Disposal	(0.3)	-	-	-	(0.3)
At 31 December 2023	**3.9**	**-**	**-**	**-**	**3.9**
Accumulated depreciation					
At 1 January 2023	2.7	-	-	-	2.7
Charge for the year	0.2	-	-	-	0.2
Disposal	(0.3)	-	-	-	(0.3)
At 31 December 2023	**2.6**	**-**	**-**	**-**	**2.6**
Net book amount at 31 December 2023	**1.3**	**-**	**-**	**-**	**1.3**

Society

	Purchased Software £m	Internally developed software: Work in Progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2022	3.4	-	-	-	3.4
Additions	0.4	-	-	-	0.4
At 31 December 2022	**3.8**	**-**	**-**	**-**	**3.8**
Accumulated depreciation					
At 1 January 2022	2.1	-	-	-	2.1
Charge for the year	0.3	-	-	-	0.3
Impairment	0.3				0.3
At 31 December 2022	**2.7**	**-**	**-**	**-**	**2.7**
Net book amount at 31 December 2022	**1.1**	**-**	**-**	**-**	**1.1**

Purchased software

Purchased software relates to IT systems purchased from external providers, with a useful economic life longer than one year.

Internally developed software

Internally developed software relates to capitalised staff costs for developing new IT systems or enhancing the functionality of existing ones. The software is either used by the Group or licenses are sold to third parties. Internally developed software assets are classified as work in progress until the software is ready to use. Once it is ready to use, it is reclassified as internally developed software in use and amortised over its useful economic life.

Acquired customer lists

Acquired customer lists relate to customer lists acquired by Newcastle Financial Advisers Limited. In 2019, Newcastle Financial Advisers bought Fidelis Financial Solutions Limited and integrated its trade and assets into its own operations. In 2020, the customer list of Carter James Associates Limited were acquired and integrated into Newcastle Financial Advisers Limited.

17. Non-current assets held for sale

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Freehold land and buildings diaries	-	0.2	-	0.2
	-	0.2	-	0.2

The balance recognised in respect to the prior year relates to a legacy branch. The assets held for sale at December 2022 were sold for £0.2m and no profit or loss was recognised on the assets.

18. Property, plant and equipment

Group

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, Fixtures, fittings and motor vehicles £m	Investment property £m	Total £m
Cost					
At 1 January 2023	2.7	22.9	27.4	1.1	54.1
Additions	-	4.8	2.0	-	6.8
Lease Remeasurement	-	0.2	-	-	0.2
Disposals	-	(1.1)	(1.0)	-	(2.1)
At 31 December 2023	**2.7**	**26.8**	**28.4**	**1.1**	**59.0**
Accumulated depreciation					
At 1 January 2023	0.9	5.1	18.0	1.0	25.0
Charge for the year	0.1	1.5	2.2	-	3.8
Impairment	-	0.1	-	-	0.1
Disposals	-	(0.4)	(1.0)	-	(1.4)
At 31 December 2023	**1.0**	**6.3**	**19.2**	**1.0**	**27.5**
Net book amount at 31 December 2023	**1.7**	**20.5**	**9.2**	**0.1**	**31.5**

Group

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, Fixtures, fittings and motor vehicles £m	Investment property £m	Total £m
Cost					
At 1 January 2022	3.0	23.0	26.0	1.1	53.1
Additions	-	0.2	1.9	-	2.1
Transfer to non-current assets held for sale	(0.3)	-	-	-	(0.3)
Disposals	-	(0.3)	(0.5)	-	(0.8)
At 31 December 2022	**2.7**	**22.9**	**27.4**	**1.1**	**54.1**
Accumulated depreciation					
At 1 January 2022	0.9	3.9	16.4	0.9	22.1
Charge for the year	0.1	1.4	2.1	0.1	3.7
Transfer to non-current assets held for sale	(0.1)	-	-	-	(0.1)
Disposals	-	(0.2)	(0.5)	-	(0.7)
At 31 December 2022	**0.9**	**5.1**	**18.0**	**1.0**	**25.0**
Net book amount at 31 December 2022	**1.8**	**17.8**	**9.4**	**0.1**	**29.1**

18. Property, plant and equipment | Continued

Society

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, Fixtures, fittings and motor vehicles £m	Investment property £m	Total £m
Cost					
At 1 January 2023	2.7	7.8	12.2	1.1	23.8
Additions	-	4.8	0.7	-	5.5
Lease remeasurement	-	0.2	-	-	0.2
Disposals	-	(1.0)	(0.1)	-	(1.1)
At 31 December 2023	**2.7**	**11.8**	**12.8**	**1.1**	**28.4**
Accumulated depreciation					
At 1 January 2023	1.0	3.8	8.0	1.0	13.8
Charge for the year	0.1	1.1	0.8	-	2.0
Impairment	-	0.1	-	-	0.1
Disposals	-	(0.4)	(0.1)	-	(0.5)
At 31 December 2023	**1.1**	**4.6**	**8.7**	**1.0**	**15.4**
Net book amount at 31 December 2023	**1.6**	**7.2**	**4.1**	**0.1**	**13.0**

Society

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, Fixtures, fittings and motor vehicles £m	Investment property £m	Total £m
Cost					
At 1 January 2022	3.0	8.1	12.0	1.1	24.2
Additions	-	-	0.3	-	0.3
Transfer to non-current assets held for sale	(0.3)	-	-	-	(0.3)
Disposals	-	(0.3)	(0.1)	-	(0.4)
At 31 December 2022	**2.7**	**7.8**	**12.2**	**1.1**	**23.8**
Accumulated depreciation					
At 1 January 2022	1.0	2.9	7.2	0.9	12.0
Charge for the year	0.1	1.0	0.9	0.1	2.1
Transfer to non-current assets held for sale	(0.1)	-	-	(0.7)	(0.1)
Disposals	-	(0.1)	(0.1)	-	(0.2)
At 31 December 2022	**1.0**	**3.8**	**8.0**	**1.0**	**13.8**
Net book amount at 31 December 2022	**1.7**	**4.0**	**4.2**	**0.1**	**10.0**

18. Property, plant and equipment | Continued

Leases

The right of use assets recognised for branch and operational property leases is included in the table above as "Leasehold land and buildings". The corresponding lease liability is included in Other liabilities (note 25).

Lease liabilities are expected to amortise as follows:

	GROUP 2023 £m	GROUP 2022 £m	SOCIETY 2023 £m	SOCIETY 2022 £m
Within one year	**1.1**	1.1	**1.1**	1.1
In one to five years	**2.5**	2.5	**2.5**	2.4
In more than five years	**4.1**	1.2	**4.1**	1.2
	7.7	4.8	**7.7**	4.7

The following charges are included in the Income Statement in respect to leases:

	Note	GROUP 2023 £m	GROUP 2022 £m	SOCIETY 2023 £m	SOCIETY 2022 £m
Depreciation of right of use assets included in administrative expenses		**1.1**	1.1	**1.1**	1.0
Interest charges on lease liabilities	28	**0.2**	0.1	**0.2**	0.1
Expenses relating to short term and low value leases included in administrative expenses - payable to third parties	6	**0.3**	0.3	**0.2**	0.2
		1.6	1.5	**1.5**	1.3

There is no expense recognised in the Income Statement in respect of variable lease payments that are not included in the measurement of the lease liabilities. The carrying value of lease liabilities is approximately the fair value of the lease liabilities. Total cash payments in respect of leases was £1.2m (2022: £1.3m).

Investment property

Included within Investment property are freehold and leasehold commercial buildings, which are owned by the Society and Group, and held to earn rental income. The transfer in the prior year relates to a property which was held for sale at the Balance Sheet date see note 17 for details.

Management consider the purchase price less depreciation to represent a fair value for properties held. No formal third party valuation of the Society or Group investment property holdings was undertaken during 2023 with the properties managed to facilitate continued operation (via rental to third parties or otherwise) and not towards view of speculative sale.

During 2023 rental income form investment properties of £0.1m (2022: £0.1m) was recognised by the Group and the Society. Directly attributable operating expenses to investment property are not measured as both Group and third parties occupy the properties.

19. Deferred tax

The movement on the deferred tax account is shown below.

	GROUP		SOCIETY	
	2023 £m	2022 Restated £m	**2023 £m**	2022 Restated £m
At 1 January	**4.5**	4.0	**5.7**	4.5
Income Statement expense	**(0.7)**	(0.2)	**(1.0)**	(0.4)
Previous year adjustment	**(0.6)**	(0.8)	**(0.1)**	0.2
Effect of change in tax rates	**-**	0.3	**-**	-
Arising on transfer of engagements	**4.1**	-	**4.1**	-
Credited on items taken directly through reserves	**(1.5)**	1.4	**(1.5)**	1.4
Other	**-**	(0.2)	**(0.2)**	-
At 31 December	**5.8**	4.5	**7.0**	5.7
Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	**0.3**	0.3	**0.3**	0.3
Deferred tax asset to be recovered in more than 12 months	**7.2**	5.4	**7.4**	5.4
	7.5	5.7	**7.7**	5.7
Deferred tax liabilities				
Deferred tax asset to be recovered in less than 12 months	**(0.2)**	(0.1)	**-**	-
Deferred tax liability to be recovered in more than 12 months	**(1.5)**	(1.1)	**(0.7)**	-
	(1.7)	(1.2)	**(0.7)**	-

For deferred tax assets recognised on the Balance Sheet, the Group's latest forecast indicate that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax assets.

The following table shows the items deferred tax are attributable to and how movements in the deferred tax assets and liabilities are reflected in the Income Statement and the Statement of Other Comprehensive income.

19. Deferred tax | Continued

Group

	2022 £m	Arising on transfer of engagements £m	Charge credited to Income Statement £m	Other comprehensive income £m	2023 £m
Trading losses	1.8	1.1	(0.3)	-	2.6
Depreciation in excess of capital allowances	(0.3)	-	(0.4)	-	(0.7)
Adjustments relating to historic changes in accounting policies	2.6	1.0	(0.4)	-	3.2
Transfer of engagements – fair value adjustments	-	2.0	(0.3)	-	1.7
Equity investments held at fair value through the income statement	(0.5)	-	0.1	-	(0.4)
Debt securities held at fair value through other comprehensive income	-	-	-	(0.2)	(0.2)
Cash flow hedge accounting held at fair value through other comprehensive income	0.9	-	-	(1.3)	(0.4)
	4.5	**4.1**	**(1.3)**	**(1.5)**	**5.8**

Society

	2022 £m	Arising on transfer of engagements £m	Charge credited to Income Statement £m	Other comprehensive income £m	2023 £m
Trading losses	1.9	1.1	(0.4)	-	2.6
Depreciation in excess of capital allowances	0.3	-	(0.2)	-	0.1
Adjustments relating to historic changes in accounting policies	2.6	1.0	(0.4)	-	3.2
Transfer of engagements – fair value adjustments	-	2.0	(0.3)	-	1.7
Debt securities held at fair value through other comprehensive income	-	-	-	(0.2)	(0.2)
Cash flow hedge accounting held at fair value through other comprehensive income	0.9	-	-	(1.3)	(0.4)
	5.7	**4.1**	**(1.3)**	**(1.5)**	**7.0**

19. Deferred tax | Continued

Adjustments relating to historic changes in accounting policies unwind over a period of 10 years from the change in accounting policy. Deferred tax arising from losses acquired through the transfer of engagements from Manchester Building Society are unwound as taxable profits allocatable to the Manchester trade is generated. Deferred tax adjustments arising on fair value adjustments arising as a result of the merger with Manchester Building Society are unwound over a period of 6 years from the merger date. No changes to the rate of Corporation tax have been announced.

Unrecognised deferred tax assets

The following table summarises the Society's unrecognised deferred tax assets.

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Unrecognised deferred tax assets	**5.2**	-	**3.2**	-

Newcastle Building Society

Following a change in the Corporate Tax Act in 2017, without updating section 4(4) of The Mutual Societies (Transfers of Business) (Tax) Regulations 2009, which governs the tax treatment of building society mergers, there currently is a lacuna in tax legislation in respect to the treatment of deferred tax losses originating since April 2017 following a building society merger. The Society has deferred tax losses originating in Manchester Building Society between April 2017 and June 2023 of £12.9m, resulting in unrecognised deferred tax assets of £3.2m.

Management expect that this lacuna in tax law will be resolved in secondary legislation, having now been brought to the attention of HMRC and HMT to ensure that building societies are not at a disadvantage compared to registered companies following a merger or acquisition. In January 2024, HMRC launched a consultation which would rectify the lacuna in tax legislation and provide a basis for the Society to utilise the tax losses arising in Manchester Building Society between April 2017 and June 2023. The consultation closed on 28 February 2024. However, given no change in tax legislation has been substantively enacted as at the balance sheet date or the date of signing the accounts, the Society consider it prudent not to recognise these deferred tax assets. However, the Society will be able to recognise these deferred tax assets if the current consultation becomes law, which is expected during 2024.

MBS Mortgages Limited

MBS (Mortgages) Limited, a 100% owned subsidiary of the Society acquired as part of the merger with Manchester Building Society, has deferred tax losses of £8.1m, corresponding to an unrecognised deferred tax asset of £2.0m. The Society has not recognised any deferred tax assets relating to this subsidiary, as it is not currently profitable, and future profits that the tax losses could be offset against are not currently considered sufficiently certain to justify the recognition of the deferred tax in the Consolidated Financial Statements.

20. Retirement benefit obligations

Group and Society Pension scheme

The Society operates a UK registered trust based pension scheme, Newcastle Building Society Pension and Assurance Scheme that provides defined benefits. The Scheme was closed to new entrants in 2000 and closed to the future accrual of benefits in 2010. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier).

The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that at least one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:

- Deferred members: current and former employees of the Society who are not in receipt of a Scheme pension; and
- Pensioner members: in receipt of Scheme pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit obligations (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the Balance Sheet date. The proportion of benefits receive increases linked to inflation (subject to a cap of no more than 5% pa). The valuation method used is known as the Projected Unit Method.

The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2023 was 13 years (2022: 13 years).

Future funding obligation

The Trustees are required to carry out an actuarial valuation every 3 years. The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 30 June 2022. This valuation revealed the Scheme had no funding deficit relative to the Scheme's statutory funding objective and so no deficit reduction contributions are payable. However, the Society has agreed to pay contributions of currently £300k per annum in respect of Scheme expenses and levies. The Society does not recognise a surplus for the reasons set out in Note 1.

Assumptions

The results of the actuarial valuation as at 30 June 2022 have been updated to 31 December 2023 by a qualified independent actuary. The assumptions used for the IAS 19 year end valuation are as follows:

20. Retirement benefit obligations | Continued

Significant actuarial assumptions	**2023**	2022
Discount rate	**4.60%**	4.90%
RPI Inflation	**3.00%**	3.10%
CPI Inflation	**2.00%**	2.10%
Mortality assumptions		
Mortality (post-retirement)	**SAPS 'S3'CMI 2022 [1.25%] (yob)**	SAPS 'S3'CMI 2021 [1.25%] (yob)
Other actuarial assumptions		
RPI pension increases	**2.95%**	3.05%
Pension increases in deferment	**2.50%**	2.40%
Life expectancies (in years)		
For an individual aged 62		
Male	**24.0 years**	24.2 years
Female	**26.7 years**	26.9 years
At 62 for an individual aged 42 in 2023		
Male	**25.4 years**	25.6 years
Female	**28.1 years**	28.4 years

Risks

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

Asset volatility: The Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, however the scheme invests in some growth assets. These assets are expected to outperform corporate bonds in the long-term, but provide volatility and risk in the short term.

Changes in bond yields: A decrease in corporate bond yields would increase the Scheme's defined benefit obligations. The Scheme invests in Liability Driven Investment (LDI) assets, which are designed to offset the impact of changes to market yields. Changes in bond yields are therefore not expected to be a significant source of Balance Sheet volatility other than significant changes in credit spreads.

Inflation risk: A significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place), although the Scheme's LDI holding is expected to offset the impact of inflation rate changes.

Mortality risk: If Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's defined benefit obligation.

The Trustees and Society manage risks in the Scheme through the following strategies:

Diversification: Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

Investment strategy: The Trustees are required to review their investment strategy on a regular basis.

Liability driven investment (LDI): The Scheme invests in LDI assets, whose long-term investment returns are expected to partially hedge interest rate and inflation rate movements.

Pension increase exchange: The Trustees currently offer retiring members an option to exchange future pension increases for a higher immediate pension. This has reduced the Scheme liabilities for retired members who have already taken up the option and, based upon the assumption of future take up, for deferred members who will retire in future.

20. Retirement benefit obligations | Continued

Sensitivity Analysis

Assumptions	Change in assumption	Change in defined benefit obligations
Discount rate	+ / - 0.5%	- 6% / + 6%
Inflation	+ / - 0.5%	+ 2% / - 3%
Assumed life expectancy	+ / - 1 year	+ 3% / - 3%

Limitations of the sensitivity analysis

These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

Asset class at market value

The assets of the Scheme were invested as follows:

	2023	2022
	%	%
Equities	9.2	7.2
Diversified growth funds	8.8	7.2
Corporate bonds	29.8	36.5
Fixed interest and index linked gilts	49.0	41.8
Annuities	0.7	1.3
Cash	2.5	6.0
Total	100.0	100.0
Actual return on assets over the period	2.8	(38.3)

All assets listed above are held as Legal & General Pooled Investment Vehicles with the exception of the small amount in the Trustees bank account. The Multi Asset class consists of a single diversified fund with underlying assets of equities, bonds, commodities and listed infrastructure, property, private equity and global real estate companies.

Reconciliation to the Balance Sheet

	2023 £m	2022 £m
Total value of assets	76.2	77.8
Present value of defined benefit obligations	(71.9)	(70.6)
Funded status	4.3	7.2
Adjustment in respect of minimum funding requirement	(4.3)	(7.2)
Pension asset recognised in the Balance Sheet before allowance for deferred tax	-	-

Analysis of changes in the value of the defined benefit obligations over the period

	2023 £m	2022 £m
Value of defined benefit obligations at start of the period	70.6	110.7
Interest cost	3.4	2.1
Benefits paid	(4.2)	(5.3)
Actuarial losses: experience differing from that assumed	0.8	0.5
Actuarial gains: changes in demographic assumptions	(1.2)	(0.5)
Actuarial losses / (gains): changes in financial assumptions	2.5	(36.9)
Value of defined benefit obligation at end of period	71.9	70.6

20. Retirement benefit obligations | Continued

Analysis of changes in the value of the scheme assets over the period

	2023 £m	2022 £m
Market value of assets at start of period	77.8	121.5
Interest income	3.7	2.3
Actual return on assets less interest	(0.9)	(40.6)
Employer contributions	0.3	0.3
Benefits paid	(4.2)	(5.3)
Administration costs	(0.5)	(0.4)
Market value of assets at end of period	76.2	77.8

Amount recognised in Income Statements

	2023 £m	2022 £m
Administration costs	0.5	0.4
Amount charged to Income Statements	0.5	0.4

Amounts recognised in Statements of Comprehensive Income

	2023 £m	2022 £m
Actuarial losses on defined benefit obligation	(2.1)	36.9
Actual return on assets less interest	(0.9)	(40.6)
Limit on recognition of assets less interest	3.0	3.7
Amounts recognised in Statements of Comprehensive Income	-	-

Guaranteed minimum pension equalisation

On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that trustees are under a duty to make sure that equal benefits are paid, including where these benefits are in the form of GMP. As a result, all schemes with GMP rights will have to act to allow for equalisation of benefits for the effect of unequal GMPs. This is known as GMP equalisation. As a result of this judgment, it is generally expected companies make an allowance for any increase in the defined benefit obligation that they expect as a result of GMP equalisation. As per previous years, an approximate allowance for the impact of GMP equalisation of 0.5% of the defined benefit obligation has been made. This considers current members of the Scheme only.

Past transfers

The 2018 judgment did not consider whether trustees needed to include past transfers within the perimeter of GMP equalisation. However, this question was addressed in a further judgment handed down on 20 November 2020. This judgment confirmed, broadly, that past individual transfers do need to be included (to the extent they related to relevant GMP benefits), but that actuarially certified bulk transfers do not. The 2020 judgement has resulted in an increase in the Group's estimated scheme liabilities of £0.1m.

Insured members

The pension obligation for some members of the scheme are insured by a third party. The pension liability relating to insured members and the corresponding insurance assets in respect to these members always net to £nil. At 30 June 2023, they were estimated to be £1.0m (2022: 1.0m). They have no effect on any primarily financial statement. The pension liability and pension asset have been presented including the insured pension liability and related insurance asset (previously presented net).

Virgin Media Limited v NTL Pension Trustees II Limited

The Trustees are aware of the recent high court judgement in the Virgin Media Limited v NTL Pension Trustees II Limited case. Potential implications to the scheme were discussed at trustee meetings (in particular, the potential consequence of certain historic rule amendments being void in the absence of an actuarial confirmation under s37 of the PSA 1993). The Trustees are aware that the High Court ruling is being appealed to the Court of Appeal (with a hearing date now listed for 25 June 2024).

Given that the litigation is subject to an appeal process, and as such the outcome of the case is currently uncertain, the Trustees have taken the decision not to undertake any analysis of historic rule amendments in light of the High Court decision at this stage pending the outcome of the appeal process. We will however continue to monitor this legal case and any potential impact on the pension scheme.

21. Other assets

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Receivable from subsidiary undertakings	**-**	-	**2.8**	1.5
Prepayments and accrued income	**13.8**	12.1	**5.3**	4.1
Other receivables	**6.1**	5.0	**2.5**	2.5
	19.9	17.1	**10.6**	8.1

22. Due to Members

	GROUP and SOCIETY	
	2023 £m	2022 £m
Held by individuals	**5,014.2**	4,220.7
Other shares	**0.1**	0.1
	5,014.3	4,220.8

23. Due to other customers

	GROUP and SOCIETY	
	2023 £m	2022 £m
Due to other customers	**262.3**	175.8
	262.3	175.8

24. Amounts owed to credit institutions

	GROUP and SOCIETY	
	2023 £m	2022 £m
Amounts owed to credit institutions	**538.7**	577.1
	538.7	577.1

25. Other liabilities

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Amounts payable to subsidiary undertakings	**-**	-	**3.4**	2.7
Lease liabilities	**7.4**	4.8	**7.4**	4.7
Other creditors	**3.3**	1.9	**1.6**	1.0
Accruals and deferred income	**12.4**	11.6	**8.0**	7.8
Provisions	**0.6**	0.6	**0.5**	0.5
	23.7	18.9	**20.9**	16.7

Provisions for liabilities and charges

	GROUP		SOCIETY	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Opening provision at 1 January 2023	**0.6**	0.8	**0.5**	0.6
New provisions for the year	**0.9**	0.5	**0.3**	0.4
Released provisions for the year	**-**	(0.4)	**-**	(0.4)
Amounts utilised / transferred during the year	**(0.9)**	(0.3)	**(0.3)**	(0.1)
Closing Provision at 31 December 2023	**0.6**	0.6	**0.5**	0.5

Provisions include an estimate of the costs of potential consumer redress costs.

26. Subscribed capital

	GROUP and SOCIETY	
	2023 £m	2022 £m
Present as Liabilities		
12.625% permanent interest bearing shares	**10.0**	10.0
10.750% permanent interest bearing shares	**10.0**	10.0
6.750% permanent interest bearing shares	**9.6**	-
8.000% permanent interest bearing shares	**5.2**	-
	34.8	20.0

The 12.625%, 8.000% and 10.750% subscribed capital issues were issued for an indeterminate period and are only repayable in the event of the winding up of the Society. The 6.750% subscribed capital issue has a call date of April 2030 at the discretion of the Society. The Society's permanent interest bearing shares (PIBS) rank equally with each other. The 6.750% and 8.000% PIBS were acquired from Manchester Building Society and have notional values of £10m and £5m respectively.

In winding up or dissolution of the Society, the claims of holders of the PIBS rank behind all other creditors of the Society including the claims of shareholding members for both principal and interest. The holders of PIBS are not entitled to any surplus upon winding up or final dissolution of the Society. Where the PIBS have no fixed maturity, they are classified as financial liabilities as their terms do not grant the Directors discretion to avoid the payment of interest, as the only instance where interest could not be paid on the instruments would be where capital levels are insufficient to allow such a payment to be made. The PIBS are carried at amortised cost.

27. Guarantees, contingent liabilities and commitments

(i) Until 11 June 1996, under Section 22 of the Building Societies Act 1986, the Society had an obligation to discharge the liabilities of its subsidiary undertakings insofar as they were unable to discharge the liabilities out of their own assets.

(ii) Commitments

The Society has no capital commitments for the acquisition of property, plant, and equipment at 31 December 2023. Commitments in respect to leases classified as short term or small under IFRS 16 are disclosed in note 18.

	GROUP and SOCIETY	
	2023 £m	2022 £m
Irrevocable undrawn committed loan facilities	**208.0**	267.6

28. Note to the Cash Flow Statements

Reconciliation of profit before taxation to net cash inflow from operating activities	GROUP 2023 £m	GROUP 2022 restated £m	SOCIETY 2023 £m	SOCIETY 2022 restated £m
Profit before taxation	**29.1**	32.6	**28.3**	32.7
Depreciation and amortisation	**6.4**	5.7	**2.2**	2.4
Interest on subscribed capital	**2.9**	2.3	**2.9**	2.3
Decrease / (increase) in derivative financial instruments	**52.0**	(171.8)	**45.1**	(154.4)
Interest payment for finance lease arrangements	**(0.2)**	(0.1)	**(0.2)**	(0.1)
Other non-cash movements	**(9.8)**	(1.2)	**(1.8)**	1.3
Net cash inflows / (outflows) before changes in operating assets and liabilities	**80.4**	(132.5)	**76.5**	(115.8)
Increase in loans and advances to customers	**(492.6)**	(465.1)	**(492.8)**	(465.2)
(Increase) / decrease in fair value adjustments for hedged risk	**(48.0)**	123.3	**(48.0)**	123.3
Decrease in cash collateral pledged	**1.2**	83.3	**1.2**	83.3
Increase in cash ratio deposits	**(3.1)**	(1.2)	**(3.1)**	(1.2)
Increase in shares	**672.8**	489.0	**672.8**	489.0
Increase in amounts due to other customers and deposits from credit institutions	**42.3**	6.2	**42.3**	2.7
Decrease / (increase) in deemed loan	**-**	-	**2.4**	(20.6)
(Increase) / decrease in other assets, prepayments and accrued income	**(1.5)**	0.4	**(1.1)**	0.3
Increase / (decrease) in other liabilities	**0.4**	(2.1)	**(0.4)**	(4.4)
Net cash inflows / (outflows) from operating activities	**251.9**	101.3	**249.8**	91.4
Cash and cash equivalents				
Cash and balances with the Bank of England	**525.5**	421.9	**525.5**	421.9
Less Bank of England cash ratio deposit	**(14.5)**	(11.4)	**(14.5)**	(11.4)
Loans and advances to banks repayable on demand	**22.5**	17.4	**8.5**	0.8
At 31 December	**533.5**	427.9	**519.5**	411.3

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. Cash Ratio deposits are mandatory requirements of the Bank of England and are not readily accessible.

IAS 7 "statement of cash flows" requires enhanced disclosures around changes in liabilities from financing activities arising from cash flows and non-cash changes.

28. Note to the Cash Flow Statements | Continued

Changes of liabilities arising from financing liabilities in the year were as follows:

		Non-cash changes					Cash Flows		
	Balance Sheet 31 December 2022 £m	**Acquired on transfer of engagements £m**	**New leases £m**	**Lease remeasurement* £m**	**Lease disposal £m**	**Accrued interest/ lease charge £m**	**Interest payment flows £m**	**Interest payment flows £m**	**Balance Sheet 31 December 2023**
Subscribed capital (PIBS)	**20.4**	**14.8**	**-**	**-**	**-**	**2.9**	**(2.9)**	**-**	**35.2**
Lease liabilities	**4.8**	**0.1**	**4.4**	**(0.3)**	**(0.4)**	**0.2**	**(0.2)**	**(0.9)**	**7.7**

		Non-cash changes					Cash Flows		
	Balance Sheet 31 December 2021 £m	Acquired on transfer of engagements £m	New leases £m	Lease remeasurement* £m	Lease disposal £m	Accrued interest/ lease charge £m	Interest payment flows £m	Interest payment flows £m	Balance Sheet 31 December 2022
Subscribed capital (PIBS)	20.4	-	-	-	-	2.3	(2.3)	-	20.4
Lease liabilities	6.0	-	0.1	(0.2)	-	0.1	(0.1)	(1.1)	4.8

Opening and closing balance sheet positions include applicable accrued interest. The Group's financing liabilities are held on balance sheet at their amortised cost under IFRS 9, except for leases which are held at amortised cost under IFRS 16 and are denominated in Sterling. Accordingly, the accounting value of the Group's financing liabilities has not been impacted by changes in fair value or foreign exchange rates during the years to 31 December 2023 or 2022.

IAS 7 "statement of cash flows" requires enhanced disclosures around changes in liabilities from financing activities arising from cash flows and non-cash changes.

* Lease remeasurements relate to changes in the contractual lease payments due being reflected in the lease liability.

29. Related parties

The Group is controlled by Newcastle Building Society which is registered in England and Wales and operates in the United Kingdom. Further details of subsidiary undertakings are disclosed in note 15 to these Accounts.

Transactions with Directors and their close family members

Directors and their close family members have entered into the following transactions with Newcastle Building Society in the normal course of business.

Loans to Directors and close family members

	2023 £000	2022 £000
At 31 December	**241**	249

These loans were made on normal commercial terms and a register of them is available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

Deposits and investments held by Directors and their close family members

	2023 £000	2022 £000
At 31 December	**481**	393

Amounts deposited by Directors and members of their close families earn interest on the same terms and conditions applicable to other customers. There were no other transactions with Directors or their close family members during 2023 or 2022.

Transactions with other Group undertakings

The Society receives managed IT, property and business support services from Newcastle Strategic Solutions Limited, a wholly owned subsidiary of the Society. The Society provides financial and administrative services to Newcastle Strategic Solutions Limited.

During the year, the following transactions were carried out with related parties:

(a) Sales of financial and administrative services

	2023 £000	2022 £000
Newcastle Strategic Solutions Limited	**11,244**	10,191

Sales of services are negotiated with related parties on commercial terms.

(b) Purchases of services:

	2023 £000	2022 £000
Business Support Services Newcastle Strategic Solutions Limited	**16,782**	13,391

Purchased services are negotiated with related parties on commercial terms.

At 31 December 2023 the following unsecured balances remained outstanding with related parties:

(c) Outstanding balances:

	Amounts owed to Society		Amounts owed by Society	
	2023 £000s	2022 £000s	**2023 £000s**	2022 £000s
Newcastle Strategic Solutions Limited	**2,731**	1,515	**1,846**	1,465
Newcastle Financial Advisers Limited	**-**	-	**1,450**	1,232
MBS (Mortgages) Limited	**-**	-	**112**	-

29. Related parties | Continued

At 31 December 2023 the following unsecured balances remained outstanding with related parties:

(d) Borrowings / cash deposits:

	Amounts borrowed from Society		Amounts deposited with Society	
	2023 £000s	2022 £000s	**2023 £000s**	2022 £000s
Newcastle Strategic Solutions Limited	**32,813**	31,540	**-**	-
Newcastle Mortgage Loans (Jersey) Limited	**367**	396	**-**	-
Tyne Funding No.1 Plc	**2,544**	2,544	**-**	-

	Interest paid to Society		Interest paid by Soci-ety	
	2023 £000s	2022 £000s	**2023 £000s**	2022 £000s
Newcastle Strategic Solutions Limited	**1,743**	1,096	**-**	-
Newcastle Mortgage Loans (Jersey) Limited	**45**	26	**-**	-
Tyne Funding No.1 Plc	**13**	12	**-**	-

The loan from the Society to Newcastle Strategic Solutions Limited is made up of three tranches, each on a rolling basis. The interest rate on the loans is the Society's SVR +1% and SVR -2%.

The loan between the Society and Newcastle Mortgage Loans (Jersey) Limited has an interest rate of Sonia +0.12% and will mature when the company's underlying mortgage book redeems.

The loan to Tyne Funding No.1 Plc has an interest rate of 0.5%. The loan is subordinate to all other obligations of Tyne Funding No.1 Plc and repayable at the maturity of the Notes detailed in Note 14.

30. Accounting for financial instruments

Disclosures relating to financial instruments and related risks in notes 31 to 42 are given on a Group basis, as the risks of the organisation are managed on a Group basis. The Society basis is not considered to be materially different from the Group basis for any of these disclosures.

Note 1 describes how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following measurement basis acronyms are used throughout this disclosure:

FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss

The Group has financial assets and liabilities for which there is a practical right to offset the recognised amounts and which are settled net in practice. However, the netting arrangements do not result in an offset of Balance Sheet assets and liabilities for accounting purposes as the right to offset is not unconditional in all circumstances. There are no financial assets or liabilities which are offset with the net amount presented on the Balance Sheet.

The Group has not reclassified any financial assets during the year.

Notes 31-33 provide further information on the classification and valuation of financial instruments.

Notes 34-37 provide further information on the Group's interest rate risk management

Notes 38-40 provide further information on the Group's credit risk management

Note 41 provides further information on the Group's liquidity risk management

Note 42 provides further information on the Group's capital risk management

The Group does not have material exposure to equity risk.

31. Categories of financial instruments

The following table analyses the financial assets and liabilities in the Balance Sheet by the class of financial instrument to which they are assigned and by the measurement basis.

Group as at 31 December 2023	Note	Amortised Cost £m	FVOCI £m	FVTPL £m	Total £m
Financial assets					
Cash in hand and balances with the Bank of England		525.5	-	-	**525.5**
Loans and advances to credit institutions*	10	109.8	-	-	**109.8**
Debt securities	11	-	615.0	-	**615.0**
Derivative financial instruments	35	-	-	50.9	**50.9**
Loans and advances to customers	12	4,671.3	-	188.4	**4,859.7**
Investments	15	-	-	1.9	**1.9**
Other assets, of which financial	21	6.0	-	-	**6.0**
Total financial assets		**5,312.6**	**615.0**	**241.2**	**6,168.8**
Financial liabilities					
Due to Members	22	5,014.3	-	-	**5,014.3**
Due to other customers	23	262.3	-	-	**262.3**
Amounts owed to credit institutions	24	538.7	-	-	**538.7**
Derivative financial instruments	35	-	-	61.7	**61.7**
Subscribed capital	26	34.8	-	-	**34.8**
Other liabilities (of which financial)	25	10.9	-	-	**10.9**
Total financial liabilities		**5,861.0**	**-**	**61.7**	**5,922.7**

31. Categories of financial instruments | Continued

Group as at 31 December 2022 (Restated)	Note	Amortised Cost £m	FVOCI £m	FVTPL £m	Total £m
Financial assets					
Cash in hand and balances with the Bank of England		421.9	-	-	421.9
Loans and advances to credit institutions*	10	104.8	-	-	104.8
Debt securities	11	-	433.0	-	433.0
Derivative financial instruments	35	-	-	90.4	90.4
Loans and advances to customers	12	4,093.2	-	166.3	4,259.5
Investments	15	-	-	2.1	2.1
Other assets, of which financial	21	6.5	-	-	6.5
Total financial assets		**4,626.4**	**433.0**	**258.8**	**5,318.2**
Financial liabilities					
Due to Members - shares	22	4,220.8	-	-	4,220.8
Due to other customers	23	175.8	-	-	175.8
Amounts owed to credit institutions	24	577.1	-	-	577.1
Derivative financial instruments	35	-	-	54.7	54.7
Subscribed capital	26	20.0	-	-	20.0
Other liabilities (of which financial)	25	7.1	-	-	7.1
Total financial liabilities		**5,000.8**	**-**	**54.7**	**5,055.5**

*Loans and advances to credit institutions includes £14.0m (2022: £16.6m) in cash held by the Society's subsidiary entities.

All of the Group's FVTPL financial assets and liabilities are mandatorily measured at fair value under IFRS 9. The Group has not elected to hold any financial assets or liabilities at FVTPL under IFRS 9 that could otherwise been held at amortised cost or at FVOCI.

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

Loans and advances to credit institutions
Cash lent to financial institutions to generate an interest income return, operational bank accounts and cash collateral placed with derivative counterparties to be repaid to the Society in future periods.

Debt securities
Assets comprising covered bonds, residential mortgage backed securities, and government gilts. Investments made to utilise liquid cash reserves to generate interest income.

Derivative financial instruments
Financial instruments whose value is derived from an underlying asset, index or reference rate it is linked to. The Group does not operate a derivative financial instruments trading book. Derivatives are held for hedging purposes.

Loans and advances to customers
Cash lent to individual Members of the Society, corporates and housing associations.

Fair value adjustments for hedged risk
Adjustments to reflect the fair value of financial instruments that are designated as hedged items as part of the Group's interest rate risk hedging activities.

Investments
Investments in equity instruments of subsidiaries and other companies.

Due to Members
Cash deposits made by customers held by the Society.

Due to other customers
Cash deposits made by non-Members of the Society.

Amounts owed to credit institutions
Deposits made by financial institutions with the Society.

Subscribed capital
Permanent Interest Bearing Shares issued by the Society, with further details given in note 26.

32. Financial instruments held at fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value hierarchy and summary of assets and liabilities held at fair value

For assets held at fair value, the following table summarises the basis for measuring the fair value, using the three levels defined in IFRS 13:

Financial assets	Level	2023 £m	2022 Restated £m
Debt securities at FVOCI	1	**615.0**	433.0
Equity investments	1	**0.1**	0.1
Derivative financial instruments	2	**50.9**	90.4
Equity investments *	3	**1.8**	2.0
Loans and advances to customers held at fair value	3	**188.4**	166.3
Financial liabilities			
Derivative financial instruments	2	**61.7**	54.7

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as price) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Gains and losses on disposal of assets and liabilities held at fair value

The Society does not trade in financial instruments but is required to demonstrate the liquidity of its debt security holdings for regulatory purposes on a periodic basis. As a result, the Society crystallised gains of £nil during the year (2022: £0.1m) through sale of FVOCI debt securities.

Mortgage assets held at fair value

The Group's equity release mortgage assets are accounted for as fair value through profit and loss.

The fair value of the equity release portfolio is calculated using a model that estimates the future cash flows expected from the portfolio. The timing of those cash flows are determined with reference to mortality tables overlaid by expected prepayments. The model discounts these cash flows to their present value, using a discount rate based on interest rates for new equity release mortgages available at the balance sheet date, adjusted for the specific characteristics of the Society's portfolio. The model further calculates a value for the 'no-negative equity guarantee' provided to the customer using an option pricing method.

The valuation uses a number of inputs which require estimation, such as the mortality and prepayment rates, the discount rate, property price volatility and the haircut applied to individual sales prices.

The key estimates used in the model and the basis of estimation are summarised below:

Assumption	Basis of estimation
Discount rate	Interest rates for equity release mortgages available at the Balance Sheet date, adjusted for specific characteristics of the Society's portfolio
Long-term property price growth	Analysis of historic long-term property price growth
Sales discount on collateral	Analysis of historic sales discounts
Property price volatility	Analysis of historic property price volatility and third party research

32. Financial instruments held at fair value | Continued

At 31 December 2023 the fair value of the mortgage assets held at fair value was £188.4m (2022: £163.3m). The sensitivity of this value to the estimates shown above is as follows:

Assumptions	Change in assumption	31 December 2023 (Decrease) / Increase in fair value £m	31 December 2022 (Decrease) / Increase in fair value £m
Discount rate	+ / - 1%	(11.2) / 12.5	(10.3) / 11.5
Long term property price growth	+ / - 2%	4.6 / (5.7)	2.7 / (4.1)
Sales discount on collateral	+ / - 2.5%	(1.7) / 1.6	(0.7) / 0.9
Property price volatility	+ / - 3%	(3.5) / 2.9	(3.1) / 2.8

The Society has increased its range of potential discount rates since its half year reporting due to the increase in the underlying interest rate environment.

The following table provides a reconciliation of the equity release portfolio's opening and closing fair value.

	2023 £m	2022 £m
As at 1 January	**166.3**	**232.5**
Acquired on transfer of engagements	**26.5**	-
Interest accrued	**11.2**	11.1
Redemptions	**(19.3)**	(19.6)
Changes in property price assumptions – recorded in profit and loss	**(3.0)**	(2.0)
Changes in discount rate– recorded in profit and loss	**6.4**	(55.7)
Changes in exchange rates – recorded in profit and loss	**0.3**	-
As at 31 December	**188.4**	**166.3**

The main source of the change in valuation was a change in market interest rates. The Society hedges fair value movements on the equity release portfolio due to market interest rate movements using interest rate swaps. The value of these swaps reduced by £(3.7)m, resulting in a net movement of £0.7m in the year included in the income statement (see note 37 for details).

Equity Investments

The fair value of the Group's investment in Openwork units is calculated using a model which discounts the future expected cash flows from the investment. These cash flows relate primarily to the dividends receivable by the Group. These dividends are then discounted to their present value, using a discount rate that estimates the underlying risks associated with an unlisted equity instrument. The valuation uses a number of inputs which require estimation, such as future dividend payout ratios, discount rates, long term dividend growth and the underlying businesses performance.

At 31 December 2023 the fair value of the investments held at fair value was £1.8m (2022: £2.0m). The sensitivity of this value to the estimates shown above is as follows.

Assumptions	Change in assumption	31 December 2023 (Decrease)/Increase in fair value £m	31 December 2022 (Decrease)/Increase in fair value £m
Discount rate	+/- 1%	(0.2) / 0.2	(0.2) / 0.2
Long term dividend growth rate	+/- 2%	0.4 / (0.2)	0.3 / (0.2)

32. Financial instruments held at fair value | Continued

The following table provides a reconciliation of the level 3 Equity investments opening and closing fair value:

	2023 £m	2022 £m
As at 1 January	**2.0**	-
Transferred to / (from) Level 3*	-	3.7
Units acquired	-	0.3
Changes in fair value recorded in profit and loss	**(0.2)**	(2.0)
As at 31 December	**1.8**	2.0

* Equity investments in Openwork LLP were reclassified from level 2 to level 3 in 2022 as the market established in previous years proved not to be a reliable estimate of the value of the equity units due to the market being illiquid during the periods that market is active.

33. Fair value of assets held at amortised cost

Fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's or Society's Balance Sheets at their fair value. These assets and liabilities are held at values reflecting their intended use. In all cases, this is via collection of contractual amounts due and not through disposal. This is deemed to also reflect their best use. If the Society's intended use of an asset or liability changes, the accounting adopted for the item is revisited for reclassification. The carrying values below reflect the Group's maximum exposure to counterparty credit risk at 31 December 2023.

Group

	Note	Level*	Carrying value 2023 £m	Carrying value 2022 £m	Fair value 2023 £m	Fair value 2022 £m
Financial assets						
Cash and balances with the Bank of England		1	**525.5**	421.9	**525.5**	421.9
Loans and advances to credit institutions	10	1	**109.8**	104.8	**109.8**	104.8
Loans and advances to customers	12	3	**4,671.3**	4,093.2	**4,498.6**	3,942.7
Other assets, of which financial		1	**6.0**	6.5	**6.0**	6.5
Financial liabilities						
Due to members	22	3	**5,014.3**	4,220.8	**4,983.4**	4,186.5
Due to other customers	23	3	**262.3**	175.8	**262.0**	175.3
Amounts owed to credit institutions	24	3	**538.7**	577.1	**538.7**	577.1
Subscribed capital	26	1	**34.8**	20.0	**45.0**	29.6
Other liabilities, of which financial		3	**10.9**	7.1	**10.8**	7.1

*Levels are defined in note 32.

The Group does not trade in financial instruments. Against level three assets there is no expectation that a deferred gain or loss on initial recognition will be recognised in future periods: the transaction price at inception is considered to reflect an appropriate day one fair value. For short term receivables and payables within other assets and other liabilities, the carrying value of amounts due and owed is considered to approximate the fair value of the amounts due and owed. IFRS 9 based impairment allowances against other assets is not material. There were no gains or losses arising from financial assets or liabilities held at amortised cost.

33. Fair value of assets held at amortised cost | Continued

Cash and balances with the Bank of England

The fair value of floating rate and overnight deposits is their carrying amount.

Loans and advances to credit institutions

The fair value of floating rate and overnight deposits is their carrying amount. The fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Due to Members and due to other customers

The fair value of shares and balances due to other customers represents the discounted amount of estimated future cash flows paid to shareholders..

Amounts owed to credit institutions

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Subscribed capital

The fair value of subscribed capital is calculated based public market prices on the Balance Sheet date.

34. Interest rate risk

The table below presents the impact of interest rate shocks on the Group's economic value and net interest income, including the Groups hedging positions. The most severe Economic Value Impact (EVE) shock is the parallel shock up, with a reduction in market value of £6.2m. A parallel shock estimates the impact on earnings and the discounted present value of future cash flows (EVE) via increasing the yield curve a fixed amount across all future points. The majority of this is driven by the structural hedging of the Society's general reserves (which is excluded from the EVE results below). The Society maintains this structural hedge to manage interest income volatility and to protect against margin compression as rates fall. The remainder of the reduction is due to timing differences of hedging fixed rate mortgages and savings at a tranche level. Conversely, the biggest reduction in net interest income comes from a parallel shock down. This is driven by basis risk positions and timing differences in rate pass-on to administered rates vs external market indices.

	2023 +2.5% £m	2023 -2.5% £m	2022 +2.5% £m	2022 -2.5% £m
Economic value impact as at 31 December 2023	(6.2)	4.8	(11.7)	10.0

See notes 35-37 for details about instruments used for managing interest rate risk.

The exposure to interest rate risk due to the Group's defined benefit pension scheme is detailed in note 20.

35. Derivative financial instruments

The Group uses interest rate swaps to hedge against interest rate risk and forward contracts to manage foreign exchange risk. Offsetting collateral is pledged and received in line with underlying Credit Support Annexes (CSA) with the Group's financial counterparties. The table below shows the fair value of the Group's derivative portfolios and the collateral pledged/received against these.

Group as at 31 December 2023

	Gross amount £m	Master netting arrangements £m	Financial collateral £m	Net amount £m
Financial assets				
Derivative assets	50.9	(40.6)	-	10.3
Financial liabilities				
Derivative liabilities	(61.7)	40.6	19.0	(2.1)

35. Derivative financial instruments | Continued

Society as at 31 December 2023

	Gross amount	Master netting arrangements	Financial collateral	Net amount
	£m	£m	£m	£m
Financial assets				
Interest rate swaps	40.6	(40.6)	-	-
Financial liabilities				
Interest rate swaps	(61.7)	40.6	19.0	(2.1)

Group as at 31 December 2022

	Gross amount	Master netting arrangements	Financial collateral	Net amount
	£m	£m	£m	£m
Financial assets				
Interest rate swaps	90.4	(23.2)	(48.7)	18.5
Financial liabilities				
Interest rate swaps	(54.7)	23.2	29.2	(2.3)

Society as at 31 December 2022

	Gross amount	Master netting arrangements	Financial collateral	Net amount
	£m	£m	£m	£m
Financial assets				
Interest rate swaps	73.3	(23.2)	(48.7)	1.4
Financial liabilities				
Interest rate swaps	(54.7)	23.2	29.2	(2.3)

Cash collateral is posted and received on a daily basis to minimise the Group's and the counterparty's counterparty credit risk. Collateral posted is measured against counterparty mark-to-market values and may not reflect the Society's internal valuation of its financial instruments.

The Society has entered into International Swaps and Derivatives Association (ISDA) Master agreements with financial counterparties in line with standard industry practice. Netting agreements contained within are not alone considered sufficient to satisfy the offsetting criteria of IAS 32. The netting agreements are intended to protect the Society against fair value loss in the unlikely future event of counterparty default.

The Society has continued to make use of the London Clearing House (LCH), minimising its exposure to non-LCH counterparties. The protected manner of LCH collateral placements mitigates counterparty credit risk with respect to collateral that would otherwise be pledged to non-centralised derivative counterparties.

Financial collateral of £63.3m (2022: £56.5m) has been placed with LCH with respect to 'initial margin': an amount calculated by central counterparties to protect against potential future exposures that could arise from valuation changes. This is in addition to the 'variation margin', covering LCH's current net exposure to the Society. The Society's collateral pledged against initial margin requirements is not included in the collateral column above, but it is included in note 36.

The Society has a one way collateralisation swap agreement as part of the securitisation program, the exposure under this agreement is £10.3m (2022: £17.1m). The remaining over-collateralisation of £5.1m (2022: under-collateralisation of £1.3m) relates to initial bilateral margin, changes in the valuation since the last margin call, minimum transfer amounts and differences between internal valuations used for reporting purposes and counterparty valuations which collateral is based on.

Where the Society holds multiple financial assets and liabilities with a single counterparty, and a Master netting agreement is in effect, the net fair value exposure for each counterparty is calculated. Net exposures placed with counterparties are consolidated into the financial assets disclosure above, net exposures received from counterparties are similarly consolidated into the financial liabilities.

36. Encumbered assets

Some of the Society's assets are used as security for funding with the Bank of England or other third parties. Alternatively, assets may be used as collateral in line with Credit Support Annexes relating to derivatives, as detailed in note 35. Assets that are used for such purposes are classified as encumbered and cannot be used for other purposes.

The following table provides an overview of the Group's encumbered and unencumbered financial assets.

	Encumbered assets		Unencumbered assets				Consolidation	Total
Group as at 31 December 2023	With counterparties other than central banks	With central banks	Prepositioned with central banks	Readily available as security	Available as security in principle	Not available as security		
	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances with the Bank of England	-	14.5	-	511.0	-	-	-	525.5
Loans and advances to credit institutions	87.3	-	-	22.5	-	-	-	109.8
Debt securities	-	-	564.5	49.8	-	0.7	-	615.0
Retained loan notes securitised on the Society's loans and advances to customers*	-	-	-	194.8	-	32.7	(227.5)	-
Loans and advances to customers*	223.4	721.7	-	-	3,914.6	-	-	4,859.7
Derivative financial instruments	-	-	-	-	-	50.9	-	50.9
Other assets	-	-	-	-	-	62.3	-	62.3
Total	**310.7**	**736.2**	**564.5**	**778.1**	**3,914.6**	**146.6**	**(227.5)**	**6,223.2**

* Loans and advances to customers encumbered with counterparties other than central banks relate to mortgage assets used as a security in the Society's securitisation programme. Loan notes secured on these mortgage assets totalling £227.5m (2022: £248.0m) have been retained by the Group and are included in retained loan notes securitised on the Society's loans and advances to customers. These notes are not presented on the Groups Balance Sheet, but are available as securities to the Group. See note 14 for details on the Society's Securitisation programme.

	Encumbered assets		Unencumbered assets				Consolidation	Total
Group as at 31 December 2022 (restated)	With counterparties other than central banks	With central banks	Prepositioned with central banks	Readily available as security	Available as security in principle	Not available as security		
	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances with the Bank of England	-	11.4	-	410.5	-	-	-	421.9
Loans and advances to credit institutions	87.7	-	-	-	-	17.1	-	104.8
Debt securities	-	-	348.4	82.6	-	2.0	-	433.0
Retained loan notes securitised on the Society's loans and advances to customers*	-	-	-	215.3	-	32.7	(248.0)	-
Loans and advances to customers*	241.7	846.5	-	-	3,171.3	-	-	4,259.5
Derivative financial instruments	-	-	-	-	-	90.4	-	90.4
Other assets	-	-	-	-	-	3.5	-	3.5
Total	**329.4**	**857.9**	**348.4**	**708.4**	**3,171.3**	**145.7**	**(248.0)**	**5,313.1**

36 Encumbered assets | Continued

Encumbered assets are assets pledged as collateral for credit or derivative liabilities with either the Bank of England or a different counterparty.

Unencumbered assets prepositioned with central banks are loan pools or debt securities that have already been placed with the Bank of England, which enables the Society to draw down funds under one of the Bank's schemes where required.

Unencumbered assets readily available as security are highly liquid assets, such as cash and publicly traded debt securities that have not been prepositioned with the Bank of England.

Unencumbered assets available as security in principle are assets that are not highly liquid, but could be turned into collateral where required. This includes loans and advances to customers that are not securitised and are not prepositioned with the Bank of England or a different counterparty.

Unencumbered assets not available as security are assets that are not usually used as collateral by the Society.

37. Hedge accounting

The Group is exposed to interest rate risk across its fixed interest rate financial assets and liabilities.

The Society's core business is to provide competitive mortgage and savings products to its Members. Deposits by Members fund the Society's mortgage lending, with the Society paying an interest charge in return for deposited funds, and borrowers pay to the Society an interest income in return for the funds they have borrowed.

Mortgage contracts attracting a fixed rate of interest are typically the most popular of the Society's mortgage offerings, with a fixed rate usually agreed for a term of two to five years. By contrast, most of the Society's deposits are made under short term agreements, with deposits often repayable 'on demand'. This introduces 'interest rate risk' to the Society's business, as when market-wide interest rates move, the return received on mortgage assets adjusts more slowly than the return paid on Member deposits.

To address this risk, the Society enters into interest rate swap agreements with external counterparties. These contracts protect against interest rate risk by 'swapping' a portion of the Society's fixed interest rate exposure to a variable rate: the Society agrees to pay a fixed rate to a financial counterparty for a period of time in exchange for receipt of a variable interest rate against a notional balance. The resulting variable interest income received matches the Society's variable interest expense, locking in interest margin.

Derivative financial instruments, including interest rate swaps, are held at fair value, which changes when market interest rates change; and this change is reflected in the Income Statement. However, most of the fixed rate exposures are used to hedge are held at amortised cost, and thus their value on the Society's Balance Sheet does not change in line with market interest rates. The Society applies fair value hedge accounting and cash flow hedge accounting to address this mismatch. Hedge accounting allows the Society to post an adjustment for the value change in the hedged risk; and the movement of this adjustment is reflected in the Income Statement. If the hedge is effective, the adjustment in relation to swaps' fair value change and the hedged risks' fair value change net off.

The Society also uses swap contracts in order to hedge exposures that are not yet on its Balance Sheet, for example fixed rate mortgages that have been offered but have not yet completed. To avoid volatility in the Society's Income Statement as a result of this hedging activity, the society utilises cash flow hedge accounting.

Cash flow hedge accounting allows fair value adjustments to derivatives designated in a cash flow hedge to be posted through Other Comprehensive Income rather than the Income Statement to the extent the hedge is effective. Hedge effectiveness is measured by comparing the derivative fair value movement to that of a hypothetical derivative representing the hedged risk. The fair value movement represented in Other Comprehensive Income is restricted to the cumulative fair value movement of the hypothetical derivative. Hedge ineffectiveness is recognised in the Income Statement where fair value movements in the hedging instrument exceed those in the hypothetical derivative.

The Society makes use of the following different types of accounting hedges:

- The hedged item in a fair value micro hedge is a specific mortgage contract or a specific group of such contracts. It could also be a specified treasury assets (e.g. a fixed rate gilt) or treasury liability.
- The hedged item in a fair value macro hedge is a defined portion of a mortgage or savings book, but this portion is re-designated on a regular basis to reflect changes in the hedged portfolio, such as mortgage prepayments or new mortgage contracts.
- The hedged item in a cashflow hedge is usually a forecast floating rate liability, such as Term Funding Scheme or future securitisation funding. This is primarily used to hedge wholesale funding that will economically hedge the mortgage pipeline and swaps that have been transacted during the month. These swaps are designated into a macro fair value hedge at the beginning of the month following the drawdown of hedged loans.

The Society enters into derivative contracts for hedging purposes only. However, not all interest rate swaps may be designated in accounting hedge relationships. This could be the case if the hedged item is held at fair value, and there is therefore no mismatch to be addressed by hedge accounting, or if the restrictive accounting rules do not allow for a hedge to be designated or make it impractical to do so.

The Society uses foreign exchange forwards to protect against foreign exchange risk by fixing the exchange rate on a portion of the Society's Euro exposure. These forwards are not designated in accounting hedge relationships. There is no mismatch to be addressed by hedge accounting as the Society's euro-denominated equity release book is held at fair value.

Notes to the Accounts for the year ended 31 December 2023

37. Hedge accounting | Continued

Maturity analysis of hedging instruments
The maturity profile of the Group's hedging instruments as at 31 December 2023 is as follows:

	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Interest rate swaps designated in macro fair value hedge relationships					
Nominal amount £m	-	57.0	1,171.0	10.0	1,238.0
Average fixed interest rate	-	2.51%	2.77%	4.57%	2.77%
Fair value of assets	-	1.3	37.3	-	38.6
Fair value of liabilities	-	-	(10.6)	(0.8)	(11.4)
Interest rate swaps designated in micro fair value hedge relationships					
Nominal amount £m	11.5	18.5	52.7	110.2	192.9
Average fixed interest rate	4.47%	4.80%	2.66%	4.38%	3.96%
Fair value of assets	-	-	1.5	-	1.5
Fair value of liabilities	-	-	(0.3)	(12.7)	(13.0)
Interest rate swaps designated in cashflow hedge relationships					
Nominal amount £m	-	-	57.5	55.0	112.5
Average fixed interest rate	-	-	4.08%	4.13%	4.1%
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	-	(1.0)	(2.0)	(3.0)
Interest rate swaps utilised in securitisations					
Nominal asset amount £m	-	-	-	203.4	203.4
Average fixed interest rate	-	-	-	1.49%	1.49%
Nominal liability amount £m	-	-	-	203.4	203.4
Average fixed interest rate	-	-	-	1.54%	1.54%
Fair value of assets	-	-	-	10.3	10.3
Fair value of liabilities	-	-	-	(10.4)	(10.4)
Interest swaps in economic hedge relationships but not designated in accounting hedge relationships					
Nominal amount £m	35.0	50.0	-	148.8	233.8
Average fixed interest rate	3.95%	5.25%	-	5.03%	4.92%
Fair value of assets	0.2	0.2	-	-	0.4
Fair value of liabilities	(0.1)	-	-	(21.5)	(21.6)
Total interest rate swaps					
Nominal amount £m	46.5	125.5	1,281.2	730.8	2,184.0
Average fixed interest rate	1.68%	1.46%	1.90%	3.92%	3.45%
Fair value of assets	0.2	1.5	38.8	10.3	50.8
Fair value of liabilities	(0.1)	-	(11.9)	(47.4)	(59.4)
Foreign exchange forwards in economic hedge relationships but not designated in accounting hedge relationships					
Nominal amount £m	17.5	24.7	-	-	42.2
Average GBP/EUR exchange rate	1.15	1.15	-	-	1.15
Fair value of assets	-	-	-	-	-
Fair value of liabilities	(0.1)	(0.2)	-	-	(0.3)
Deferred consideration derivative					
Nominal amount £m	-	8.2	18.7	38.6	65.5
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	(0.2)	(0.5)	(1.1)	(1.8)

37. Hedge accounting | Continued

The maturity profile of the Group's hedging instruments as at 31 December 2022 is as follows:

	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Interest rate swaps designated in macro fair value hedge relationships					
Nominal amount £m	60.0	500.5	747.5	15.0	1,323.0
Average fixed interest rate	0.39%	1.85%	1.65%	4.47%	1.70%
Fair value of assets	0.5	9.0	60.8	-	70.3
Fair value of liabilities	-	-	(1.2)	(0.5)	(1.7)
Interest rate swaps designated in micro fair value hedge relationships					
Nominal amount £m	3.0	13.0	60.9	100.8	177.7
Average fixed interest rate	4.73%	3.80%	3.09%	4.57%	4.01%
Fair value of assets	-	-	2.3	-	2.3
Fair value of liabilities	-	(0.1)	(0.3)	(12.8)	(13.2)
Interest rate swaps designated in cashflow hedge relationships					
Nominal amount £m	-	-	93.0	52.0	145.0
Average fixed interest rate	-	-	4.41%	4.52%	4.45%
Fair value of assets	-	-	0.4	-	0.4
Fair value of liabilities	-	-	(0.6)	(1.2)	(1.8)
Interest rate swaps utilised in securitisations					
Nominal asset amount £m	-	-	-	244.7	244.7
Average fixed interest rate	-	-	-	1.49%	1.49%
Nominal liability amount £m	-	-	-	244.7	244.7
Average fixed interest rate	-	-	-	1.54%	1.54%
Fair value of assets	-	-	-	17.1	17.1
Fair value of liabilities	-	-	-	(17.4)	(17.4)
Interest rate swaps in economic hedge relationships but not designated in accounting hedge relationships					
Nominal amount £m	35.0	-	-	151.8	186.8
Average fixed interest rate	0.36%	-	-	5.03%	4.16%
Fair value of assets	0.3	-	-	-	0.3
Fair value of liabilities	-	-	-	(18.4)	(18.4)
Total interest rate swaps					
Nominal amount £m	98.0	513.5	901.4	564.3	2,077.2
Average fixed interest rate	1.10%	1.13%	1.83%	4.02%	3.16%
Fair value of assets	0.8	9.0	63.5	17.1	90.4
Fair value of liabilities	-	(0.1)	(2.1)	(50.3)	(52.5)
Deferred consideration derivative					
Nominal amount £m	-	3.8	19.0	46.9	69.7
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	(0.1)	(0.6)	(1.5)	(2.2)

Swap assets and liabilities are held at their fair value on Balance Sheet as 'derivative financial instruments'.

Notes to the Accounts for the year ended 31 December 2023

37. Hedge accounting | Continued

Summary of hedged items in designated hedge relationships

Fair value hedges Interest rate risk	2023 Carrying amount of hedged items: Assets	2023 Carrying amount of hedged items: Liabilities	2023 Accumulated amount of fair value adjustments on the hedged item	2023 Change in fair value of hedged items in the year used for ineffectiveness measurement	2022 Carrying amount of hedged items: Assets	2022 Carrying amount of hedged items: Liabilities	2022 Accumulated amount of fair value adjustments on the hedged item	2022 Change in fair value of hedged items in the year used for ineffectiveness measurement
	£m	£m	£m	£m	£m	£m	£m	£m
Fixed rate mortgages	1,239.2	-	(13.2)	45.3	1,128.8	-	(60.9)	(48.9)
Fixed rate customer deposits	-	-	-	0.2	-	137.8	(0.3)	(0.2)
Fixed rate customer loans individually hedged	96.4	-	9.3	(3.5)	139.8	-	12.8	(60.8)
Fixed rate FVOCI debt instruments	87.2	-	2.1	4.4	28.7	-	(2.3)	(2.9)

Cash flow hedges Interest rate risk	2023 Change in fair value of hedged item in the year used for hedge ineffectiveness measurement	2023 Cash flow hedge reserve: Continuing hedges	2023 Cash flow hedge reserve: Discontinued hedges	2022 Change in fair value of hedged item in the year used for hedge ineffectiveness measurement	2022 Cash flow hedge reserve: Continuing hedges	2022 Cash flow hedge reserve: Discontinued hedges
	£m	£m	£m	£m	£m	£m
Gross floating rate liabilities[1]	5.8	(3.1)	4.9	3.7	(1.3)	(2.3)

Cash flow hedges Interest rate risk	2023 Hedge ineffectiveness recognised in Income Statement	2023 Effective portion recognised in other comprehensive income	2023 Reclassified into Income Statement: Net interest income	2023 Reclassified into Income Statement: Non-interest income	2022 Hedge ineffectiveness recognised in Income Statement	2022 Effective portion recognised in other comprehensive income	2022 Reclassified into Income Statement: Net interest income	2022 Reclassified into Income Statement: Non-interest income
	£m	£m	£m	£m	£m	£m	£m	£m
Gross floating rate liabilities*	-	5.8	-	0.4	-	3.7	-	(0.1)

* Highly probable future cash flows arising from loans and advances to customers

37. Hedge accounting | Continued

Hedge Ineffectiveness

By design, the Society's hedges are expected to be economically effective, with notional balances, durations and rates on interest rate swaps agreed only where they are expected to be a good fit to the same characteristics of the underlying assets that are to be hedged. Hedge ineffectiveness can nonetheless arise from early asset repayments, imperfectly matched key terms, differences in the timing of cash flows of hedged items and hedging instruments, different interest rate curves applied to discount the hedged items and hedging instruments and the effect of changes in counterparties' credit risk on the fair values of hedging instruments. The table below provides details of the hedge ineffectiveness during the year.

	2023 £m	2022 £m
(Losses) / gains on micro hedging instruments		
Interest rate swaps	**(1.1)**	62.4
Gains / (losses) on micro hedged items		
Mortgage assets (loans and advances to customers)	**0.9**	(63.7)
Gains / (losses) on cashflow instruments		
Interest rate swaps	**5.8**	(3.7)
(Losses) / gains on cashflow hedge items		
Floating rate liabilities	**(5.4)**	3.6
(Losses) / gains on macro hedging instruments		
Interest rate swaps	**(43.2)**	54.8
Gains / (losses) on macro hedged items		
Mortgage assets (loans and advances to customers)	**45.5**	(49.1)
Total ineffectiveness recognised in the Income Statement	**2.5**	4.3

Hedging gains and losses are recognised in the Income Statement within 'gains less losses on financial instruments and hedge accounting'. There were no unexpected sources of hedge ineffectiveness during the year.

Fair value gains less losses on financial instruments and hedge accounting recognised in the Income Statement

	GROUP		SOCIETY	
	2023 £m	2022 £m	2023 £m	2022 £m
Fair value movement on loans and advances to customers held at FVTP	**4.4**	(57.7)	**4.4**	(57.8)
Fair value movement on derivative financial instruments in economic relationship with loans and advances to customers held at FVTP but not in accounting hedge relationships	**(3.7)**	56.4	**(3.7)**	56.5
Fair value movement on derivative financial instruments in other economic but not in accounting hedge relationships	**(2.9)**	4.5	**(2.9)**	4.5
Amounts recycled to profit and loss from cash flow hedges	**-**	(0.1)	**-**	(0.1)
Interest expense on derivatives in economic but not in ac-counting hedge relationships	**(0.5)**	(5.6)	**(0.5)**	(5.6)
Gains crystallised on sale of assets held at FVOCI	**-**	0.1	**-**	0.1
Hedge ineffectiveness on accounting hedges	**2.5**	4.3	**2.5**	4.3
Revaluation of investments	**(0.2)**	(2.1)	**-**	-
	(0.4)	(0.2)	**(0.2)**	1.9

Cash flow hedging reserve

	Total £m
Balance at 1 January 2023	(2.7)
Reclassification of hedging losses to Income Statement	(0.4)
Revaluation of interest rate cash flow hedges in other comprehensive income	5.8
Deferred tax on cash flow hedges	(1.3)
At 31 December 2023	**1.4**

All transactions and balances included within the cash flow hedging reserve are related to interest rate swaps.

38. Credit risk: Impairment methodologies

Credit risk is the risk that a customer or counterparty is unable to honour their repayment of obligations as they fall due. The Group Risk Committee, as detailed in the Risk Management Report, maintain oversight of the Credit Risk Committee. The Committee is involved in the monitoring of the credit risk within the Group's assets. Model Risk Committee is charged, with oversight of the Group's IFRS 9 models and assessment and approval of its key model inputs. Through 2023 the Model Risk Committee met regularly, coinciding with key dates in the Society's reporting calendar.

Credit risk mainly arises from commercial and customer loans and advances and loan commitments arising from such lending activities but also arises from the Group's investment in debt securities and exposure to third party (financial and non-financial) debtors.

The Group's policy with respect to accounting for impairment of financial assets is given in Note 1. This note describes the practical application of this policy.

Provisioning methodology

Under IFRS 9, the Group conducts a forward looking assessment of impairment. Expected credit losses are recognised across applicable financial assets based on whether there has been a significant increase in credit risk since the asset's origination. Assets with no significant increase in credit risk since origination are denoted as 'stage 1 assets', assets which have suffered a significant increase in credit risk but have not defaulted are denoted as 'stage 2 assets' and assets that have defaulted are denoted as 'stage 3 assets'.

When assessing movement in credit risk, it is the change in the risk of default occurring that is key, not the change in the amount of any expected credit loss.

Assets are assessed on an individual basis with a forward looking assessment undertaken to support the recognition 'now' of future potential losses. While losses are provided for, assets are only formally written off when the Society no longer holds any expectation of subsequent receipt, typically at the conclusion of a negotiation or sale.

Where lifetime probabilities of default are not available on acquired books, the Society uses comparable customer credit ratings and loan to value information to assess a suitable provisions for that lending.

Acquired credit impaired books

Acquired credit impaired books (POCI) are recognised at their fair value on acquisition, with changes in credit risk reflected through a loss allowance going forward. These mortgages are treated as stage 3 borrowers and do not get transferred to stage 1 or 2 if credit risk reduces.

It is not the Group's practice to acquire POCI assets, the POCI assets held arose on the transfer of engagement from Manchester Building Society in 2023.

Residential and buy-to-let mortgages

Significant increase in credit risk since origination

At the application stage, a prospective borrower's credit risk is assessed. The Society does not lend to high risk customers but will lend to 'prime customers' who can fall under a range of 'application scores'- based on a wide variety of factors including affordability, credit history, committed monthly spend, etc. A borrower's application score gives a quantified assessment of borrower risk – a 'risk score'.

On a quarterly basis, the Group receives borrower credit scores from Experian, an industry leader in the provisioning of consolidated credit scoring information. This data is mapped internally to a new borrower risk score – allowing continuous assessment of the movement in borrower risk since origination.

Where a borrower's risk score is suitably consistent between origination and the reporting date, a borrower is categorised as a 'stage 1' borrower.

Where a borrower's risk score increases past pre-defined internal thresholds, but a borrower has not otherwise defaulted, the borrower is categorised as a 'stage 2' borrower. A borrower who has fallen into >1 month's arrears is automatically considered to be a stage 2 borrower.

A borrower who has defaulted, (assessed against a range of internal qualitative and quantitative criteria) is categorised as a 'stage 3' borrower. A borrower who has fallen into >3 month's arrears is automatically considered to be a stage 3 borrower.

Impairment calculation

The Society calculates for each mortgage exposure a forward view as to how likely that mortgage is to default at some point over its expected life. For stage 1 assets, the Society provides for losses resulting from events that may occur in the following 12 months. For stage 2 and stage 3 assets, the Society provides for losses that may occur at any time in the life of the mortgage.

12 months and lifetime expected credit losses are calculated by the Society as the discrete losses that would likely be incurred (considering mortgage exposure vs. the expected sale value of the mortgaged property) if a mortgage defaulted on any of a large range of future dates. Each discrete provision needs to be assigned a probability of default weighting in order to calculate one overall 'lifetime' expected credit loss. As such, a continuous forward view to the probability of default is calculated.

38. Credit risk: Impairment methodologies | Continued

Residential and Buy-to-let mortgages Continued

Key impairment model inputs, assumptions and estimation techniques

The Society calculates its probability of default as follows:

- The Society has undertaken a detailed assessment of more than 12 years of its internal credit risk data to determine the core factors that lead to borrower default.
- Default indicators identified included granting of forbearance, evidence of mortgage fraud, borrowers falling into > 3 months arrears, borrower insolvency or bankruptcy and voluntary repossession of property. These are used in the staging assessment above to assist in the classification of borrowers as stage 1, stage 2 or stage 3.
- The Society's assessment also considered 'wider' patterns of default, analysing historic borrower defaults by their maturity (how long a mortgage had been held by the Society), vintage (during which original time period the Society lent to a borrower) and considering 'exogenous' factors in play at the time of default (external factors including the interest rate environment, unemployment rates, UK (nominal) GDP, House Price Index, etc.).
- The exogenous, maturity and vintage (EMV) factors are used to derive point in time and forward looking probability of default curves: projecting historical information about defaults suffered under known 'EMV conditions' forward in combination with the Society forward views on the wider macro-economic environment (as this will influence the forward view on how exogenous factors may develop over time). In combination, these curves form the Society's forward looking probability of default curve, as calculated under the 'EMV' model.

The Society calculates its exposure at default (EAD) as follows:

- The Society projects mortgage balances forward to give an estimate of each borrower's mortgage balance over time. This factors in forecast interest additions and expected borrower payments alongside an estimate of the value of each borrower's property collateral throughout a long-term forecast. An adjustment is made to uplift the Society's exposure to borrowers to simulate a typical borrower default of 3 missed monthly payments plus typical fees associated with arrears.
- The output is a per-mortgage forward projection of mortgage balances.

The Society calculates its expected loss given default (LGD) as follows:

- The Society calculates a per-mortgage 'loss given default' (LGD), an estimate of the proportion of each mortgage loan exposure that is believed to be at risk if the borrower defaults on their obligation to repay the outstanding capital and interest and the property is subsequently possessed and sold.
- LGD is calculated as the probability of possession given the default of a borrower (PPD) which estimates the likelihood of possession following default multiplied by the expected shortfall on each mortgage: an estimation of the difference between the exposure at default (as discussed above) and the sale price of the property, net of relevant sales costs.

The Society calculates expected credit loss provisions as PD * EAD * LGD

- The Group calculates a final provision for each mortgage as the probability of default multiplied by the amount the Group expects to lose in the event of a default.
- As discussed above, this is not 'static' or a 'point in time' loss: the Group calculates PD, EAD and LGD across a continuous forward planning horizon. The final provision number is not a singular PD*EAD*LGD, it reflects the discounted overall expected loss that could be incurred over the life of each mortgage: a weighted average of multiple possible future loss events.

Multiple economic scenarios

IFRS 9 expects more than one scenario to be considered when calculating expected credit losses. The Society applies this principle by assessing the provisions required under four separate macro-economic forecasts. These macro-economic forecasts feed into the exogenous component of the Society's EMV models.

The Society runs:

- Base scenario – uses as a reference the average HM Treasury short term forecast for the UK economy over the first two years and then the Medium term forecasts for 2025 onwards
- Upside scenario – uses as a reference the most positive HM Treasury short and medium term forecasts for the UK economy
- Downside scenario – uses the most negative short and medium term HM Treasury forecasts, and
- Stress scenario: a severely negative scenario, developed with reference to the Bank of England's annual concurrent stress test scenarios for the largest UK banks and building societies.

The Society's final expected credit losses are the losses calculated under each discrete scenario, multiplied by a 'likelihood factor', or 'scenario weighting'. The weightings as at 31 December 2023 were as follows:

Scenario weightings	Upside	Base	Downside	Stress
2023	10%	40%	40%	10%
2022	10%	40%	40%	10%

38. Credit risk: Impairment methodologies | Continued

Key macro-economic information

The Society considers the following to be the key macro-economic and forward view inputs to its impairment models:

- UK unemployment rate
- UK house price index
- UK household income
- Bank of England base rate
- UK nominal gross domestic product

The Society's assessments as to which variables are key has not changed in the current year. Quarterly updates to the variables themselves to reflect the most recent market information have been reflected in the Society's impairment results.

Changes to economic scenarios

Against the uncertainty in the UK economy specifically the high inflationary environment and the expected cost of living crisis, the Group have developed new economic scenarios for the credit loss provision model, using the most recent industry data, forecasts and benchmarks available at the time of development.

The Society's IFRS 9 model is most sensitive to forecasted house price growth and unemployment, which are summarised below.

31 December 2023

Scenario	Economic measure	2023	2024	2025	2026	2027	2028
Upside	Unemployment rate, %	4.7	4.4	4.3	3.6	3.6	3.6
	House price growth, % pa	1.0	3.0	5.4	7.9	7.9	7.9
Base	Unemployment rate, %	4.8	5.5	5.0	5.0	4.8	4.8
	House price growth, % pa	(1.2)	(3.4)	0.7	3.9	6.4	6.4
Downside	Unemployment rate, %	4.9	6.2	5.5	5.4	5.4	5.4
	House price growth, % pa	(5.8)	(9.7)	(4.4)	1.0	3.9	3.9
Severe downside	Unemployment rate, %	5.2	8.5	8.0	7.4	6.8	6.8
	House price growth, % pa	(8.0)	(13.3)	(15.1)	(1.7)	0.7	0.7
Weighted*	Unemployment rate, %	4.9	6.0	5.4	5.3	5.1	5.1
	House price growth, % pa	(3.5)	(6.3)	(2.5)	2.6	5.0	5.0

31 December 2022

Scenario	Economic measure	2022	2023	2024	2025	2026	2027
Upside	Unemployment rate, %	3.5	4.2	3.6	3.6	3.6	3.7
	House price growth, % pa	12.0	(0.3)	(0.7)	(0.7)	4.8	2.0
Base	Unemployment rate, %	3.7	5.2	5.1	4.9	5.0	5.0
	House price growth, % pa	8.4	(4.9)	(3.2)	1.1	2.2	2.0
Downside	Unemployment rate, %	4.1	6.3	6.4	6.2	6.6	6.5
	House price growth, % pa	(6.8)	(9.5)	(8.4)	(4.0)	(3.7)	-
Severe downside	Unemployment rate, %	4.0	5.2	8.5	8.0	7.4	7.4
	House price growth, % pa	(3.6)	(7.1)	(19.4)	13.0	3.8	-
Weighted*	Unemployment rate, %	3.9	5.5	5.8	5.6	5.7	5.7
	House price growth, % pa	6.9	(7.5)	(6.6)	0.4	0.2	1.0

*ECLs are calculated for each loan in each scenario and are then probability weighted, so the weighted figure presented above is for illustrative purposes only.

38. Credit risk: Impairment methodologies | Continued

Post model adjustments

The Group recognises Post model adjustments when it identifies risks which are not addressed by its core impairment model. Arising risks are regularly considered by the Group Risk Committee and if necessary a Post model adjustment is recognised. The Committee has considered the risks associated with Climate Change and has not identified the need at present for a Post model adjustment to address that risk.

Fire safety and cladding risk

The Society has a small number of loans secured on properties with unsuitable cladding or other fire safety risks. A review of high risk properties has been performed and as the marketability of such properties is uncertain, a post model adjustment of £0.3m (2022: £0.5m) has been recognised.

Affordability

Whilst some banks have reported an uptick in arrears in 2023, the Society has not seen significant increases in non-performing loans in the current year. However, the significant increases in market interest rates over the previous two years result in significantly increased mortgage costs for borrowers on variable rate products, as well as for those whose fixed rate products mature. A post model adjustment of £0.9m (2022: £0.2m) has been booked to account for the risk that some borrowers whose borrowing costs have recently increased significantly or will do so in the following three years may struggle to afford their increased mortgage payments, based on information available to the Society.

The adjustment has been determined by classifying borrowers most at risk from increased mortgage interest rates as stage 2.

Commercial and other legacy books

Commercial and other legacy books are managed by the Commercial Lending department and includes properties secured on commercial property, buy-to-let customers which would now be outside of the Society's lending policy and loans secured on serviced apartments.

Significant increase in credit risk since origination

Specialist internal departments assess the risk of loss against the Group's legacy mortgage books on a case by case basis. Across the Society's highest risk exposures, this includes the annual completion of a tailored risk grade scorecard designed to encompass the key characteristics contributing to underlying risk.

Each of the scorecard risks are weighted to provide a final 'weighted risk score' for the loan, which categorises the loan in terms of likelihood of failure in a moderate or severe recessionary scenario. The risks that carry the highest weightings relate to tenant failure and serviceability.

Due to the low number of remaining commercial borrowers, all borrowers are closely monitored. All payments due are monitored on a real-time basis. In the event of a late payment, the position is reviewed immediately and appropriate action taken.

Where a borrower's risk score is suitably consistent between origination and the reporting date, a borrower is categorised as a 'stage 1' borrower.

Where a borrower's risk score increases past pre-defined internal thresholds, or where the specialist commercial lending department flags that credit risk has increased significantly, but a borrower has not otherwise 'defaulted', the borrower is categorised as a 'stage 2' borrower. A borrower who has fallen into over 1 month's, arrears is automatically considered to be a stage 2 borrower.

A borrower who has defaulted, (assessed against a range of internal qualitative and quantitative criteria) is categorised as a 'stage 3' borrower. A borrower who has fallen into over 3 month's arrears is automatically considered to be a stage 3 borrower.

Impairment calculation and key impairment model inputs

The calculation used to determine the provisions for legacy mortgage contracts is similar to that used for the prime residential book. Provisions are determined as probability of default (PD) * exposure at default (EAD) * loss given default (LGD). Please see explanations of each of these terms above.

The main difference between the prime residential and the legacy books consists in the way model inputs are determined. Due to the nature and the small size of the legacy books, the most significant model inputs are determined manually on a mortgage by mortgage basis or for small groups of mortgages.

Thus, for each mortgage contract, the Society uses its expertise, knowledge of the customer and the property, as well as its understanding of the sector to determine a forward view as to how likely that mortgage is to default at some point over its expected life for stage 2 mortgages, or due to events occurring in the following 12 months in the case of stage 1 accounts.

Loss given default is calculated based on a sector specific discount to the property's current indexed valuation. The discount reflects management's confidence about the sector's prospects in the current and projected future economic environment. The valuation takes into account the individual property's circumstance and the local market conditions.

Notes to the Accounts for the year ended 31 December 2023

38. Credit risk: Impairment methodologies | Continued

Economic scenarios

The provisions booked in respect to commercial and other legacy books are based on four economic scenarios, consistent with those scenarios used for residential provisioning.

The impairment provision is most sensitive to the borrower specific probability of default and the sector or property specific discount to indexed valuations at the time of disposal.

Future commercial property prices are highly uncertain and depend on the future prosperity of the UK in general, the individual sector the property can be used for, local economic conditions, the remaining duration of the current lease agreement, and the strength of the current tenant.

For loans secured on Legacy buy-to-let and Commercial properties, the following reductions/increases to valuations as at 30 November 2023 (the Society does not assume that valuations as at 31 December 2023 are materially different):

Sector	Upside	Base	Downside	Stress
Retail	10%-60%	20%-65%	30%-70%	60%-75%
Leisure	40%	50%	55%	65%
Residential	0%-60%	3%-70%	17%-80%%	34%-85%

A separate model has been designed to accommodate the specific circumstances of the Serviced Apartments portfolio, where property values are exposed to the profitability of the London hotel market. For this portfolio, the following (increases) / reduction to 2023 property values have been assumed:

Sector	Upside	Base	Downside	Stress
Serviced Apartments	(6)%	15%	30%	60%

Housing associations

Housing associations are monitored and managed by the commercial lending department with a range of management information used to assess the Society's ongoing exposure (which while of extremely high credit quality remains of significant size). An open dialogue is maintained with borrowers, with the Society appraised of their status, financial results and position, and numerous other financial and risk metrics. Quarterly management information is also reviewed including business plans. Lending is contingent on compliance with a number of financial commitments and covenants. The Society actively monitors for potential breaches of contractual positions.

Whilst the Society has never experienced any arrears or suffered losses, due to the scale and nature of long term exposures, borrowers' credit risk is measured through a bespoke risk grade scorecard which charts financial performance, covenant compliance, asset cover, stock location/demand and regulatory feedback.

Housing associations are historically a nil loss, nil default sector and are widely considered to be Government backed in the case of financial stress. The strength of a 'nil-default sector' should not be understated: housing association exposures have proven to be of the lowest credit risk throughout a volatile and extended recession period. The Society has no internal history of loss to draw on with respect to housing association exposures and cannot supplement its own data with loss data of its peers.

The combined effect of a well collateralized set of exposures, in an environment where the demand for housing is only increasing, with no history of default on the part of any borrower and a sincere expectation that any theoretical default would be addressed by the jurisdictional Government, leads to a conclusion that no material impairment of housing association exposures is plausibly expected.

Debt securities

The Society monitors the external credit ratings applied to its debt security investments on a daily basis.

The Society's debt security holdings are all of 'investment grade' or higher. The Society has therefore assessed that the credit risk on its debt security exposures has not increased significantly since initial recognition.

The Society's treasury risk department runs very severe annual stressed scenarios over the Society's residential mortgage backed securities (RMBS). The Society's policy to allow only investment grade and senior secured exposures leaves the Society highly insensitive to stressed scenarios as the 'waterfall structure' of RMBS payments ensures continued Society receipt of contractual cash flows even through significantly stressed scenarios.

The Society's covered bond exposures are similarly resilient: the Society is only exposed to regulated UK covered bonds with the regulations providing for the full segregation of covered bond asset pools from the bond issuer. The regulations introduce numerous investor protections including mandatory over-collateralisation, an extensive initial application process and regular regulatory stress testing and supervisory monitoring.

38. Credit risk: Impairment methodologies | Continued

Other financial assets

The Society has elected to take advantage of IFRS 9's practical expedient when assessing the accounting impairment applied to its trade receivables. Lifetime expected credit losses are therefore provided against all trade receivables. A provisions matrix approach, where provisions against receivables are calculated as an increasing percentage of the receivable balance, rising as receivables fall further overdue, has been adopted.

Assessment of the appropriate provision percentages has been made in line with the Group's historic trade receivable recovery. Where appropriate, forward looking views to recovery are also be incorporated.

Modifications

The Society grants forbearance to commercial borrowers in the form of extending the loan term on maturity, capitalising arrears as part of a wider exercise to get a borrower back on track with a revised debt repayment plan, and adjusting the interest rate to aid serviceability particularly where a fixed rate has expired. Generally the Society expects commercial investment loans to be repaid on maturity given the stated strategy of winding down the portfolio, but the Society will grant forbearance when this is also in the best interests of the Society, e.g. providing the borrower with more time to sell the security property following a tenant renewal.

The Society occasionally grants forbearance to other borrowers (in similar forms to commercial) where this is expected to improve the ultimate recovery on loans advanced.

The requirement to grant forbearance is considered an objective indicator that an asset has suffered a significant increase in credit risk since origination. As such, while forbearance may mitigate a selection of the Society's other indications of default, the granting of forbearance will not result in a preferential staging (stage 1 or 2) being applied to any forborne asset. While benefiting from any revised terms that forbearance may bring, an asset is not able to move to a lower staging. Only once forbearance has been lifted can an asset qualify for a reduced staging with the Society operating a 6 month 'curing' policy: deferring the reduction in staging until a 6 month period has passed in which no other indicators of default or heightened credit risk have presented themselves.

39. Credit risk: Expected credit losses

Provisions for expected credit losses have been elevated since 2020, as a result of the increased risk associated with the Covid-19 pandemic. Whilst the Society has seen low levels of realised losses on the mortgage book over recent years and continuing throughout 2023, the economic outlook continues to be uncertain. In particular inflation continued to rise and stay high longer than expected in 2022 and property values have fallen slightly in 2023. Provisions for expected credit losses against residential mortgages have therefore increased compared to the previous year.

Residential and buy-to-let

In 2023, provisions of £1.9m were booked on residential and buy-to-let mortgages newly originated and acquired in the year, reflecting the significant growth of the mortgage book, including some higher loan-to-value mortgages. In addition to the natural churn of the book, over the year, the Society succeeded in winding down a number of the more highly provisioned loans, overall resulting in a £0.6m reduction of the provision balance. Provisions of £0.3m at the year end relate to residential and buy-to-let mortgages of £73m acquired from Manchester Building Society on 1st July.

The Society provided £1.2m in respect to increases in credit risk for the mortgage book after origination. £0.7m of this relate to an increase of the cost of living allowances. This results in an increase in the mortgage loss provision coverage ratios from 0.09% to 0.13%.

Legacy books

The Society also successfully continued winding down its own legacy portfolios, seeing the redemption of, or capital repayments against some highly provisioned loans, reducing legacy provisions by £1.9m. Provisions of £0.3m were adding in the period relating to mortgages acquired from Manchester Building Society. A net increase in credit risk across legacy lending increase provisions by a further £0.2m.

39. Credit risk: Expected credit losses | Continued

Quantitative impairment impact

Reconciliation table	Loss allowance at 1 January 2023	Increases due to origination and acqusition	Decreases due to derecognition	Transition between stages	Changes in credit risk	Changes due to changes in the provisioning methodology	Loss allowance at 31 December 2023
	£000	£000	£000	£000	£000	£000	£000
Prime residential							
Stage 1	441.2	526.5	(191.8)	635.7	(706.0)	-	705.6
Stage 2	1,680.5	1,261.1	(63.4)	(763.5)	1,109.6	-	3,224.3
Stage 3	873.5	62.3	(255.0)	127.8	452.5	-	1,261.1
Total	**2,995.2**	**1,849.9**	**(510.2)**	**-**	**856.1**	**-**	**5,191.0**
Buy-to-let							
Stage 1	131.6	50.2	(20.6)	12.2	(58.6)	-	114.8
Stage 2	223.8	1.8	(5.9)	(47.0)	128.7	-	301.4
Stage 3	94.4	-	(94.2)	34.8	190.7	-	225.7
Total	**449.8**	**52.0**	**(120.7)**	**-**	**260.8**	**-**	**641.9**
Legacy buy-to-let							
Stage 1	39.6	-	-	-	13.0	-	52.6
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**39.6**	**-**	**-**	**-**	**13.0**	**-**	**52.6**
Purchased credit impaired lending							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	244.7	-	244.7
Total	**-**	**-**	**-**	**-**	**244.7**	**-**	**244.7**
Commercial							
Stage 1	39.2	118.5	(39.2)	(89.7)	-	-	28.8
Stage 2	529.6	-	(32.2)	89.7	(94.4)	-	492.7
Stage 3	1,826.9	-	(1,826.9)	-	-	-	-
Total	**2,395.7**	**118.5**	**(1,898.3)**	**-**	**(94.4)**	**-**	**521.5**
Housing association							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Serviced apartments							
Stage 1	11.8	-	(1.2)	(0.6)	4.1	-	14.1
Stage 2	439.4	-	(38.9)	63.8	157.9	-	622.2
Stage 3	303.3	-	-	(63.2)	103.5	-	343.6
Total	**754.5**	**-**	**(40.1)**	**-**	**265.5**	**-**	**979.9**
Policy loans							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total							
Stage 1	**663.4**	**695.2**	**(252.8)**	**557.6**	**(747.5)**	**-**	**915.9**
Stage 2	**2,873.3**	**1,262.9**	**(140.4)**	**(657.0)**	**1,301.8**	**-**	**4,640.6**
Stage 3	**3,098.1**	**62.3**	**(2,176.1)**	**99.4**	**980.4**	**-**	**2,075.1**
Total	**6,634.8**	**2,020.4**	**(2,569.3)**	**-**	**1,534.7**	**-**	**7,631.6**

Provisions of £0.2m (2022: £nil) above relate to loans and advances to customers made by a subsidiary company, secured on prime residential property.

39. Credit risk: Expected credit losses | Continued

Quantitative impairment impact

Reconciliation table	Gross exposure at 1 January 2023	Increases due to origination and acquisition	Decreases due to derecognition	Transition between stages	Changes due to change in provisioning methodology	Gross exposure at 31 December 2023
	£m	£m	£m	£m	£m	£m
Prime residential						
Stage 1	2,810.3	934.4	(418.2)	(78.1)	-	3,248.4
Stage 2	531.6	176.5	(39.7)	52.4	-	720.8
Stage 3	27.2	2.0	(4.3)	25.7	-	50.6
Total	**3,369.1**	**1,112.9**	**(462.2)**	**-**	**-**	**4,019.8**
Buy-to-let						
Stage 1	328.3	22.1	(23.9)	(33.9)	-	292.6
Stage 2	65.2	1.8	(5.0)	28.4	-	90.4
Stage 3	2.4	-	(1.3)	5.5	-	6.6
Total	**395.9**	**23.9**	**(30.2)**	**-**	**-**	**389.6**
Legacy buy-to-let						
Stage 1	14.0	0.3	(1.0)	-	-	13.3
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**14.0**	**0.3**	**(1.0)**	**-**	**-**	**13.3**
Purchased credit impaired lending						
Stage 1	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-
Stage 3	-	8.0	(0.3)	-	-	7.7
Total	**-**	**8.0**	**(0.3)**	**-**	**-**	**7.7**
Commercial						
Stage 1	3.1	3.6	(3.1)	(0.4)	-	3.2
Stage 2	2.7	-	(0.2)	0.4	-	2.9
Stage 3	4.8	-	(4.8)	-	-	-
Total	**10.6**	**3.6**	**(8.1)**	**-**	**-**	**6.1**
Housing association						
Stage 1	270.9	0.2	(59.2)	-	-	211.9
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**270.9**	**0.2**	**(59.2)**	**-**	**-**	**211.9**
Serviced apartments						
Stage 1	11.8	-	(1.6)	(0.5)	-	9.7
Stage 2	3.5	-	(0.3)	0.8	-	4.0
Stage 3	1.3	-	-	(0.3)	-	1.0
Total	**16.6**	**-**	**(1.9)**	**-**	**-**	**14.7**
Policy loans						
Stage 1	1.5	-	(0.3)	-	-	1.2
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**1.5**	**-**	**(0.3)**	**-**	**-**	**1.2**
Total						
Stage 1	**3,439.9**	**960.6**	**(507.3)**	**(112.9)**	**-**	**3,780.3**
Stage 2	**603.0**	**178.3**	**(45.2)**	**82.0**	**-**	**818.1**
Stage 3	**35.7**	**10.0**	**(10.7)**	**30.9**	**-**	**65.9**
Total	**4,078.6**	**1,148.9**	**(563.2)**	**-**	**-**	**4,664.3**

39. Credit risk: Expected credit losses | Continued

Quantitative impairment impact

Reconciliation table	Loss allowance at 1 January 2022	Increases due to origination and acqusition	Decreases due to derecognition	Transition between stages	Changes in credit risk	Changes due to changes in the provisioning methodology	Loss allowance at 31 December 2022
	£000	£000	£000	£000	£000	£000	£000
Prime residential							
Stage 1	392.3	259.9	(50.4)	337.0	(497.6)	-	441.2
Stage 2	1,019.8	1,129.7	(91.3)	(350.7)	(36.1)	9.1	1,680.5
Stage 3	1,368.3	19.0	(710.1)	13.7	191.7	(9.1)	873.5
Total	**2,780.4**	**1,408.6**	**(851.8)**	**-**	**(342.0)**	**-**	**2,995.2**
Buy-to-let							
Stage 1	479.4	17.7	(23.0)	(44.9)	(297.6)	-	131.6
Stage 2	110.5	26.5	(1.5)	49.0	32.3	7.0	223.8
Stage 3	154.5	-	(101.9)	(4.1)	52.9	(7.0)	94.4
Total	**744.4**	**44.2**	**(126.4)**	**-**	**(212.4)**	**-**	**449.8**
Legacy buy to-let							
Stage 1	7.3	-	-	-	32.3	-	39.6
Stage 2	966.6	-	(966.6)	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**973.9**	**-**	**(966.6)**	**-**	**32.3**	**-**	**39.6**
Commercial							
Stage 1	118.7	-	(79.5)	-	-	-	39.2
Stage 2	749.2	-	(150.9)	-	(68.7)	-	529.6
Stage 3	2,602.5	-	(672.2)	-	(103.3)	-	1,827.0
Total	**3,470.4**	**-**	**(902.6)**	**-**	**(172.0)**	**-**	**2,395.8**
Housing association							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Serviced apartments							
Stage 1	35.9	-	-	(0.4)	(23.7)	-	11.8
Stage 2	512.7	-	(28.3)	0.4	(45.4)	-	439.4
Stage 3	249.1	-	-	-	54.2	-	303.3
Total	**797.7**	**-**	**(28.3)**	**-**	**(14.9)**	**-**	**754.5**
Policy loans							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total							
Stage 1	**1,033.6**	**277.6**	**(152.9)**	**291.7**	**(786.6)**	**-**	**663.4**
Stage 2	**3,358.8**	**1,156.2**	**(1,238.6)**	**(301.3)**	**(117.9)**	**16.1**	**2,873.3**
Stage 3	**4,374.4**	**19.0**	**(1,484.2)**	**9.6**	**195.5**	**(16.1)**	**3,098.2**
Total	**8,766.8**	**1,452.8**	**(2,875.7)**	**-**	**(709.0)**	**-**	**6,634.9**

39. Credit risk: Expected credit losses | Continued

Quantitative impairment impact

Reconciliation table	Gross exposure at 1 January 2022	Increases due to origination and acquisition	Decreases due to derecognition	Transition between stages	Changes due to change in pro-visioning mehodology	Gross exposure at 31 December 2022
	£m	£m	£m	£m	£m	£m
Prime residential						
Stage 1	2,421.6	845.8	(415.6)	(41.5)	-	2,810.3
Stage 2	329.0	195.8	(35.1)	33.5	8.4	531.6
Stage 3	35.1	0.6	(8.1)	8.0	(8.4)	27.2
Total	**2,785.7**	**1,042.2**	**(458.8)**	**-**	**-**	**3,369.1**
Buy-to-let						
Stage 1	367.0	39.1	(49.3)	(28.5)	-	328.3
Stage 2	28.4	8.5	(1.3)	29.0	0.6	65.2
Stage 3	4.2	-	(0.7)	(0.5)	(0.6)	2.4
Total	**399.6**	**47.6**	**(51.3)**	**-**	**-**	**395.9**
Legacy buy-to-let						
Stage 1	15.7	-	(7.2)	5.5	-	14.0
Stage 2	12.0	-	(6.5)	(5.5)	-	-
Stage 3	-	-	-	-	-	-
Total	**27.7**	**-**	**(13.7)**	**-**	**-**	**14.0**
Commercial						
Stage 1	6.5	-	(3.4)	-	-	3.1
Stage 2	2.9	-	(0.2)	-	-	2.7
Stage 3	5.5	-	(0.7)	-	-	4.8
Total	**14.9**	**-**	**(4.3)**	**-**	**-**	**10.6**
Housing association						
Stage 1	323.4	-	(52.5)	-	-	270.9
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**323.4**	**-**	**(52.5)**	**-**	**-**	**270.9**
Serviced apartments						
Stage 1	12.6	-	(0.7)	(0.1)	-	11.8
Stage 2	3.6	-	(0.2)	0.1	-	3.5
Stage 3	1.3	-	-	-	-	1.3
Total	**17.5**	**-**	**(0.9)**	**-**	**-**	**16.6**
Policy loans						
Stage 1	1.6	-	(0.1)	-	-	1.5
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**1.6**	**-**	**(0.1)**	**-**	**-**	**1.5**
Total						
Stage 1	**3,148.4**	**884.9**	**(528.8)**	**(64.6)**	**-**	**3,439.9**
Stage 2	**375.9**	**204.3**	**(43.3)**	**57.1**	**9.0**	**603.0**
Stage 3	**46.1**	**0.6**	**(9.5)**	**7.5**	**(9.0)**	**35.7**
Total	**3,570.4**	**1,089.8**	**(581.6)**	**-**	**-**	**4,078.6**

The gross carrying values above reflect the Group's maximum exposure to credit risk as at 31 December 2023 and 31 December 2022 without taking into account any collateral held or provisions made against expected loss. The table above has been updated to remove effective interest rate adjustments from the underlying mortgage assets.

The Society did not purchase or originate any financial assets that were considered to be credit impaired during 2023 or 2022.

There has been no material movement in loss allowances held against other financial assets during 2023. Debt securities held remain of very high credit quality at 31 December 2023 and the Group is not exposed to any significant value or volume of overdue trade receivables.

No collateral is held against the Group's debt security or other financial asset exposures.

39. Credit risk: Expected credit losses | Continued

Risk exposures by credit grade for residential lending

Across the Society's prime residential and buy-to-let mortgage exposures, provisions may be disaggregated by detailed probability of default ranges as follows:

2023	Exposure			Provision			Provision Coverage Ratio		
Lifetime PD %	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	£m	£m	£m	£000	£000	£000	%	%	%
0.0% - 1.0%	22.0	-	-	-	-	-	-	-	-
1.0% - 2.0%	971.5	25.9	-	64.8	53.0	-	0.01	0.20	-
2.0% - 3.0%	1,422.6	48.6	-	197.8	154.3	-	0.01	0.32	-
3.0% - 4.0%	626.1	24.7	-	184.6	83.9	-	0.03	0.34	-
4.0% - 5.0%	396.1	21.8	-	179.3	82.4	-	0.05	0.38	-
5.0% - 6.0%	87.6	5.1	-	19.1	12.9	-	0.02	0.25	-
6.0% - 7.0%	1.8	0.1	-	0.1	-	-	0.01	-	-
7.0% - 8.0%	1.3	0.1	-	-	-	-	-	-	-
8.0% - 9.0%	2.2	2.4	-	0.1	0.7	-	-	0.03	-
9.0% - 10.0%	1.3	3.3	-	-	0.4	-	-	0.01	-
10.0% - 100.0%	106.9	527.5	40.4	141.6	3,162.2	678.9	0.13	0.62	1.68
Total*	**3,639.4**	**659.5**	**40.4**	**787.4**	**3,549.8**	**678.9**	**0.02**	**0.55**	**1.68**

*The table above excludes a total balance of £70.1m, with a provision of £0.8m for which no lifetime probability of default is available. This includes £66.4m of mortgages originating in Manchester Building Society, for which probability of default bands were estimated based on external credit data. There was no purchased credit impaired assets in 2022.

2022	Exposure			Provision			Provision Coverage Ratio		
Lifetime PD %	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	£m	£m	£m	£000	£000	£000	%	%	%
0.0% - 1.0%	125.4	2.5	-	4.9	13.3	-	-	0.53	-
1.0% - 2.0%	1,320.1	67.0	-	147.5	89.9	-	0.01	0.13	-
2.0% - 3.0%	1,167.8	55.1	-	204.1	91.2	-	0.02	0.17	-
3.0% - 4.0%	96.2	6.1	-	25.2	6.4	-	0.03	0.10	-
4.0% - 5.0%	339.8	7.8	-	124.0	34.8	-	0.04	0.45	-
5.0% - 6.0%	3.3	0.2	-	-	-	-	-	-	-
6.0% - 7.0%	1.6	-	-	0.1	-	-	0.01	-	-
7.0% - 8.0%	1.8	2.1	-	-	-	-	-	-	-
8.0% - 9.0%	0.5	2.1	-	-	0.2	-	-	0.01	-
9.0% - 10.0%	2.7	9.3	-	0.1	2.8	-	-	0.03	-
10.0% - 100.0%	79.3	444.6	26.8	66.9	1,665.7	235.5	0.08	0.37	0.88
Total*	**3,138.5**	**596.8**	**26.8**	**572.8**	**1,904.3**	**235.5**	**0.02**	**0.32**	**0.88**

*The table above excludes a total balance of £2.9m, with a provision of £0.7m, for which no lifetime probability of default is available.

Lifetime probability of default indicates the percentage change that a loan will trigger any of the stage 3 indicators, as detailed above, over the life of the loan and does not alone indicate a likeliness that the default will result in any significant loss to the Group.

The comparatively small provisions coverage reflects the capacity for property collateral to effectively mitigate the Society's ultimate exposure to loss.

Provisions against other financial assets are not considered to be sufficiently material to warrant further detailed analysis.

Provisions against commercial and legacy buy-to-let mortgages are not presented by risk grade as legacy exposures are assessed for impairment on an individual basis by the specialist commercial lending department.

39. Credit risk: Expected credit losses | Continued

Sensitivity of the credit loss provisions to key assumptions

The Group's mortgage provisions reflect probability weighted scenarios run across its mortgage books and are sensitive to the probabilities applied accordingly. Provisions are most sensitive to increases in the downside and stress scenarios probabilities:

2023	Residential and buy-to-let	Commercial, Legacy Buy-to -let and Credit impaired lending	Serviced apartments
Actual	5.9	0.8	1.0
Upside	2.9	0.5	0.1
Base	3.9	0.7	0.6
Downside	7.2	0.8	1.2
Stress	13.0	1.3	2.3

2022	Residential and buy-to-let	Commercial and Legacy Buy-to-let	Serviced apartments
Actual	3.4	2.4	0.8
Upside	1.5	1.0	-
Base	2.0	2.0	0.4
Downside	3.2	2.6	1.0
Stress	4.8	3.9	2.4

Equity release portfolio

The Society's equity release portfolio is accounted for at fair value. Its fair value includes any allowances for credit risk. Further information on the fair value of the equity release valuation, including sensitivity analysis is included in notes 13 and 32.

40. Credit quality

The Group's mortgage lending is all secured with a first charge registered against the collateral property. This includes the Group's equity release mortgages. The average loan to value of the Group's loan portfolios at 31 December 2023 is 66.0% (2022: 67.7%) as detailed in the Strategic Report. Quarterly regional Halifax House Price Index data is used to monitor the value of residential collateral. The contractual capacity to recover defaulted mortgage contracts through the sale of property collateral acts significantly to reduce the Group's risk of loss.

The credit quality of the Group's residential loans is considered to be excellent with the loans continuing to perform and arrears being below industry averages. At 31 December 2023 there were 43 loans in 12 months arrears or more with balances of £4.0m (2022: 32 loans totalling £4.0m).

The percentage of mortgages in arrears by 3 months or more remains at low levels for 2023. Excluding acquired mortgages in the period, the Society's arrears position has increased from 2022 but is in line with 2021 levels. The acquired mortgages have significantly higher arrears positions than the lending originated by the Society, but make up only £103m of total lending, so the majority of the increase in arrears in 2023 relates to these mortgages.

Overall by number of loans in arrears we have seen an increase of 0.35% to 0.87%, and by balance we have seen an increase of 0.28% to 0.65%.

The Group's non-impaired commercial loan assets are also considered to be of a good credit quality.

Further specifics by type of mortgage lending are as follows:

Prime residential mortgage book

The Prime residential mortgage book consists of traditional residential loans. No sub-prime or self-certification lending has been undertaken.

Loan to valued (indexed)	2023 £m	2023 %	2022 £m	2022 %
<70%	**2,274.6**	**56.6**	2,241.6	66.6
70% - <80%	**673.8**	**16.8**	493.0	14.6
80% - <90%	**592.8**	**14.7**	405.6	12.0
>90%	**478.6**	**11.9**	228.9	6.8
	4,019.8	**100.0**	3,369.1	100.0

Payment status	2023 £m	2023 %	2022 £m	2022 %
Not past due	**3,956.9**	**98.4**	3,340.7	99.2
Past due up to 3 months	**36.9**	**0.9**	18.0	0.5
3 to 6 months past due	**12.8**	**0.3**	4.5	0.1
Over 6 months past due	**12.9**	**0.3**	5.9	0.2
In possession	**0.3**	**0.1**	-	-
	4,019.8	**100.0**	3,369.1	100.0

The Society continued to experience a low level of possessions on residential loans and Law of Property Act receiver appointments. At the end of 2023 the Society had three possession properties in relation to owner occupied loans, (2022: no possession properties).

Against past due and possession cases, £123.5m (2022: £65.7m) collateral is held. No loans that would be past due or impaired have had their terms renegotiated.

The Society offers a range of forbearance measures to customers such as payment breaks and reductions, transfers to interest only products and other support. The Society granted forbearance against 157 residential loans in 2023 (2022: 91), with no alteration made to the contractual rates of interest and balances totalling £22.3m at 31 December 2023 (2022: £7.7m), this did not lead to any modification gain or loss a result of short-term forbearance granted. Provisions of £0.4m (2022: £0.1m) are held against residential mortgages that were granted forbearance during the year.

The increase in indexed loan to value in the Prime residential mortgage book is due to reductions in house prices since the origination of the mortgages retail buy-to-let mortgage book.

40. Credit quality | Continued

Retail buy-to-let mortgage book

The Retail Buy-to-let (BTL) mortgage book consists of buy-to-let to individuals <£1m.

Loan to valued (indexed)	2023 £m	2023 %	2022 £m	2022 %
<70%	**312.4**	**80.2**	363.3	91.8
70% - <80%	**68.8**	**17.7**	29.7	7.5
80% - <90%	**7.8**	**2.0**	2.9	0.7
>90%	**0.6**	**0.1**	-	-
	389.6	**100.0**	395.9	100.0

Payment status	2023 £m	2023 %	2022 £m	2022 %
Not past due	**383.0**	**98.2**	392.1	99.0
Past due up to 3 months	**3.2**	**0.8**	2.1	0.5
3 to 6 months past due	**2.6**	**0.7**	1.2	0.3
Over 6 months past due	**0.7**	**0.2**	0.4	0.1
In possession / LPA receivership	**0.1**	**0.1**	0.1	0.1
	389.6	**100.0**	395.9	100.0

At the end of 2023 the Society had one BTL possession properties, whose exposure was being managed by a Law of Property Act receiver (2022: No properties).

Against past due and possession cases, £13.6m (2022: £6.5m) collateral is held.

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

The Society offers a range of forbearance measures to customers such as payment breaks and reductions, transfers to interest only products and other support. The Society granted forbearance against one retail BTL loan in 2023 (2022: One loan). With no alteration made to the contractual rates of interest and balances totalling £0.2m at 31 December 2023 leading to no modification gain or loss recorded as a result of short-term forbearance granted. £0.1m provisions are held against BTL mortgages that were grated forbearance during the year.

Notes to the Accounts for the year ended 31 December 2023

40. Credit quality | Continued

Equity release mortgages denominated in £

The below analysis includes equity release mortgage lending but excludes the fair value adjustments detailed in note 37.

Loan to valued (indexed)	2023 £m	2023 %	2022 £m	2022 %
<70%	**147.1**	**95.5**	157.3	98.0
70% - <80%	**3.4**	**2.2**	2.3	1.4
80% - <90%	**1.0**	**0.7**	0.7	0.4
>90%	**2.5**	**1.6**	0.3	0.2
	154.0	**100.0**	160.6	100.0

Payment status	2023 £m	2023 %	2022 £m	2022 %
Not past due	**152.1**	**98.8**	160.6	100.0
Over 6 months past due	**0.1**	**0.1**	-	-
In possession / LPA receivership	**1.8**	**1.1**	-	-
	154.0	**100.0**	160.6	100.0

Equity release mortgages denominated in €

The below analysis includes equity release mortgage lending but excludes the fair value adjustments detailed in note 37.

Loan to valued (indexed)	2023 €m	2023 %	2022 €m	2022 %
<70%	**3.4**	**7.1**	-	-
70% - <80%	**5.2**	**10.9**	-	-
80% - <90%	**6.2**	**13.0**	-	-
>90%	**32.9**	**69.0**	-	-
	47.7	**100.0**	-	-

Payment status	2023 €m	2023 %	2022 €m	2022 %
Not past due	**47.7**	**100.0**	-	-
	47.7	**100.0**	-	-

Legacy lending books

The legacy lending books comprise the following:

	2023 £m	2023 %	2022 £m	2022 %
Loans secured on commercial property	**6.1**	**2.5**	10.6	3.4
Loans secured on Serviced Apartments	**14.7**	**6.0**	16.6	5.3
Specialist buy-to-let	**13.3**	**5.4**	14.0	4.5
Loans to Housing Associations	**211.9**	**86.1**	270.9	86.8
	246.0	**100.0**	312.1	100.0

40. Credit quality | Continued

Loans secured on commercial property

Loan to Value (unindexed)	2023 £m	2023 %	2022 £m	2022 %
<70%	4.0	65.6	5.8	54.7
70% - <80%	0.8	13.1	3.5	33.0
80% - <90%	0.6	9.8	-	-
>90%	0.7	11.5	1.3	12.3
	6.1	100.0	10.6	100.0

Payment status	2023 £m	2023 %	2022 £m	2022 %
Not past due	6.1	100.0	10.6	100.0
	6.1	100.0	10.6	100.0

Diversification by industry type	2023 £m	2023 %	2022 £m	2022 %
Retail	2.5	41.0	8.5	80.2
Office	0.7	11.5	-	-
Industrial	-	-	0.5	4.7
Hotel / leisure	2.6	42.6	1.6	15.1
Other	0.3	4.9	-	-
	6.1	100.0	10.6	100.0

At 31 December 2023, the Society had no commercial investment loans in arrears of 3 months or more (2022: none). One loan that would be past due or impaired had their terms renegotiated.

The Society had no commercial loans in possession or subject to LPA receivership at the end of 2023 (2022: none).

The Society did not grant forbearance against any loans secured on commercial property in 2023 (2022: none).

Loans secured on Serviced Apartments

Loan to Value (indexed)	2023 £m	2023 %	2022 £m	2022 %
<70%	2.1	14.3	2.6	15.7
70% - <80%	7.1	48.3	8.4	50.6
80% - <90%	5.5	37.4	5.6	33.7
	14.7	100.0	16.6	100.0

Payment status	2023 £m	2023 %	2022 £m	2022 %
Not past due	14.1	95.9	16.1	97.0
LPA receivership	0.6	4.1	0.5	3.0
	14.7	100.0	16.6	100.0

Against cases where an LPA appointment has been made, £0.6m collateral is held.

The Society did not grant forbearance against any loans for serviced apartments during the year.

40. Credit quality | Continued

Legacy buy-to-let

The legacy residential mortgage book consists of residential investment loans, loans secured on buy-to-let properties to corporates, and loans secured on buy-to-let properties to individuals, where the Society's exposure to the borrower is larger than £1m.

Loan to Value (indexed)	2023 £m	2023 %	2022 £m	2022 %
<70%	13.3	100.0	14.0	100.0
	13.3	100.0	14.0	100.0

Payment status	2023 £m	2023 %	2022 £m	2022 %
Not past due	13.3	100.0	14.0	100.0
	13.3	100.0	14.0	100.0

There are no past due or possession cases in 2023. For 2023, no collateral (2022: £nil) was held against past due and in possession cases.

At 31 December 2023, the Society had no specialist buy-to-let loans in arrears of 3 months or more (2022: none). No loans that would be past due or impaired have had their terms renegotiated.

The Society did not grant forbearance against any loans secured on specialist buy-to-let property in 2023 (2022: £nil).

Loans to Housing Associations

Loan to Value (indexed)	2023 £m	2023 %	2022 £m	2022 %
<70%	98.1	46.3	178.5	65.9
70% - <80%	92.9	43.8	92.4	34.1
80% - <90%	20.9	9.9	-	-
	211.9	100.0	270.9	100.0

Loans to Housing Associations are secured on residential property. No Housing Association loans are past due or impaired.

Loans purchased credit impaired (POCI)

The below analysis shows the status of the Group's POCI loans and how they are distributed across loan to value bands.

	2023 £m	2023 %	2022 £m	2022 %
Gross exposure	11.5	100.0	-	-
Fair value adjustment on acquisition	(3.8)	(33.0)	-	-
	7.7	67.0	-	-

Loan to Value (indexed)	2023 £m	2023 %	2022 £m	2022 %
<70%	3.0	39.0	-	-
70% - <80%	-	-	-	-
80% - <90%	2.0	26.0	-	-
>90%	2.7	35.0	-	-
	7.7	100.0	-	-

Payment status	2023 £m	2023 %	2022 £m	2022 %
Not past due	4.9	63.6	-	-
Past due up to 3 months	0.2	2.6	-	-
3 to 6 months past due	0.5	6.5	-	-
Over 6 months past due	1.3	16.9	-	-
In possession / LPA receivership	0.8	10.4	-	-
	7.7	100.0	-	-

Loans purchased credit impaired relate to legacy residential and commercial lending which was acquired credit impaired as part of the merger with Manchester Building Society. The lending is outside of the Group's current lending policy.

40. Credit quality | Continued

Geographical split of lending

The table below provides a breakdown of the geographic concentration of the Society's mortgage portfolio as at 30 June 2023. The Society's mortgage portfolio is diversified across the UK.

Region	Prime Residential £m	Buy-to-let £m	Total £m	Total %
North East	464.6	6.3	470.9	10.70
East of England	326.1	40.7	366.8	8.30
East Midlands	281.6	14.3	295.9	6.70
Northern Ireland	0.8	-	0.8	-
North West	456.2	18.9	475.1	10.8
Scotland	459.7	5.0	464.7	10.5
South East	532.1	76.3	608.4	13.8
South West	310.8	23.5	334.3	7.6
Wales	128.8	4.3	133.1	3.0
West Midlands	278.5	15.5	294.0	6.7
Yorkshire	345.7	10.9	356.6	8.1
London	433.8	173.8	607.6	13.8
Other	1.1	0.1	1.2	-
Total	**4,019.8**	**389.6**	**4,409.4**	**100.0**

41. Liquidity risk

Liquidity risk is the risk that the Group has insufficient funds to meet its obligations as they fall due. This risk is managed on a Group basis (including all subsidiary entities) with day-to-day responsibility delegated to the Group's treasury department with oversight by the Assets and Liabilities Committee, the Group Risk Committee and the Board.

Management of liquidity risk

The Group ensures it holds sufficient quality and quantity of liquidity to remain liquid after a severe but plausible stress. Cash flow forecasts are used to forecast liquidity, ensuring future compliance with limits set by the Board. Wherever appropriate, the Group ensures it takes any necessary steps to ensure it has access to any available Bank of England Schemes designed to support financial institutions.

Liquidity resources

The Group's liquidity resources include funds in cash accounts held in the Bank of England reserve account and other easily marketable assets and contingent liquidity. The Group monitors compliance against Liquidity Coverage Ratio (LCR) requirements on a weekly basis above the regulatory minimum of 100% throughout the year.

41. Liquidity risk | Continued

Contractual maturity profile of financial assets and liability

The table below analyses the contractual cash flows of financial assets and financial liabilities based on the remaining contractual life to the maturity date. The contractual maturity will differ to actual payments; for example, most on demand customer deposits will be repaid later than the earliest date on which repayment can be requested and mortgages may be repaid ahead of their contractual maturity.

At 31 December 2023

	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Assets						
Cash and balances with the bank of England	525.5	-	-	-	-	525.5
Loans and advances to credit institutions	109.8	-	-	-	-	109.8
Debt securities	-	99.2	203.8	264.8	47.2	615.0
Derivative financial instruments	-	0.2	1.6	38.8	10.3	50.9
Loans and advances to customers	-	60.7	191.7	845.0	3,762.3	4,859.7
Other financial assets	-	5.7	0.3	-	-	6.0
Total financial assets	**635.3**	**165.8**	**397.4**	**1,148.6**	**3,819.8**	**6,166.9**
Liabilities						
Liabilities	4,282.8	125.9	320.4	285.2	-	5,014.3
Due to members	145.7	88.0	26.1	2.5	-	262.3
Due to other customers	-	14.9	164.1	359.7	-	538.7
Deposits from credit instruments	-	0.2	0.2	11.8	49.5	61.7
Derivative financial investments	-	3.6	0.8	2.5	4.0	10.9
Other financial liabilities	**4,428.5**	**232.6**	**511.6**	**661.7**	**53.5**	**5,887.9**
Total financial liabilities						
Net liquidity gap (contractual)	**(3,793.2)**	**(66.8)**	**(114.2)**	**486.9**	**3,766.3**	**279.0**

41. Liquidity risk | Continued

At 31 December 2022

	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Assets						
Cash and balances with the Bank of England	421.9	-	-	-	-	421.9
Loans and advances to credit institutions	17.4	87.4	-	-	-	104.8
Debt securities	1.6	63.1	93.8	268.6	5.9	433.0
Derivative financial instruments	-	0.8	9.0	63.5	17.1	90.4
Loans and advances to customers	2.9	35.6	86.1	469.2	3,665.7	4,259.5
Other financial assets	-	6.5	-	-	-	6.5
Total financial assets	**443.8**	**193.4**	**188.9**	**801.3**	**3,688.7**	**5,316.1**
Liabilities						
Due to members	3,100.4	495.1	295.8	327.4	2.1	4,220.8
Due to other customers	48.6	92.9	34.3	-	-	175.8
Deposits from credit institutions	3.6	57.9	0.5	515.1	-	577.1
Derivative financial instruments	-	-	0.2	2.7	51.8	54.7
Other financial liabilities	-	2.4	0.8	2.7	1.2	7.1
Total financial liabilities	**3,152.6**	**648.3**	**331.6**	**847.9**	**55.1**	**5,035.5**
Net liquidity gap (contractual)	**(2,708.8)**	**(454.9)**	**(142.7)**	**(46.6)**	**3,633.6**	**280.6**

Liquidity risk outlook

The Group has £521.7m (2022: £518m) of TFS and TFSME drawings which are due to be repaid during 2024. The Group's plans to replace these funds are well advanced and have seen the Group extend its range of wholesale funding.

42. Capital risk

Capital risk is the risk that the Group is or becomes inadequately capitalised to address the risks to which it is exposed.

Management of capital

Day to Day capital management is delegated to the Chief Financial Officer with oversight by the Assets and Liabilities Committee, the Group Risk Committee and the Board.

The Society assesses its capital position and risks through an annual Internal Capital Adequacy Assessment Process (ICAAP) in line with the regulatory requirements. The ICAAP considers the key capital risks and the amount of capital it should retain. These requirements are assessed against the current position and throughout any forward planning. The PRA sets and monitors capital requirements for the Group. Capital adequacy is measured by comparing both current and forecast capital resources to capital requirements.

Capital stress testing is performed as part of the ICAAP and makes sure that the Group is resilient to a range of stresses, assessing whether capital requirements would be met under severe but plausible stress scenarios and considers what mitigating actions are available to management.

The Group's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain the future growth of the Society. The Group has complied with all externally imposed capital requirements and internally set limits throughout the year.

43. Transfer of engagements

On 1 July 2023 the Society merged with Manchester Building Society ("MBS") via a transfer of engagement from Manchester Building Society to Newcastle Building Society under section 42B(3)(b) of the Building Societies Act. The merger was approved by both boards on 23 March 2023 and confirmed by the PRA on 7 June 2023.

As Manchester's regulatory capital fell below regulatory minimum requirements in 2013, Manchester's strategy has been to reduce its risks and conserve regulatory capital. It was not able to undertake any further lending. Its board identified that it was in the best interests of members to merge with another building society so it is able to offer more choice and value to its members especially during a period of increasing and volatile interest rates.

The merger enhances Newcastle Building Society's growth strategy providing it with greater resilience and additional capital strength.

The assets and liabilities acquired on transfer of engagement and the associated accounting adjustments and notes, are set out below.

	Note	Cessation accounts[1] £000	Reclassifiation[2]	Fair value adjustments £000	Provisional Fair values £000
Assets					
Cash and balances with the Bank of England		38,515	-	-	38,515
Loans and advances to credit institutions		4,151	950	-	5,101
Derivative financial instruments		571	-	-	571
Loans and advances to customers	3	116,795	-	(7,941)	108,854
Intangible assets		27	-	-	27
Property, plant and equipment		100	-	-	100
Non-current assets held for sale		510	-	-	510
Current tax assets		82	-	-	82
Deferred tax	4	-	-	4,111	4,111
Other assets		1,452	(950)	-	502
Total assets		**162,203**	**-**	**(3,830)**	**158,373**
Liabilities					
Due to members	5	120,827	-	(117)	120,710
Due to other customers		5,756	-	-	5,756
Derivative financial instruments		204	-	-	204
Other liabilities	6	1,614	-	144	1,758
Subscribed capital	6	5,000	9,788	37	14,825
Total liabilities		133,401	9,788	64	143,253
Subscribed capital	6	9,788	(9,788)	-	-
Total members' interests and liabilities		**143,189**	**-**	**64**	**143,253**
Fair value of net assets					15,120
Less deemed purchase consideration	7				15,120
Goodwill					-

43. Transfer of engagements | Continued

Notes and summary of adjustments

1. The cessation accounts have been prepared in accordance with International Financial Reporting Standards (IFRS), which is the applicable financial reporting standard. The accounts have been prepared for the period 1 January 2023 to 30 June 2023.
2. The classification adjustment relates to aligning asset and liability classifications to the accounting policies of Newcastle Building Society.
3. The fair value adjustment in relation to loans and advances to customers can be analysed as follows:

	Cessation accounts £000	Fair value adjustments £000	Provisional Fair values £000
Spanish equity release portfolio	27,325	(1,335)	25,990
UK mortgages purchased or originated credit impaired	11,783	(3,820)	7,963
Performing UK mortgages	77,687	(2,786)	74,901
	116,795	**(7,941)**	**108,854**

Spanish equity release portfolio: The adjustment results from differences in the methodology for determining their fair value. UK mortgages accounted for as purchased or originated credit impaired: The adjustment results from applying the Society's provisioning policies and adjusting the effective interest rate to reflect current market rates. Performing UK mortgages: The adjustment results from adjusting the effective interest rate to reflect their fair value at the merger date, taking into account market interest rates and credit quality.

4. Deferred tax assets recognised in relation to the merger can be analysed as follows:

	Cessation accounts £000	Fair value adjustments £000	Provisional Fair values £000
Unrealised losses arising pre 2017	-	1,059	1,059
Deferred tax assets relating to historic changes in accounting policy	-	1,076	1,076
Deferred tax on fair value adjustments	-	1,976	1,976
	-	**4,111**	**4,111**

Unrealised losses arising pre 2017: Retained tax losses that can be relieved against future profits of the NBS Group post merger. This excludes losses arising after April 2017 and losses arising in the subsidiary MBS (Mortgages) Limited. See note 19 for details.
Deferred tax assets relating to historic changes in accounting policies: Deferred tax relating to debits taking to retained earnings as a result of changes in accounting policies. For tax purposes, these have to be recognised over a defined period and are available to be utilised in the combined entity.
Deferred tax on fair value adjustments: The net fair value movement recognised in reserves on the merger (excluding deferred tax recognised) is brought into the scope of corporation tax over a defined period. This is recognised as a deferred tax asset.

5. The fair value adjustment reflects the difference in interest rates offered to Members deposits on fixed rate products between origination and the merger date.
6. The fair value of the subscribed capital of MBS is the market price of those instruments on the merger date. Other liabilities includes accrued interest on these instruments which has been recognised following their reclassification as liabilities.
7. The combination of the two societies did not involve the transfer of any cash consideration. In accordance with IFRS3, an imputed consideration has been calculated representing the fair value of the member's interests transferred. The value of consideration transferred has been calculated by measuring the fair value of the business of Manchester. As MBS were not actively lending, the fair value of the business is considered equivalent to the net assets transferred. This resulted in a value of £15,120,000 being attributed to the imputed consideration, resulting in no goodwill being recognised on merger.
8. The fair values above are provisional as there is significant estimation in the calculation of the fair value of the acquired loans and advances to customers. The Society will adjust the fair value should any relevant information become available during the measurement period which ends in accordance with IFRS3, one year after the acquisition.
9. Included within Cash and balances with the Bank of England and Loan and advances to credit institutions are cash and cash equivalents of £42.7m.

The income and expenditure for MBS for the period 1 January 2023 to 30 June 2023 is shown below for information purposes only and is not included in these financial statements of Newcastle Building Society or the Group.

43. Transfer of engagements (Continued)

	Unaudited £'000
Net interest receivable	3,566
Administrative expenses	(5,027)
Depreciation and amortisation	(49)
Expected credit and fair value losses	(750)
Loss before tax for the period	(2,260)
Taxation	82
Loss for the period	(2,178)

Following the transfer of engagements, Manchester Building Society ceased to exist, being incorporated within Newcastle Building Society as such it is not possible to separate its results following 30 June 2023.

44. Country-by-Country Reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations.

Newcastle Building Society is the biggest building society in the North East and the 7th largest in the UK with assets c. £6.2 billion (2022: £5.3 billion).

As a mutual organisation, the Society's primary focus is its Members and it aims to provide mortgage, savings and insurance products supported by excellent customer service. Additionally, the Society offers financial advice, as an appointed representative of Openwork, through Newcastle Financial Advisers Limited. Outsourcing of financial services and Information Technology services are provided through Newcastle Strategic Solutions Limited.

The consolidated financial statements of the Newcastle Building Society Group include the audited results of the Society and its subsidiary undertakings. The consolidated entities, their principal activities and countries of incorporation, are detailed in Note 15 to the Annual Report and Accounts.

Basis of preparation

a) Country

All of the consolidated entities were incorporated in the United Kingdom, with the exception of Newcastle Mortgage Loans (Jersey) Limited, which is incorporated and operates with no employees in Jersey.

b) Total operating income and profit before tax

Total operating income and profit before tax are compiled from the Newcastle Building Society Group consolidated financial statements for the year ended 31 December 2023, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). Total operating income represents the sum of the Group's net interest income, other income, other charges and gains less losses on financial instruments and hedge accounting. Group total operating income was £137.9m (2022: £120.6m), the proportion not arising from UK-based activity is not considered material for the purpose of this disclosure.

c) Corporation tax paid

Corporation tax paid represents the net cash taxes paid to the tax authority, HMRC, during 2023. Corporation tax paid is reported on a cash basis and will normally differ from the tax expense recorded for accounting purposes due to:

- Timing differences in the accrual of tax charge. The Group makes quarterly payments on account to HMRC. Payments are made in July, October, January, and April. As the Group's accounting year runs from January to December, payments made in any financial year will not align with tax due in that financial year.
- The Society brought forward into 2023 tax losses from previous years that were used to extinguish a portion of its taxable profits in 2023.
- Other differences between when income and expenses are accounted for under IFRSs and when they become taxable.

During 2023 the Group paid £7.0m in corporation tax (2022: £4.6m).

d) Full-time equivalent employees ("FTEs")

The average number of Group full time equivalent employees was 1,547.3 (2022: 1,297.4) all of which were employed in the UK.

e) Group profit before tax

Group profit before tax was £29.1m (2022: £32.6m) with tax a charge of £7.0m (2022: £6.0m). The profit before tax and the tax charged relates to UK-based activity and the UK tax jurisdiction.

45. Prior Year Adjustments

Between 2002 and 2008, the Society purchased an equity release mortgage portfolio from a third party that was serviced and administered by the third party. Administration of this legacy book was taken in-house in the current financial year. As part of this, management identified that contingent consideration was included in the administration costs that were being paid to the third party which the Society had accounted for as an executory contract, recognising an expense as it was incurred. The deferred consideration, which continues to be due to the third party at the year end, should have been accounted for as a separate derivative liability at fair value through profit and loss. The accounts have been restated to correctly reflect this accounting for the deferred consideration liability. The adjustment reduces retained earnings in 2022 by £1.7m. Before adopting fair value accounting for the equity release book in 2021, the book was held at amortised cost, and the accounting value of the equity release book should have reflected the deferred consideration in accordance with effective interest rate accounting.

Income Statement and Other Comprehensive Income	Group			Society		
	2022 as presented £m	Adjustment £m	2022 as adjusted £m	2022 as presented £m	Adjustment £m	2022 as adjusted £m
Fair value gains less losses on financial instruments and hedge accounting	(1.1)	0.9	(0.2)	1.0	0.9	1.9
Operating profit before impairments and provisions	**30.5**	**0.9**	**31.4**	**30.5**	**0.9**	**31.4**
Profit for the year before taxation	**31.7**	**0.9**	**32.6**	**31.8**	**0.9**	**32.7**
Corporation tax	(5.7)	(0.3)	(6.0)	(6.3)	(0.3)	(6.6)
Profit after taxation for the financial year	**26.0**	**0.6**	**26.6**	**25.5**	**0.6**	**26.1**
Total comprehensive income for the year	**21.8**	**0.6**	**22.4**	**21.3**	**0.6**	**21.9**

Balance Sheet	Group			Society		
	2022 as presented £m	Adjustment £m	2022 as adjusted £m	2022 as presented £m	Adjustment £m	2022 as adjusted £m
Deferred tax assets	5.0	0.7	5.7	5.0	0.7	5.7
Current tax asset	0.1	(0.1)	-	0.4	(0.2)	0.2
Total assets	**5,312.5**	**(1.6)**	**5,310.9**	**5,300.5**	**(1.7)**	**5,298.8**
Derivative financial instruments	52.5	2.2	54.7	52.5	2.2	54.7
Current tax liabilities	-	0.1	0.1	-	-	-
Reserves	245.9	(1.7)	244.2	237.3	(1.7)	235.6
Total Liabilities and equity	**5,312.5**	**0.6**	**5,313.1**	**5,300.5**	**0.5**	**5,301.0**

45. Prior Year Adjustments | Continued

Balance Sheet	Group			Society		
	2021 as presented £m	Adjustment £m	2021 as adjusted £m	2021 as presented £m	Adjustment £m	2021 as adjusted £m
Loans and advances to customers	3,794.5	(0.1)	3,794.4	3,793.6	(0.1)	3,793.5
Deferred tax assets	4.6	0.8	5.4	4.2	0.8	5.0
Total assets	**4,894.4**	**0.7**	**4,895.1**	**4,887.8**	**0.7**	**4,888.5**
Derivative financial instruments	147.6	3.0	150.6	146.7	3.0	149.7
Current tax liabilities	0.6	-	0.6	0.3	-	0.3
Reserves	224.1	(2.3)	221.8	216.0	(2.3)	213.7
Total Liabilities and equity	**4,894.4**	**0.7**	**4,895.1**	**4,887.8**	**0.7**	**4,888.5**

Statement of Movements in Members Interest	Group			Society		
	2022 as presented £m	Adjustment £m	2022 as adjusted £m	2022 as presented £m	Adjustment £m	2022 as adjusted £m
General reserves as at 1 January 2022	222.2	(2.3)	219.9	214.1	(2.3)	211.8
Profit for the year	26.0	0.6	26.6	25.5	0.6	26.1
General reserves as at 31 December 2022	**248.2**	**(1.7)**	**246.5**	**239.6**	**(1.7)**	**237.9**

Stokesley, North Yorkshire

Annual Business Statement
for the year ended 31 December 2023

1. Statutory percentages

	2023 %	Statutory %
Lending limit	**1.1**	25.00
Funding limit	**13.8**	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986. Lending limit is calculated excluding fair value adjustments for derivative values.

The lending limit measures the proportion of business assets not in the form of loans secured on residential property.

Business assets are the total assets of the Group plus allowances for losses on loans and advances less liquid assets, investment properties and property, plant and equipment as shown in the Group Balance Sheet.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are fully secured on residential property and are funded substantially by its Members.

2. Other percentages

As a percentage of shares and borrowings:	2023 %	2022 %
Gross capital	**5.52**	5.35
Free capital	**4.85**	4.65
Liquid assets	**21.50**	19.29
Result for the year as a percentage of mean total assets	**0.38**	0.51
Management expenses as a percent age of mean total assets	**1.85**	1.75

The above percentages have been prepared from the Annual Accounts.

Gross capital represents the aggregate of the general reserve, fair value through other comprehensive income 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 but exclude liquid assets pledged under repo agreements and includes collateral.

Shares and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Management expenses represent the aggregate of administrative expenses and depreciation, and includes expenses relation to the Group's Solutions business.

Mean total assets are the average of the 2023 and 2022 total assets.

Directors' other directorships and other interests

Directors at 31 December 2023	Date of Birth	Date of Appointment	Business Occupation
GA Bennett MA	**10.02.61**	**24.04.19**	**Non-Executive Director**
Other Directorships:	Darkwood Croft Management Company Limited, MAM Properties Limited, MBS (Mortgages) Limited		
RTS Campbell	**24.04.78**	**01.06.24**	**Non-Executive Director**
Other Directorships:	Ignite Consulting Trustee Limited , New Vantage Consulting Limited, Lay Member, (Independent Member, Resources Committee) - Joseph Rowntree Foundation, Visiting Fellow of Nottingham Business School, Fellow of RSA (The Royal Society for the Encouragement of Arts, Manufactures and Commerce), Deloitte LLP- client of New Vantage Consulting Limited		
MJ Faull FCCA	**24.11.60**	**23.08.21**	**Non-Executive Director**
Other Directorships:	IQUW Syndicate Management Limited, The Line Art Walk, The Line Public Art Walk CIC, Lay Member of Finance Committee of Coventry Cathedral		
BP Glover LLB, ACIB	**03.07.60**	**11.08.17**	**Company Director**
Other Directorships:	Newcastle Strategic Solutions Limited, Advisor to Homes England		
AS Haigh BSc	**26.01.63**	**27.01.14**	**Building Society Chief Executive Officer**
Other Directorships:	Community Foundation serving Tyne & Wear and Northumberland, North East England Chamber of Commerce (President of the Chamber Council)		
A Laverack BA (Business name: Anne Shiels)	**08.06.61**	**7.07.17**	**Non-Executive Director**
Other Directorships:	Newcastle Financial Advisers Limited, Anne Shiels Consulting Limited		
SL Lynn	**10.05.60**	**22.04.20**	**Non-Executive Director**
Other Directorships:	Newcastle Strategic Solutions Limited, Whitley Bay Golf Club Limited		
S Miller BSc, ACIB	**16.10.70**	**16.01.18**	**Building Society Customer Director**
Other Directorships:	Newcastle Financial Advisers Limited		
JDA Ramsbotham CBE, DL	**30.08.59**	**23.08.21**	**Non-Executive Director**
Other Directorships:	Newcastle Financial Advisers Limited, Newcastle Strategic Solutions Limited, High Doctor Pasture Caravan Park Limited, Altruism Limited, Willan Trustee Limited, 170 Tachbrook Street Management Limited (Co. Secretary), Gillian Dickinson Trust (Trustee), Sunderland University Development Board (Pro Chancellor), Durham Cathedral Finance Committee (Lay Member), Durham Cathedral Nominations Committee (Lay Member), The Rifles (Honorary Colonel), Gateshead Citizens Advice (Patron), Foundation of Light (Trustee & Vice Chair)		
DA Samper BA, CA	**21.12.74**	**20.12.18**	**Building Society Chief Financial Officer**
Other Directorships:	None		
MR Thompson BA, FCA	**11.10.61**	**29.01.19**	**Non-Executive Director**
Other Directorships:	Atlas Cloud Limited, Newcastle United Foundation, The Clinkard Group Limited, NorthStandard Limited (formerly known as The North of England Protecting & Indemnity Association Limited), Tyne and Wear Building Preservation Trust Limited, Newcastle Building Society Pension & Assurance Scheme (Trustee and Chair), Greggs Foundation (Trustee), The Charles Urie Peat Prize Fund (Trustee), Regional Treasurer of Lord's Taverners Charity		

Documents may be served on any of the Directors c/o Addleshaw Goddard LLP, One St Peter's Square, Manchester M2 3DE. The Executive Directors have service contracts which can be terminated at any time by the Society on six months' notice. The Executive Directors' service contracts were entered into on the dates of their appointment, excepting A S Haigh who was appointed to the role of Chief Executive on 1 May 2015, having previously held the role of Chief Operating Officer. There are no contracts for Non-Executive Directors and no compensatory terms for loss of office.

Principal office
Newcastle Building Society is a building society incorporated and domiciled in the United Kingdom.
The address of the Society's principal office is 1 Cobalt Park Way, Wallsend, NE28 9EJ.

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears - A customer is in arrears when they are behind in their mortgage payments. A customer is 3 months in arrears when they have missed the equivalent of 3 mortgage payments.

Administrative expenses - Expenses incurred in running the day to day activities of the Society including staff, property, marketing and technology costs.

Basel II - The second of the Basel Accords, issued by the Basel Committee on Banking supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA Handbook.

Basel III - The third of the Basel Accords, issued by the Basel Committee on Banking supervision, which are a long-term package of changes that will strengthen regulatory requirements for capital and liquidity.

Buy-to-let (BTL) - A mortgage designed to support customers purchasing an investment property to let out.

Capital Requirements Directive (CRD IV) - The EU legislative package covering prudential rules for banks, building societies and investment firms. CRD IV is made up of the Capital Requirements Directive and Capital Requirements Regulations, it is designed to implement the Basel III Accord across the EU.

Commercial lending / mortgage - Loans secured on commercial property.

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

Common Equity Tier 1 ratio - Common Equity Tier 1 capital as a percentage of risk weighted assets.

Contractual maturity - The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

Covered bonds - Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other on-Balance Sheet assets solely for the benefit of the holders of the covered bonds.

Credit risk - The risk that a customer or counterparty is unable to honour their repayment obligations as they fall due.

Debt securities - Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding central banks.

Derivative financial instruments - A derivative financial instrument is a type of financial instrument (or an agreement between two parties) that has a value based on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to interest rate risk.

Effective interest rate method (EIR) - The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period.

Fair value - Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financed Emissions –The indirect greenhouse gas emissions attributable to the properties which the Group's lending is secured on.

Financial Conduct Authority (FCA) - FCA regulates the conduct of financial firms providing services to consumers and maintains the integrity of the UK's financial markets.

Financial Services Compensation Scheme (FSCS) - The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the PRA is obliged to pay an annual levy, which goes towards running costs and compensation payments.

Forbearance - A term generally applied to arrangements which are provided to support mortgage customers experiencing financial difficulties. An example of this would be a temporary reduction in mortgage payments.

Free capital - Represents gross capital less property, plant and equipment and investment property.

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

Gilts - These are bonds issued by certain national governments. The Group only classifies debt securities issued by the Bank of England as Gilts.

Gross capital - The aggregate of general reserve, available-for-sale reserve, subscribed capital and subordinated liabilities.

Impaired loans - Loans where an event has occurred which indicates the Group does not expect to collect all the contractual cash flows due, or expects to collect them later than they are contractually due.

Individual Capital Guidance (ICG) - Guidance from the PRA on the minimum level of capital that must be held.

Individual Liquidity Guidance (ILG) - Guidance from the PRA on the minimum quantity of a firm's liquidity resources and the firm's funding profile.

Individually / collectively assessed - Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be incurred.

Interest rate risk - The risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates.

Internal Capital Adequacy Assessment Process (ICAAP) - The Group's own assessment of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.

Internal Liquidity Adequacy Assessment Process (ILAAP) - The Group's internal assessment of the liquidity levels needed to meet its regulatory liquidity requirements.

Legacy mortgage portfolios - Mortgage loan books where the Group has ceased new lending and is winding down exposures.

Lending limit - Measures the proportion of business assets not in the form of loans fully secured on residential property.

Leverage ratio - A Basel III ratio which measures Tier 1 capital against total on and off Balance Sheet assets.

Liquid assets - The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Liquidity Coverage Ratio (LCR) - A Basel III measure of the amount of highly-liquid assets against cash outflows over a 30 day period.

Liquidity risk - The risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash inflows and outflows.

Loan-to-value ratio (LTV) - A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates UK residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis) to reflect changes in house prices.

Loans and advances to credit institutions - Treasury investments purchased with credit institutions.

Management expenses - Management expenses represent administrative expense and depreciation. The management expense ratio is management expenses expressed as a percentage of mean total assets.

Market risk - The risk that movements in market risk factors, including re-pricing of assets and liabilities and the imperfect matching of interest rates between different asset and liability types, may adversely impact the Society.

Mean total assets - Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Member - A person who has a qualifying share investment or a mortgage loan with the Society.

Net interest income - The difference between interest received on assets and interest paid on liabilities.

Non-Executive Director - A Member of the Society's Board who does not form part of the executive management team. They are not an employee of the Society.

Operational risk - The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Other lending - Loans and advances secured on traded endowment policies.

Past due - Loans on which payments are overdue including those on which partial payments are being made.

Permanent Interest Bearing Shares (PIBS) - Unsecured, deferred shares that are a form of capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing Members of Newcastle Building Society.

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

Prudential Regulation Authority (PRA) - Part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Regulators' Remuneration Code - The Dual-regulated firms Remuneration Code (SYSC 19D) sets out the standards and policies that dual-regulated firms must meet when setting pay and bonuses for their staff.

Renegotiated loans - Loans are classed as renegotiated with the customer's consent, when their terms have changed during the year. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower.

Repo - Short to medium-term funding agreements which allow a borrower to sell a financial asset, such as government bonds, as security for cash. As part of the agreement the borrower agrees to repurchase the security at a later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

Residential mortgage backed securities (RMBS) - Asset backed securities that represent interests in residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).

Residential loans - Residential loans are secured against residential property.

Risk appetite - The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Society's Members whilst achieving business objectives.

Risk-weighted assets (RWA) - The value of assets, after adjustment under Basel II rules, to reflect the degree of risk they represent. The Society measures RWA using the standardised approach.

Shares - Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings - The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest.

Solutions - A subsidiary of the Society that offers business to business services through people, process and innovative application of technology. Services include complete systems for smaller societies and white-labelled savings management for a range of banks and building societies.

Solvency ratio - The ratio of total capital to total risk weighted assets.

Subordinated debt / liabilities - A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors, and investing Members (other than holders of PIBS).

Tier 1 capital - Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. Other regulatory adjustments may be made for the purposes of capital adequacy. Under the grandfathering rules of Basel III qualifying capital instruments such as PIBS can be included in other Tier 1 capital (i.e. not Common Equity Tier 1) transferring to Tier 2 over the grandfathering period.

Tier 2 capital - Comprises the Group's qualifying subordinated debt and collective impairment allowance (for exposures treated on a Basel II standardised basis).

Wholesale funding - The total of deposits from credit institutions, amounts owed to other customers and debt securities in issue.

Branch and Financial Advice Centre Directory

Alnwick - 28 Bondgate Within, NE66 1TD	**Tel: (01665) 603 344**
Ashington - 10 Station Road, NE63 9UJ	**Tel: (01670) 815 919**
Barnard Castle - 25 Market Place, DL12 8NE	**Tel: (01833) 600 100**
Berwick Upon Tweed - 12 Hide Hill, TD15 1AB	**Tel: (01289) 306 417**
Bishop Auckland - 15 Newgate Street, DL14 7HG	**Tel: (01388) 433 001**
Carlisle - 65 English Street, CA3 8JU	**Tel: (01228) 524 518**
Chester-Le-Street - 42 Front Street, DH3 3BG	**Tel: (0191) 388 5266**
Consett - 19/21 Middle Street, DH8 5QP	**Tel: (01207) 502 636**
Cramlington - 34/35 Craster Court, NE23 6UT	**Tel: (01670) 735 813**
Darlington - 7/8 Horsemarket, DL1 5PW	**Tel: (01325) 383 656**
Durham - 73/75 Saddler Street, DH1 3NP	**Tel: (0191) 384 3182**
Gateshead - 12 Ellison Walk, Trinity Square, NE8 1BF	**Tel: (0191) 477 2547**
Gosforth - 105/107 High Street, NE3 1HA	**Tel: (0191) 285 5965**
Hartlepool - 133/135 York Road, TS26 9DR	**Tel: (01429) 233 014**
Hawes - Hawes Community Office, Market Place, DL8 3RA	**Tel: (01969) 600 333**
Hexham - 1-2 Beaumont Street, NE46 3LZ	**Tel: (01434) 605 106**
Knaresborough - 40 Market Place, HG5 8AG	**Tel: (01423) 648 750**
Middlesbrough - 38 Linthorpe Road, TS1 1RD	**Tel: (01642) 243 617**
Morpeth - 14 Market Place, NE61 1HG	**Tel: (01670) 514 702**
Newcastle - 136 Northumberland Street, NE1 7DQ	**Tel: (0191) 261 4940**
North Shields - 76 Bedford Street, NE29 0LD	**Tel: (0191) 259 5286**
Penrith - 12 Market Square, CA11 7BX	**Tel: (01768) 862 888**
Pickering (Financial Advice Only) **-** 2-5 Champley's Mews, YO18 7AE	**Tel: (01751) 474 400**
Ponteland - 23 Broadway, Darras Hall, NE20 9PW	**Tel: (01661) 821 828**
South Shields - Unit 3-5 Denmark Centre, NE33 2LR	**Tel: (0191) 454 0407**
Stokesley - 36 High Street, TS9 5DQ	**Tel: (01642) 711 742**
Sunderland - 14 Waterloo Place, SR1 3HT	**Tel: (0191) 565 0464**
West Denton - 15 Denton Park Centre, NE5 2RA	**Tel: (0191) 267 5038**
Whickham - 28 Front Street, NE16 4DT	**Tel: (0191) 488 1766**
Whitley Bay - 303 Whitley Road, NE26 2HU	**Tel: (0191) 252 0642**
Wooler - The Cheviot Centre, NE71 6BL	**Tel: (01668) 260 360**
Yarm - 41 The High Street, Yarm, TS15 9BH	**Tel: (01642) 785 985**


Faye, Branch Manager, Durham