Pillar 3 Disclosures

31 December 2021

Approved by the Board:

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Table of Contents

1. Overview

1.1 Background

The Newcastle Building Society Group is subject to the regulatory framework usually referred to as CRD IV, consisting of the European Union's Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), which have been transferred into UK law.

CRD IV came into force in 2014 and is a comprehensive set of reform measures in banking prudential regulation, developed to strengthen the regulation, supervision and risk management of the banking sector. It consists of three "pillars":

- Pillar 1 sets out the minimum capital requirements firms are required to meet for credit, market and operational risk;
- Pillar 2 requires firms and supervisors to assess whether a firm should hold additional capital against risks not covered in Pillar 1, and
- Pillar 3 aims to improve market discipline by requiring firms to publish key details of their risks, risk management and capital.

The disclosures in this document meets the Society's obligation under Pillar 3, and provides key information about the Newcastle Building Society Group's underlying risks, risk management and capital. No required disclosures have been omitted due to their confidentiality or proprietarity.

The Society does not use any internal models or advanced methods in determining capital requirements under Pillar I, and has adopted the standardised approach to credit risk, counterparty credit risk and operational risk.

1.2 Future Developments

Changes to Pillar III disclosures

Changes to the UK's capital regulation often referred to as Capital Requirements Regulation II (CRR II) include enhanced disclosures in the Group's Pillar III report. These requirements will be effective for the year ended 31 December 2022 and therefore be included in the next Pillar 3 document. The changes required to be implemented by the Newcastle Building Society Group are not significant to the Group's overall disclosure requirements.

Changes to capital requirements

Some regulatory changes of the CRR II framework relating to the calculation of capital resources and requirements became effective during 2020 and have been implemented by the Group then. The remaining CRR II regulatory changes are effective since 1 January 2022 and have also been implemented. These changes will be reflected in the Pillar 3 report for 31 December 2022.

A further set of changes to capital rules called "Basel III: Finalising post-crisis reforms", often referred to as Basel 3.1 or Basel 4, were planned to come into force from 1 January 2023. However, a delay of these new rules until 2025 has been proposed for the EU. The PRA will consult about the UK's implementation of the Basel 3.1 rules in the second half of 2022, but has not yet confirmed yet whether the implementation will be delayed in the UK as well. Basel 3.1 includes a fundamental change to the calculation of capital requirements for credit risk under the standardised approach, which is expected to have an overall beneficial effect on the Group's capital requirement.

International Financial Reporting Standard 9 – Financial Instruments (IFRS 9)

The CRR was amended in December 2017 to introduce transitional arrangements that reduce the capital impact of increased IFRS 9 provisions throughout a 5 year transitional period (2018-2022). During 2020, the transitional arrangement was amended to provide further relief on expected credit losses booked in 2020 and 2021 as a result of the economic impact of Covid-19.

The Group has elected to adopt the provisions and reports both the transitional and fully loaded IFRS 9 capital positions in this Pillar 3 document, as required by the CRR amendments.

The UK withdrawal bill and related regulation

Before the end of the transition period of the UK's withdrawal from the European Union on 31 December 2020, the UK has adopted all relevant EU laws and regulation into national law. The regulatory framework applicable to the Society therefore, remained unchanged. However, UK regulators and lawmakers now have flexibility to diverge the UK's regulatory framework from that applicable in the EU.

1.3 Policy

This document has been prepared in accordance with the requirements of Part Eight (Articles 431 to 455) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, which was adopted into UK national law in 2020.

These disclosures are prepared on a standardised basis and, unless otherwise stated, all figures are as at 31 December 2021 and based on the most recently published Annual Report and Accounts.

1.4 Frequency of Disclosure

This report is prepared on an annual basis, or more frequently as applicable to any revised reporting frameworks. This report is published on the Newcastle Building Society website (www.newcastle.co.uk), in line with publication of the Annual Report and Accounts.

1.5 Location and verification

These disclosures and the Annual Report and Accounts are published on (www.newcastle.co,uk) for Newcastle Building Society.

They have been reviewed and approved by the Board on 1 March 2022.

These disclosures are not subject to external audit, although where they are equivalent to those prepared under accounting requirements for inclusion in the Group's audited Annual Report and Accounts, the disclosures in the Annual Report and Accounts have been subject to external audit. The Pillar 3 disclosures do not constitute any form of financial statement and must not be relied upon in making any judgement on Newcastle Building Society or the Group (as defined in section 2).

2. Scope

The Pillar 3 reporting framework applies to Newcastle Building Society (the Society) and its subsidiary undertakings (the Group).

The Society's consolidation group for accounting purposes comprises the Society itself and the following subsidiaries:

- Newcastle Financial Advisers Limited
- Newcastle Strategic Solutions Limited
- Newcastle Systems Management Limited
- Newcastle Portland House Limited
- Newcastle Mortgage Loans (Jersey) Limited
- Tyne Funding No. 1 Plc

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

For prudential and Pillar 3 reporting purposes, the Group presents its consolidated position. There are no current or foreseen legal impediments to the prompt transfer of capital resources or the repayment of liabilities within the Group.

Further details of the Group's consolidation policies and the Group's structure are given in Notes 1 and 15 of the Group's audited Annual Report and Accounts.

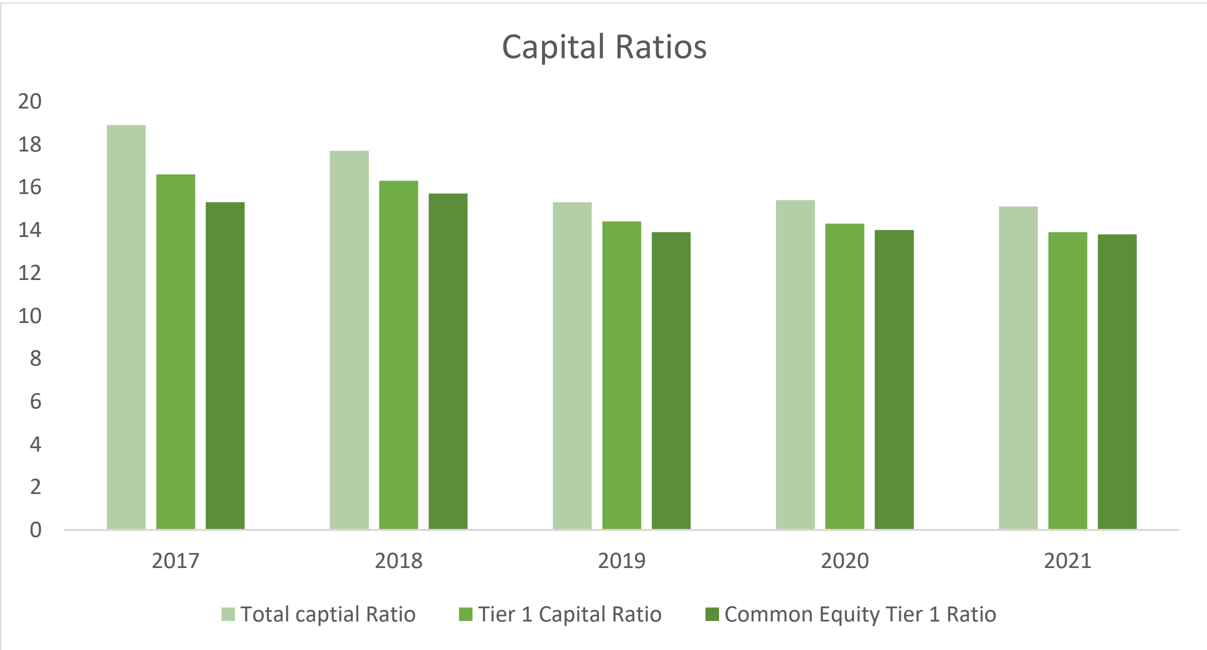
3. Executive summary

The Group's capital base continues to be strong, with a common equity tier 1 ratio of 13.8% as at 31 December 2021.

The Group's strategy remains to grow its prime residential mortgage business whilst winding down legacy portfolios. The success of this strategy is demonstrated by prime growth in 2021.Thus, net prime residential lending of £330m led to overall net lending of £228m. As a consequence, the Group's risk weighted asset base grew from £1,494m to £1,601m. The capital impact of this planned growth and of an accounting policy change relating to the Society's equity release portfolio (see note 35 to the Annual Report and Accounts) was not fully netted off by the Group's significant profitability in the year, resulting in a small decrease in the Group's common equity tier 1 ratio from 14.1% in 2020 to 13.8%.

With aspiring continued balance sheet growth, the Group recognises the ongoing need for robust and effective risk management, mitigation and governance. The Group's risk management framework is designed to enable the Group to proactively identify and manage risks to support the achievement of the Group's objectives. It includes monitoring and controlling the significant risks to which the Group is exposed, and to ensure the security and resilience of the Group. The ability to identify, measure, monitor, report and control risks is key to delivering sustainable and resilient business performance, including fair outcomes for Members and customers.

The five year trend for the Group's capital ratios is shown in the table below and further details are included on page 25 of the Annual Report and Accounts and in section 5 of this document.



The Group complied with PRA total capital and buffer requirements throughout 2021. Capital plans forecast that the Group will maintain adequate headroom to all capital and buffer requirements over the planning horizon.

4. Risk Management

4.1 Background

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 consistent. To assist the Board, the Group Risk Committee (GRC) oversees the management of risk across the Group and is supported by various sub-committees and the Group Risk department. The Group Risk department is responsible for ensuring that appropriate risk management is applied across the Group's principal risks. This includes the provision of reports on risks, and risk management for the GRC and its sub-committees. The Chief Risk Officer provides formal updates on risk management to the Board on a monthly basis.

The Group's risk management framework is designed to pro-actively identify and manage risk, while supporting senior management in the delivery of the strategy, including the management of costs, ensuring operational resilience and effective decision making. The framework compromises the monitoring and controlling of significant risks to which the Society is exposed, while ensuring the security and resilience of the Group. The Society's ability to identify, measure, monitor, report and control risks is key to the continued delivery of sustainable and resilient business performance, including fair outcomes for Members and customers. The Society's Chief Risk Officer has ultimate accountability for the maintenance and enhancement of the organisation's risk management framework.

The Society and Group's risk management framework operates under the 'three lines of defence' principle.

First line of defence	The first line of defence consists of core business units, which ultimately hold the responsibility for identifying and managing risk, while adhering to corporate risk appetite, policies and standards. The first line also hold responsibility for implementing and maintaining regulatory compliance.
Second line of defence	The second line risk function facilitates and monitors the implementation of effective risk management while developing and maintaining risk management policies and methodologies. The second line reports primarily to senior management and risk governance committees.
Third line of defence	The third line of defence is provided by Internal Audit Services, who provide 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 framework includes the use of Board approved risk appetite statements, covering a variety of principal risks that the organisation faces. There is a demonstrated level of balance within the framework with evidence of stress testing, scenario analysis and recovery planning. Overall, there is a high degree of awareness and understanding of risk across the organisation. Senior management understand and champion the basis for risk measures with detailed understanding of strengths and limitations. The culture across the organisation supports the development of risk skills which is articulated from the top down and gives due focus to risk management.

The Group has detailed risk management policies for each principal risk area, setting out how risk is managed across the Group, including specific risk appetite statements. The risk appetite statements outline for each principal risk area the basis on which risks are accepted or declined. This forms the basis for the various limits and key criteria, set out in policies, which must be followed in order to mitigate risk exposures. These limits are embedded into daily, weekly and monthly management and Board reporting, in order to monitor compliance with the Group's risk profile.

Further details on risk appetite and risk management are provided in the Risk Management Report in the Annual Report and Accounts.

4.2 Principal Types of Risk

Credit Risk

Credit risk is the risk that a borrower, treasury counterparty or debtor will not be able to meet their obligations as they fall due and that collateral is insufficient to meet the debt obligations. Credit risk arises primarily on residential, commercial and investment portfolios.

Residential Credit Risk

Residential credit risk is the risk that retail borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to unemployment rates, house prices, interest rates and the application of underlying assumptions and data within our credit loss modelling. For example, if a borrowing customer loses their job they may be unable to meet their repayments. If the Society takes possession of the property, it may not realise enough on subsequent sale to repay the loan balance. In a recession when unemployment rises and house prices can fall, the risk increases.

Loans are underwritten individually based on affordability, credit score and history, acceptable collateral (including loan to value), and the Society's lending criteria. The Society does not undertake sub-prime or self-certification lending. The Society's lending policy has been actively reviewed and enhanced through 2021 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 (CRC) in relation to its credit risk characteristics (including loan to value, loan to income, arrears, credit score profile, early delinquencies, and arrears arising from cohorts of lending). The Society's risk appetite is expressed in terms of losses arising in a stressed scenario, and stress testing is used to ensure that the portfolio is within the Society's risk appetite.

Commercial Credit Risk

Commercial Credit risk is the risk that commercial borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to economic conditions that can impact the viability of tenants and commercial real estate values. For example, if a commercial borrower loses the property's tenant, they may be unable to meet repayments. If the Society takes possession of the property it may not realise enough on subsequent sale to repay the loan balance. In a recession, when more tenants may fail and commercial property values can fall, the risk increases.

The commercial loan book is being actively managed down. All commercial loans over £500k are subject to annual reviews reporting to CRC. Higher risk loans are subject to quarterly reviews. In the event of a covenant breach, a report is provided to the CRC. Borrower and tenant watchlists are maintained by the credit risk team, and are reviewed monthly. Watchlists for borrowers and tenants are updated on a real time basis. Enhanced Stress testing has been used through 2021 to determine the changes in risk due to the pandemic.

Treasury Credit risk

Treasury credit risk is the risk that wholesale counterparties the Society lends to default, or the value of the investment falls and the Society is obliged to crystallise that fall in value. This risk arises in relation to the treasury investments made by the Group in order to meet liquidity requirements. The risk is sensitive to market volatility and credit spreads (both general credit spreads and name specific credit spreads). For example, if the Society invests in Residential Mortgage Backed Securities, and subsequently the market value of the assets falls, the Society may have to sell the assets at a loss. The risk increases with increased market volatility.

Investments are subject to a GRC approved policy, which sets out what instruments, countries, and counterparties investments can be made in, and sets limits on exposures to instruments, countries and counterparties. Investments are monitored and reported daily to management, and monthly to the Assets and Liabilities Committee (ALCO), including compliance with the policy. The credit default swap rates for the Society's counterparties are monitored, and alerts raised if certain criteria are met in relation to those spreads. The mark to market value of the Society's investments in gilts, residential mortgage backed securities, and covered bonds are monitored daily and reported to ALCO monthly.

Climate Change Risk

Climate change risk recognises the risk associated with adverse climate change and the impact on the Group's operation, the impact on borrowers and the decrease in the value of security in support of Mortgage lending. Climate risk is similarly relevant to Solutions clients, and the Group may be impacted by their exposure. The most tangible financial risk to the Group from climate change relates to flooding risk in respect to properties pledged as securities for mortgage loans, and it has therefore been included in the Credit Risk section.

The Group has robust operational resilience processes and responses to manage the impact of any transient localised climate change events. The Society has developed climate change scenarios which have been used in our capital modelling and stress testing.

The Group actively engages with the industry as a whole to consider the potential impacts and longer term scenarios of climate changes and resulting risks.

Concentration Risk

Concentration risk is a particular aspect of credit risk, namely the risk of suffering a material credit loss from a single large exposure or a group of exposures where the potential for loss is connected. Concentration risk arises from operating in a particular geographical location, a particular industry sector or from large exposures in the form of large loans to single borrowers or treasury counterparties.

The Group has a comprehensive range of limits and controls in place which enable the Board and related sub-committees to measure and monitor concentration risk across the Group's business and at a Group consolidated level. GRC has oversight of all relevant management information and is able to provide assurance and recommendations to the Board in relation to the management of any significant emerging risks.

The Society, whilst being a regional building society, has lending secured against residential property across the UK with no individual geographic concentrations in excess of a fifth of its residential mortgage book. For further detail see section 7.5 of this report. Commercial borrower activity is similarly monitored, with any large exposure to individual borrowers considered as a source of potential concentration risk. GRC is satisfied that, as at 31 December 2021, no exposure in any one risk concentration exceeds the Group's risk appetite.

A commercial approach to collections and recovery for commercial and other legacy portfolios is taken by the Society, including regular reviews and featuring a proactive and targeted response where difficulties are identified, such as late payments, tenant failure, ratings downgrades and general negative market news. Enhanced Stress testing has been used through 2021 to determine the changes in risk due to the pandemic.

Liquidity Risk

Liquidity risk is the risk of loss or failure caused by the Group being unable to meet its liabilities or commitments as they fall due, or to be able to do so only at excessive cost. For example, if there are exceptionally high withdrawals at a time when there is illiquidity in financial markets preventing the Society from selling its liquid assets, then it may have to sell assets at a discount to obtain cash.

Liquidity is subject to a Group Risk Committee (GRC) approved Policy, which sets out limits in relation to liquidity. Liquidity is monitored and reported to management daily, and reported to ALCO on a monthly basis, including compliance with the policy. Cashflow forecasts are used to forecast liquidity, and ensure compliance with the limits in the future. Stress tests are used to ensure that liquidity risk is within the risk appetite.

Market Risk

Market risk is the risk that the Group's business is negatively impacted by external market factors that affect the overall performance of investments in financial markets. The principal market risk to which the Group is exposed is interest rate risk.

Interest Rate Risk

Interest rate risk is the risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates. Basis risk is the risk that net interest income falls because of a change in the relationship between two market rates. For example, the Society has assets which earn interest based on an interbank indices rate, and liabilities where the rate is set by the Society. If interbank indices fall at a time when base rate and savings rate do not, then the Society's assets realise lower income, but the costs remain unchanged.

Interest rate risk is subject to a GRC approved policy. Interest rate risk and basis risk are subject to policy limits. They are monitored and reported to ALCO monthly, including compliance with policy. The Society uses interest rate swaps to manage interest rate risk. Derivatives are only used, in accordance with the Building Societies Act 1986, to mitigate risks arising from interest rates or indices. Forecasts are used to assess future compliance with limits and determine the need for management action. Stress tests are used to assess the Society's exposure to interest rate and basis risk.

Macro Economic Risk

Macro-economic risk is the risk that a deterioration of the general economic environment in the UK could negatively impact the Group's operations and performance or increase other risks, such as credit risk. The most significant factor for the UK's economic environment remains the impact of Covid-19. The overall macroeconomic risk gives rise to uncertainty and reduces the predictability of outcomes.

The Group actively monitors and responds to the key macroeconomic indicators. The pandemic impacts across 2020 and 2021 have been managed. However the increase in Consumer Price Index, impact of the forthcoming National Insurance increase in April 2022, the rise in the Bank of England base rate in Q4 2021, and the impact on consumers of increased domestic energy costs, represent an increased risk. The Group continues to monitor and engage in wider industry economic forecasting to ensure management understand the range of possible outcomes in 2022 and beyond. We continue to use outcomes based scenario modelling, to inform the Group's strategic decisions and risk profiles.

The Group continues to actively assess and consider the impact of the macro-economic environment on our business and our customers. We consider a variety of scenarios and sensitivities to reflect outcomes and to ensure we have appropriate mitigation strategies in place.

Pension Fund Obligation Risk

The Group has funding obligations for a defined benefit scheme, which is closed to new entrants. It was closed to future benefit accrual with effect from 30 November 2010. Pension fund obligation risk is the risk that the value of the Scheme's assets, together with any agreed employer contributions, will be insufficient to cover the projected obligations of the Scheme over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. For example, if yields on gilts or corporate bonds fall, then the value of liabilities rises, resulting in a larger deficit. If the value of shares falls then the value of the pensions fund assets fall and the deficit rises.

The pension fund is overseen by the Trustees of the Scheme, within an agreed Investment Strategy. Reports prepared by the Scheme's independent actuary are reviewed by the Trustees quarterly and, if appropriate, management action is taken. The Group performs stress testing on the pension scheme liabilities and assets at least annually.

In 2021 the Pension Trustees implemented a revised investment strategy. The pension fund remains in surplus on an IAS 19 basis. The Scheme is exposed to market volatility, particularly in long term gilt and corporate bond rates. For accounting purposes, the IAS 19 asset has not been recognised on balance sheet as the Group expects that surpluses will be used to reduce risk and volatility within the Scheme with the long term objective of eliminating the pension obligation risk.

Capital Risk

Capital risk is the risk that the Society is or becomes inadequately capitalised to address the risks to which it is exposed.

As a deposit taking institution, the Society's capital is highly regulated and the Group submits regular capital returns to regulators. The Group's capital position is forecast monthly and its adequacy monitored by the Board and senior management. The Group uses stress testing at least annually to assess whether its capital buffers and limits are sufficient to withstand even very severe economic and idiosyncratic conditions. The Group also maintains a recovery plan with detailed measures that could be used to rebuild the Group's capital if this was necessary. The Group maintains its capital at a level in excess of its regulatory total capital and buffer requirements and internal limits.

Operational Risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. For the Group, this definition includes legal risk, strategic risk and reputational risk. Operational risk covers examples such as a fire or accident, fraud or theft, or a failure of IT systems resulting in customers or staff being unable to log in to their accounts or system.

Operational risk is subject to a GRC approved policy, which covers the framework for operational risk, including the measurement and management of risk, operational risk appetite, operational resilience, the use of scenario testing for operational risk, tracking of risk events and operational losses, timescales for implementation of action plans and escalation procedures for more serious risk events that require immediate action to mitigate loss. Key risks and controls are identified for all areas of the business. Risk assessments remain the responsibility of the relevant departmental managers and line Executives, and are updated regularly for new risks, the results of risk events and following internal audit reviews. Corporate Insurance policies are negotiated with regard to the key risks within the Group requiring greater mitigation.

Conduct Risk

Conduct risk is the risk of customer detriment arising from the Society's activities. It is an operational risk particularly significant to the Society. Examples include products that do not perform as customers expected them to, or products being sold to customers for whom they are not suitable. Conduct risk and operational risk are closely aligned where the operational risk results in customer detriment (e.g. a failure to protect customer data is an operational risk which may result in customer detriment). For example, if the Society provides a mortgage product to a customer where the information the customer needed to make an informed decision was absent, and the product does not meet the customer's needs.

The Society maintains a risk appetite statement relating to customer outcomes and measures performance against this monthly, reporting to the ERC with oversight from the GRC. All new products are approved by a Mortgage and Savings Committee, which includes consideration of an assessment of risks to customer outcomes. The Society maintains a Customer Outcomes dashboard, which looks at evidence supporting good customer outcomes (or suggesting poor outcomes) and this is reviewed monthly and reported to ERC. The Society maintains an annual Compliance Plan, which is risk based, reporting to ERC with oversight from the GRC. In addition throughout 2021 the Society has continued to support customers experiencing challenges through the pandemic.

The Society has a simple product range covering mortgages, savings, insurance, and financial advice via Newcastle Financial Advisers Limited (an Appointed Representative of Openwork), limiting conduct risk.

Solutions Business Risk

The Group's business model includes diversification via the Solutions business, through the Group's subsidiary Newcastle Strategic Solutions Limited (NSSL). Whilst diversification reduces the overall exposure to any particular risk, making the Group more resilient overall, the Solutions business increases the exposure to some operational risks, particularly in relation to IT systems capability and human error.

The Society established the Solutions business in 1997, whereby the Group provides outsourced services, such as internet banking, IT services, and savings account administration to other financial institutions. There are various operational and strategic risks arising from the Solutions business including:

- Systems failures (mainframe, internet and telephony);
- Breach of information security/Data Protection Act;
- Failure of Group's employees to follow third party procedures/basic human error;
- Failure of a business partner; and
- Poor service – resulting in failure to meet Service Level Agreements.

The Group has systems and controls in place to address the risks in the Solutions business including dedicated teams in IT, Finance, Compliance, Financial Crime, technical departments and dedicated relationship and service managers.

NSSL's Board oversees third party contract risks, financial performance and operational matters that arise from NSSL operations. The strategic direction of information technology is the responsibility of the Group's Chief Information Officer and is governed by the Group's Technology Governance Committee.

Newcastle Strategic Solutions Limited is principally exposed to operational risk, particularly in relation to IT systems' capability and human error. Ongoing investment programmes, infrastructure and defence programmes against cyber risk and recruitment of additional specialist risk colleagues continued in 2021, to further enhance resilience and combat risks from cyber-crime. In 2018, Newcastle Strategic Solutions Limited attained accredited certification from the British Standards Institution to ISO/IEC 27001:2013, the international standard for Information Security Management Systems (ISMS), covering process, personnel, physical and technical security. Recertification was successfully attained in February 2021.

4.3 Risk Governance

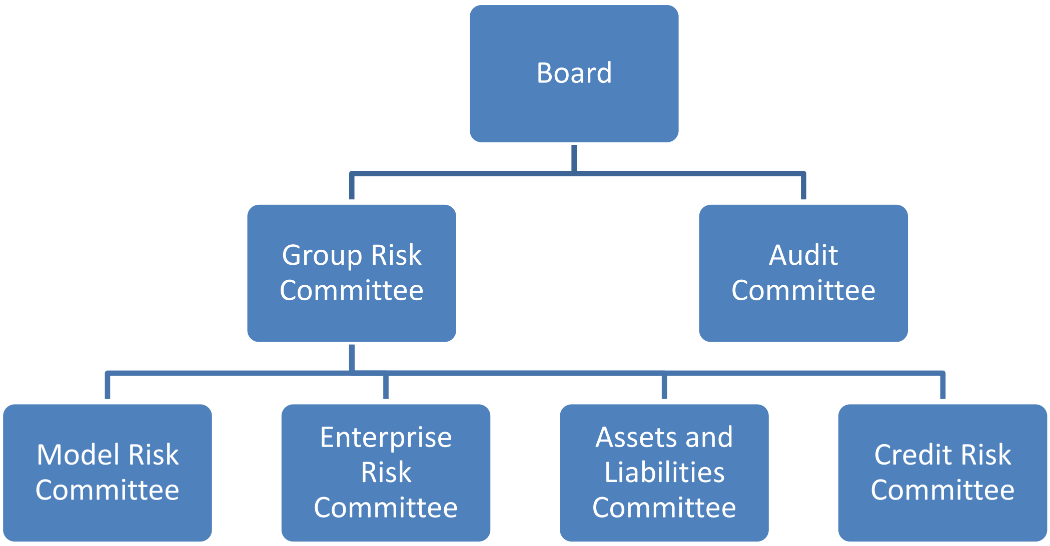
The Board is ultimately responsible for ensuring that adequate systems of risk management are in place, and that the Society's strategy, risk appetite, and risk management are aligned. To assist the Board, a Board Group Risk Committee (GRC) oversees the management of risk across the Group (see below).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

The GRC is supported by a second line of defence risk department, whose role is to ensure that appropriate risk management is applied across the organisation. This includes the provision of oversight reports on risks, and risk management for the GRC 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.

The risk governance structure is set out below.

Risk Governance Structure



Group Risk Committee (GRC)

The GRC oversees the risk management and governance framework and overall risk profile. The Committee meets at least four times per year and more frequently as required.

The GRC advises the Board on the Society's overall risk appetite, tolerance and strategy, and the principal and emerging risks the Society is willing to take, in order to achieve its long-term strategic objectives.

The GRC seeks assurance on the effectiveness of the Society's systems and controls to manage risks the Society identifies as those to which the business may be exposed, which may include (but is not limited to), risks to the Society's business model, solvency and liquidity, and new initiatives and/or products that have a different risk profile to current activities, as well as capital risk, conduct risk, credit risk, IT operations and cyber risk, model risk, market risk, operational risk, prudential risk and legal and regulatory risks.

The GRC met five times in 2021 and is supported by the following sub-committees:

Credit Risk Committee (CRC)

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

The CRC met thirteen times during 2021.

Enterprise Risk Committee (ERC)

The Enterprise Risk Committee (ERC) has responsibility for overseeing the risk framework for Operational Risk, Conduct Risk, IT Risk and Operational Resilience. This Committee ensures that risk event trends are monitored appropriately with robust action plan management. The ERC also has the responsibility for key group-wide policies to ensure they are appropriate for the business before they are submitted to the GRC for final ratification. All relevant operational risk management information is reported to the ERC on a monthly basis to assess compliance with overall limits and corporate risk appetites.

The ERC met eleven times during 2021.

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee (ALCO) is charged by the GRC with setting the risk framework for the Society's balance sheet, including liquidity risk, funding risk, interest rate risk and basis risk. The tools available to ALCO include risk limits and guidelines, return on capital employed benchmarks and funds transfer pricing for all aspects of treasury risk management, including liquidity risk, interest rate risk, counterparty credit risk, and balance sheet management.

The ALCO met fourteen times during 2021.

Model Risk Committee (MRC)

The Model Risk Committee (MRC) ensures compliance with SS3/18 'Model Risk Management'. The MRC acts under the authority of the GRC in an advisory capacity and makes non-binding recommendations concerning the Group's adherence to the Model Risk policy. Recommendations are made to the GRC on suitable macro-economic scenarios, model risk appetite, model performance (monitoring) and model limitations. Approval of the Group's macro-economic scenarios remain the responsibility of the Board.

The MRC met three times during 2021.

4.4 Other Governance

This section contains an overview of other relevant governance bodies within the Group. Further details of the corporate governance arrangements are given in the Directors' Report on Corporate Governance in the 2021 Annual Report and Accounts.

The Board

The Society recognises that it must be headed by an effective Board which is responsible for the long-term success of the Group. In carrying out its role, the Board aims to ensure that excellent service is delivered to its Members and customers. The Board has responsibilities for contributing to and supporting the values of the Group set by management and believes that the interests of all stakeholders can be best served by remaining a strong and forward looking mutual building society.

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

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

James Ramsbotham was appointed Chair of the Society in August 2021, Mick Thompson was appointed Deputy Chair in July 2020, and Ian Ward was appointed Senior Independent Director in July 2020. The positions of Deputy Chair and Senior Independent Director provide a sounding board for the Chair, and where necessary they serve as intermediaries for the other Directors.

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

The Board's Terms of Reference are reviewed on a regular basis and were last agreed by the Board in November 2021. A schedule is maintained of matters reserved to the Board which includes the following:

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

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. This includes approval of risk appetite, oversight of risk governance, reviewing the top risks, ensuring the strategy and risk appetite are consistent, and approving the ICAAP. The Board delegates oversight of risk management to the Group Risk Committee, as well as oversight of compliance with regulations (including by the Prudential Regulation Authority and the Financial Conduct Authority).
Senior Managers and Certification Regime	Ensuring that the Society meets its obligations under the Senior Managers Regime (SMR), including: reviewing at least annually the SMR 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 the 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.
External auditor	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	Ensuring that a formal evaluation of the effectiveness of the Board is undertaken and to keep an external assessment, using outside consultants, under consideration and to facilitate one 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; and approval of the Notice of any General Meeting of the Society including all resolutions to be put forward to Members.
Insurance	Approval of overall levels of insurance for the Group, including Directors & Officers liability insurance.
The Society's Defined Benefit Pension Scheme	Consent to the Pension Scheme Trustees to amend the Pension Scheme's Trust Deed and Rules; and approval of the appointment/removal of Society nominated Trustees.

In addition to the GRC and sub-committees detailed above, the Board has other committees which are noted below.

Remuneration Committee

The Remuneration Committee considers and makes recommendations on Executive Director and Executive emoluments and contracts of employment. The Committee considers proposals from the Chief Executive for changes to the level of fees for Non-Executive Directors including the fees for the Chair. This includes introduction of a new separate Non-Executive Director Remuneration Committee who will approve the fees of Non-Executive Directors which will then be ratified by the Board. The Remuneration Committee Report is included in the 2021 Annual Report and Accounts. In addition, section 10 of this report sets out the remuneration disclosures as required under Article 450 of the CRR which have been approved by the Remuneration Committee.

Non-Executive Remuneration Committee (NED Remco)

In January 2022, the Board established another Committee of the Board to be known as the Non-Executive Remuneration Committee. 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.

Nominations Committee

Nominations Committee comprises solely of non-executive directors, is responsible for oversight of the composition of the Board and the Board and subsidiary Committees, and leads the process for Board appointments. The Committee advises on the structure, size, and composition of the Board which includes succession planning, nominations to the Board and the ongoing membership of the Board. The Committee also ensures that the Board has the appropriate balance of skills, diversity and experience and reviews the membership of each of the Board Committees, in consultation with the Chairs of the relevant Committees as appropriate, to make recommendations to the Board as to any changes required to ensure that the Committees possess the necessary capabilities, experience, knowledge and behaviours required to operate effectively.

The Committee also assists in the development and monitoring of induction, training and professional development of all members of both the Group's governing body and its senior management functions.

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

Audit Committee

Audit Committee considers all audit matters relating to the Group, the system of internal control, financial reporting and evaluation of first and second lines of defence for risk management. Reports from the Chief Risk Officer, the Chief Internal Auditor and the External Auditor provide input on key risks and uncertainties direct to the Audit Committee.

The main responsibilities of the Committee as delegated by the Board are:

Financial reporting	Monitoring of the integrity of the financial statements of the Group including the interim and annual reports, and any other formal announcements relating to the Group's financial performance. This includes review of significant financial reporting judgements and offering advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, providing the information necessary for Members to assess the performance, strategy and business model of the Group;
Effectiveness of internal control and risk management systems, including internal financial control:	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
Internal Audit	The Group's internal audit function is carried out by the Internal Audit Services department and reflects the Audit Committee's primary available resource. The Committee retains the authority to obtain outside legal or independent professional advice as it sees fit. The Committee approves and reviews the Internal Audit strategy, work programme and results and ensures the Internal Audit Services department 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 the Internal Audit function in the overall context of the Group's internal control framework, ensure appropriate management responsiveness to audit findings and recommendations given and promote open communication between the Group's Risk, Compliance, Finance, Internal Audit and External Audit functions

External audit	The Audit Committee oversees the Group's relationship with the external auditors, including appointment, re-appointment, removal and assessment of independence, objectivity, effectiveness and remuneration. The Group has established a policy on the use of the external auditors for non-audit work which is considered and approved annually by the Audit Committee. The principal purpose of this policy is to ensure the continued independence and objectivity of the external auditors.
Whistle blowing	The Audit Committee reviews the Group's procedures for detecting fraud and ensures that arrangements are in place by which colleagues may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters, and to ensure that arrangements are in place for independent investigation and appropriate follow up action. In line with recommendations by the Financial Reporting Council's UK Corporate Governance Code, ultimate responsibility for oversight of the Group's whistle blowing practices lies with Group Board.

The Audit Committee met eight times during 2021.

Group Technology Governance Committee

In December 2020, this committee met for the first time, its authority being to govern the strategic direction of the Group's Technology capabilities and to advise the Group Board with regard to progress against the agreed strategy. The committee is chaired by a Non-Executive Director.

The Group Technology Governance Committee met eight times during 2021.

Newcastle Strategic Solutions Limited (NSSL) Board

NSSL Board oversees all aspects of the outsourcing savings management business including risks, financial performance and operational matters. In addition it sanctions new third party contracts, in line with its delegated authority, after considering the relevant financial model, contract obligations and full project risk assessment. The NSSL Board establishes and reviews a risk appetite statement for NSSL, evaluate and monitor NSSL risk and compliance matters and consider and acts upon the findings of any external or internal audits and reviews.

Newcastle Financial Advisers Limited (NFAL) Board

NFAL Board oversees the strategic direction of the Group's financial advice subsidiary, evaluates its performance and ensures compliance with all relevant legislation. NFAL Board also oversee risk management of the financial advice business.

4.5 Risk Appetite

The Board approved risk appetite statements consider profitability in a stressed scenario, capital, liquidity, operational risk, credit risk, interest rate risk, fair treatment of customers and conduct risk, and IT risk. They set out key limits and escalation triggers.

The risk appetite statements, together with the risk position, are reported to the Board quarterly and are formally approved annually.

5. Capital Resources

The Group's total capital and buffer requirements are communicated annually by the Prudential Regulation Authority and consists of minimum regulatory capital requirements (Pillar 1) plus additional, entity specific capital requirements for credit, market, operational, counterparty, credit concentration, interest rate and pension obligations risk (Pillar 2A). The Group's total capital requirement at 31 December 2021 was £144.5m (2020: £135.2m). For the avoidance of doubt, the Group's total capital requirement, as defined above, is exclusive of regulatory buffer requirements.

Note: Throughout the Pillar 3 disclosures, Group positions are presented. Differences between the Group and the Society capital positions arise through differences in available capital resource being:

- The Society's reserves are £8.1m lower than the Group's due to net retained earnings in subsidiaries; and
- The deduction of intangible assets from capital resource is £3.0m lower than that of the Group.

These combine to reduce the Society's available capital by £5.1m compared to the Group's position.

Differences also arise through differences in risk weighted assets, being:

- The Society's mortgage assets are £0.3m lower (RWA) compared to the Group;
- The Society's liquid assets are £1.1m lower (RWA) compared to Group;
- Society's tangible assets are £22.1m lower (RWA) compared to the Group;
- The Society's intangible assets not deductible from capital are £3.2m (RWA) lower compared to the Group;
- The Society's other assets are £13.1m lower (RWA) compared to the Group;
- Society holds £31.5m (RWA) of subsidiary loans, £2.3m (RWA) Deemed Loan Asset and £10.1m (RWA) of investments in subsidiaries (nil at Group level).

These combine to increase the Society's risk weighted assets by £6.3m compared to the Group's position, which corresponds to £0.5m of additional Pillar 1 capital requirements.

Both the Society and Group have operated within the Total Capital and Buffer requirements set by the PRA throughout 2021.

5.1 Total Capital Available

An analysis of Total Capital Available (TCA) as at 31 December is set out in the following table:

	Basel III Transitional Group £m 31-Dec-21	End Point Basel III Group £m 31-Dec-21	Basel III Transitional Group £m 31-Dec-20	End Point Basel III Group £m 31-Dec-20
Common Equity Tier 1 capital				
Profit and loss reserves[1]	222.2	222.2	205.7	205.7
Deferred tax assets[2]	(0.6)	(0.6)	(0.7)	(0.7)
VFOCI reserve[4]	1.9	1.9	1.8	1.8
Additional valuation adjustments[5]	(0.5)	(0.5)	(0.4)	(0.4)
Intangible assets	(3.9)	(3.9)	(1.7)	(1.7)
IFRS9 Transitional adjustment[6]	1.9		6.2	-
Other adjustments			0.2	0.2
Total Common Equity Tier 1 capital	**221.0**	**219.1**	**211.1**	**204.9**
Additional Tier 1 capital				
Permanent Interest Bearing Shares (PIBS)	20.0	20.0	20.0	20.0
PIBS Grandfathering to T2 capital	(18.0)	(20.0)	(16.0)	(20.0)
Total Additional Tier 1 capital	**2.0**	**0.0**	**4.0**	**-**
Total Tier 1 capital	**223.0**	**219.1**	**215.1**	**204.9**
Tier 2 capital				
Collective Impairment allowance	0.1	0.1	0.2	0.2
PIBS Grandfathering to T2 capital	18.0	20.0	16.0	20.0
Total Tier 2 capital	**18.1**	**20.1**	**16.2**	**20.2**
Total Capital	**241.1**	**239.2**	**231.3**	**225.1**

Notes

1. In 2021, the Group changed its accounting policy for the legacy equity release portfolio from amortised cost to fair value. This reduced the Profit and Loss reserve for 2020 from £205.7m to £198.3m. The impact of the reduction is not material to the Group's capital surplus or any capital related ratios, and therefore the 2020 comparative capital balances have not been restated.
2. Deferred tax assets relating to temporary timing differences of £4.0m are held on balance sheet at 31 December 2021 and are not deducted from Common Equity Tier 1, in line with article 48 of the CRR.
3. The Group's accounting policy is to derecognise net defined benefit pensions fund assets from the Balance Sheet. The Group's IAS 19 surplus of £10.8m (£8.1m net of associated deferred taxation in line with article 41 of the CRR) is therefore not required to be deducted in the table above having previously been written off as an adjustment to the Group's Other Comprehensive Income (2020: £5.6m or £4.6m net of deferred tax). The Group is not required to make further contributions to the pension scheme.
4. Net market values of the Society's Fair Value through Other Comprehensive Income (FVOCI) debt security portfolio are included in Common Equity Tier 1 capital as part of other reserves, net of any associated deferred taxation.
5. Additional valuation adjustments are calculated under the simplified approach.
6. The IFRS 9 transitional adjustment is a transitional arrangement separate from the changes introduced by Basel III. It has nonetheless been excluded from the balances as at the Basel III end point to show the Group's capital as at the endpoint of the all transitional arrangements.

The following table details the Group's capital flows through 2021. Figures are presented under a Basel III transitional basis.

Basel III Transitional	**2021 £m**	**2020 £m**
Opening Common Equity Tier 1 capital	211.1	201.6
Group profit after taxation for the financial year	23.9	1.3
Prior year adjustment due to change in accounting policy	(7.4)	-
Movement on FVOCI reserve	0.1	0.4
Decrease in loss based deferred tax asset	0.1	0.1
IFRS9 Transitional adjustment	(4.3)	6.2
Movement in intangible assets deducted from regulatory capital	(2.2)	0.5
Movement in committed contributions to defined benefit pensions	-	0.9
Other adjustments	(0.3)	0.1
Closing Common Equity Tier 1 capital	**221.0**	**211.1**
Opening Additional Tier 1 capital at 31	4.0	6.0
PIBS Grandfathering to Tier 2 capital	(2.0)	(2.0)
Closing Additional Tier 1 capital	**2.0**	**4.0**
Opening Tier 2 capital	16.2	14.4
Reduction in collective provision	(0.1)	(0.2)
PIBS Grandfathering to T2 capital	2.0	2.0
Closing Tier 2 capital	**18.1**	**16.2**
Total closing capital	**241.1**	**231.3**

The above table illustrates that the core driver of the Group's Common Equity Tier 1 (CET1) capital increase was accumulated profitability, partially netted off by a reduction in expected credit loss provisions qualifying for the IFRS 9 transitional relief, and the capital impact of a change in accounting policies relating to the Society's legacy equity release portfolio. See note 35 to the Annual Report and Accounts for details.

The Society holds a portfolio of derivatives to hedge against interest rate risk. Most of the Society's derivatives are held in effective economic hedge relationships throughout 2021, including derivatives hedging the Society's legacy equity release portfolio, which are not held in an accounting hedge relationship anymore, after a change in accounting policy. As a result, the Society's additional valuation adjustments are not significant, primarily reflecting un-hedged portions of the Society's debt securities held at fair value through other comprehensive income (FVOCI) on balance sheet.

The below table reconciles the Group balance sheet reserves and other capital instruments to their regulatory capital values.

	2021 £m	**2020 £m**
Balance sheet reserves	224.1	207.5
Loss based deferred tax asset (capital impact)	(0.6)	(0.7)
IFRS9 Transitional adjustment	1.9	6.2
Intangible assets	(3.9)	(1.7)
Additional valuation adjustment	(0.5)	(0.4)
Other	-	0.2
Regulatory Common Equity Tier 1 capital	**221.0**	**211.1**
Balance sheet Subscribed capital	20.0	20.0
Grandfathering of PIBS under Basel III	(18.0)	(16.0)
Additional Tier 1 capital	**2.0**	**4.0**
Balance sheet subordinated liabilities	--	-
Collective impairment allowance	0.1	0.2
Grandfathering of PIBS under Basel III	18.0	16.0
Total Tier 2 capital	**18.1**	**16.2**
Total Regulatory capital	**241.1**	**231.3**

5.2 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital primarily comprises profit and loss reserves, being the accumulation of retained profits. Common Equity Tier 1 Capital is a key measure of focus under the capital regulations (see section 12). Under Basel III, deferred tax assets that rely on future profitability to be realised are excluded from Total Capital Available.

The Group started capitalising internally generated intangible assets in 2020 and also holds externally purchased computer software. Both meet the IFRS definition of intangible assets. Whilst, in the past, the CRR required software assets to be fully deducted from Common Equity Tier 1 Capital, changes to the regulation became effective in December 2020, which allowed adding some software assets back to capital. As a result, only work in progress and the difference between the accounting amortisation and the regulatory prudent amortisation balances is deducted from Common Equity Tier 1 Capital. The remaining balance is risk weighted at 100%. The PRA is currently consulting to removing the beneficial treatment of software assets again. As a result, the Society's internal capital forecasts and strategy does not assume the continued favourable treatment of software assets.

Additional Valuation Adjustments are also made in line with the CRR. For further detail of the transitional provisions of Basel III and their impact to the Group's capital position see section 12.

5.3 Additional Tier 1 Capital

Additional Tier 1 Capital consists of permanent interest bearing shares (PIBS). PIBS are unsecured deferred shares and rank behind the claims of depositors, creditors and investing Members of Newcastle Building Society. Further details on PIBS are given in Note 28 of the Annual Report and Accounts. Under Basel III, the capital value of the Group's PIBS move from Tier 1 capital to Tier 2 capital over a transitional period. For detail of the Society's capital instruments' key features, see section 13 of this report.

5.4 Tier 2 Capital

Tier 2 capital comprises collective or 'general' impairment provisions held against the mortgage book and other balance sheet assets. It also includes PIBS that have been grandfathered from Tier 1 capital under Basel II to Tier 2 capital under Basel III.

6. Capital Adequacy

The Group adopts the standardised approach to credit and operational risk for the purposes of calculating the Pillar 1 minimum capital requirements. Pillar 1 capital requirements are reported to the Board each month and to the PRA on a quarterly basis.

6.1 Internal Capital Adequacy Assessment Process (ICAAP)

The Group assesses the overall capital requirement for current and future activities via the ICAAP. The ICAAP is updated on an annual basis, or more frequently where there is a significant change to the business strategy or a major change to the economic environment. The capital plan is updated in conjunction with the update to the Group's five year strategic plan so that strategy and capital are always in alignment and that the risks arising in pursuit of the strategy are always fully incorporated into capital requirements.

The ICAAP is presented to and approved by the Board on an annual basis. The most recent ICAAP was based on the 2020 audited financial statements and approved by the Board in May 2021.

The ICAAP covers all material risks to determine the capital requirement over the planning horizon and includes stressed scenarios to satisfy both the Board's duty to assess capital adequacy and regulatory requirements. Where Pillar 1 capital is deemed insufficient to cover stressed losses, a supplementary Pillar 2 add-on is applied.

The Group's ICAAP is subject to review by internal audit and external advisers (as part of the three year audit cycle as set out in the internal audit inspection plan) in order to confirm that the approach to the ICAAP is robust, compliant and up to date with the requirements of the PRA Handbook. The Group's ICAAP is subject to the Supervisory Review and Evaluation Process set by the PRA.

6.2 Minimum Capital Regulatory Requirement: Pillar 1 and Pillar 2A

The table below shows the Group's Pillar 1 Capital Resources Requirement (CRR) for each key risk area under the standardised approach (expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes) at 31 December:

	2021			2020		
	On Balance sheet	Risk Weighted Assets[1]	Capital Require-ments	On Balance sheet	Risk Weighted Assets	Capital Require-ments
	£m	£m	£m	£m	£m	£m
Pillar 1						
Mortgage Loans Credit Risk	3,731.0	1,331.6	106.5	3,480.3	1,258.1	100.6
Liquidity Credit Risk	956.4	44.1	3.5	1,109.7	43.0	3.4
Other Assets	66.9	68.3	5.5	62.4	60.7	4.9
Hedging Instruments	-	14.7	1.2	-	5.5	0.4
Mortgage commitments	-	17.2	1.4	-	17.1	1.4
Total Credit Risk (standardised)		**1,475.9**	**118.1**		**1,384.4**	**110.7**
Operational Risk (standardised)		125.2	10.0		109.7	8.8
Total Pillar 1 requirement		**1,601.1**	**128.1**		**1,494.1**	**119.5**
Pillar 2A requirement			16.4			15.7
Total capital requirements			**144.5**			**135.2**

Risk weighted assets and capital requirements are broadly derived from the following balance sheet categories:

Mortgage loans:	Loans and advances to customers. After a change in accounting policy effective for the 2021 accounts, legacy equity release mortgage assets are held at fair value, resulting in a fair value uplift of £63.5m (2020: 86.8m), as detailed in note 13 to the Annual Report and Accounts. Details on the change in accounting policy and its impact on the comparative balances can be found in note 35. This fair value uplift is not subject to credit risk as defined by the CRR and therefore has been excluded from the above exposure.
Liquidity:	Cash and balances with the Bank of England, Loans and advances to banks, Debt securities and Assets pledged as collateral.
Other assets:	Intangible assets, property, plant and equipment, tax assets and other assets.
Hedging instruments:	Hedging instrument credit risk is not based on the Balance Sheet, but is derived in line with the standardised method for own funds requirements for credit valuation adjustment risk. The requirement consists of Credit Valuation Adjustments of £7.6m and EADi adjustments of £7.1m.
Mortgage commitments:	Mortgage commitments are based on contractual requirements the Group has to lend to mortgage customers if demanded. Commitments are not held on balance sheet.
Pillar 2A requirement	These requirements relate to risks not captured adequately by Pillar 1 capital requirements and are set regularly by the PRA following the Group's own assessment and stress testing.

Risk weighted assets and capital are analysed at 31 December by exposure class in line with Article 112 of the CRR as follows:

	2021 £m	2020 £m
Retail Exposures		
Residential Lending	102.3	95.9
Other Secured Lending	0.1	0.1
Past Due Items	2.0	2.2
Total Retail Exposures	**104.4**	**98.2**
Commercial Exposures		
Commercial Lending	2.1	2.4
Total Commercial Exposures	**2.1**	**2.4**
Liquidity and Collateral Exposures		
Deposits with central governments or central banks	-	-
Deposits with Qualifying Money Market Funds	0.1	0.2
Deposits with multilateral development banks	-	-
Financial Institutions	-	-
Covered Bonds	1.4	1.3
Residential Mortgage Backed Securities (RMBS)	1.5	1.6
Initial Margin posted to central counterparties	0.5	0.3
Total Liquidity and Collateral Exposures	**3.5**	**3.4**
Other		
Fixed and other assets	5.5	4.9
Off Balance Sheet derivative	1.4	0.4
Off Balance Sheet commitments	1.2	1.4
Total Other	**8.1**	**6.7**
Operational Risk		
Operational risk under standardised approach	10.0	8.8
Total Operational Risk	**10.0**	**8.8**
Total Pillar 1 Capital Requirement	**128.1**	**119.5**
Pillar 2A requirements	16.4	15.7
Total Capital Requirements	**144.5**	**135.2**

There is no Pillar I requirement in respect of market risk as neither the Society nor the Group holds a trading book. Interest Rate Risk in the Banking Book is dealt with as a capital add-on at Pillar 2, based on the risk appetite set by the Board for a 200bp parallel shift in interest rates.

At 31 December 2021, the Group held excess capital over and above Total Capital requirements of £96.6m (2020: £96.1m).

6.3 Capital buffers

The Group is required under CRD to hold sufficient Common Equity Tier 1 capital to meet its Capital Conservation, Countercyclical and PRA Buffer requirements. The Capital Conservation, Countercyclical and a firm specific buffer set by the PRA combine to form the CRD IV Buffer.

The Capital Conservation Buffer is a buffer for all banks that is held to absorb losses without breaching minimum capital requirements. The buffer is designed to ensure that a degree of excess capital is built up and retained, rather than used to support additional growth or further activities, during periods of non-stress which can be drawn down on if losses are incurred in the future. The Capital Conservation Buffer is 2.5%.

The Countercyclical Buffer can be varied over time. The primary objective of the Countercyclical Buffer is to ensure that the banking system is able to withstand stress without restricting essential services, such as the supply of credit, to the real economy. The Group has no material relevant exposures outside of the UK and consequently is subject to the UK's published Countercyclical Buffer, which was reduced to 0% in March 2020 as a result of Covid-19. The Bank of England announced that the Countercyclical Buffer will remain at 0% until late 2022 when it will increase to 1%. This is expected to increase to 2% in 2023.

The Society is not a globally systemically important institution and therefore holds no systemic buffers.

The Group also holds a specific PRA buffer. This will fall away once the Countercyclical Buffer reaches 2%.

At least 56% of the Total capital requirements has to be met by post-buffer Common Equity Tier 1 and the Group has complied with this requirement throughout 2021. The Group does not 'double count' Common Equity Tier 1: i.e. Common Equity Tier 1 assigned against buffer requirements is not also assigned against capital requirements.

7. Credit Risk Measurement, Mitigation and Reporting

For the purposes of Pillar 3 disclosures, credit risk is sub-divided into residential mortgages, other secured lending, commercial lending, and treasury credit risks. Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent across most of the Group's activities. Adverse changes in the credit quality of borrowers or a general deterioration in the UK's economic conditions could affect the recoverability and value of the Group's assets and therefore its financial performance. Comprehensive risk management policies and processes have been established as part of the Group's overall governance framework to measure, mitigate and manage credit risk within the Group's risk appetite.

7.1 Exposures

The gross credit risk exposures (based on the definitions for regulatory capital purposes, before credit risk mitigation) and the averages for the year are summarised below:

	Average to 31 Dec-21 £m	As at 31 Dec-21 £m	As at 31 Dec-20 £m
Mortgage Assets			
Residential Mortgages[1]	3,215.4	3,373.6	3,057.2
Housing Associations	352.4	323.4	381.4
Other secured lending	1.8	1.6	1.9
Commercial Real Estate Loans	18.4	14.9	21.8
Serviced Apartments	17.8	17.5	18.0
Total Mortgage Assets	**3,605.8**	**3,731.0**	**3,480.3**
Treasury			
Deposits with central governments or central banks	466.5	416.5	516.5
Cash collateral pledged to derivative counterparties	210.7	170.7	250.6
Deposits with multilateral development banks	16.6	16.6	16.5
Deposits with Qualifying Money Market Funds	7.7	5.6	9.9
Covered bonds	164.5	179.4	149.5
Residential Mortgage Backed Securities	160.0	158.6	161.5
Cash in hand and equivalent cash items	7.1	9.0	5.2
Total Treasury	**1,033.1**	**956.4**	**1,109.7**
Total	**4,638.9**	**4,687.4**	**4,590.0**

Notes:
1. Residential mortgages excludes a fair value adjustment of £63.5m (2020: 86.8m). See section 6.2 for more details.

7.2 Retail Credit Risk

The Group has comprehensive policies in place covering all aspects of credit risk management that set out strict criteria that must be followed before funds are advanced. Prospective customer eligibility for loans is controlled by underwriting, using core credit score and affordability criteria. The Group risk appetite is supported by limits for Buy to Let loans, higher LTV loans, geographical exposures and concentration risk arising from, inter alia, larger loans.

These various limits, combined with formal governance and policies, reflect the Group's view and appetite for risk in the retail mortgage portfolio.

All limits and policies are reviewed annually by the Board and the Group Risk Committee and, in between reviews, the profile and profitability of mortgage completions and mortgage pipeline is reviewed in the context of the underlying credit risk profile. An investigation is carried out in the event a loan goes into arrears within the first 12 months of completion to identify causal factors and inform policy generally.

The key areas covered in the lending policy are:

- Limits on loan to value based on types of lending;
- Limits on higher loan to value lending;
- Approved broker requirements;
- Valuation requirements, including use of approved valuers;
- Use of approved solicitor panels;
- Clear mandates with a more senior level of approval required for higher risk loans;
- Use of a detailed affordability model;
- Loan to income limits by number of loans (also tracked by value);
- Credit scoring to identify borrowers deemed a higher credit risk with automatic rejection or referral where appropriate;
- Strict underwriting criteria on borrower credit performance;
- Reporting of geographical concentration against guidelines;
- Maximum loan sizes and large loan limit;
- Strict valuation criteria driven by level of risk inherent within the loan to value;
- The requirement for income validation in all cases;
- Fraud and money laundering procedures including the use of fraud intelligence systems;
- Mortgage indemnity insurance for higher loan to value lending to mitigate loss (> 80% LTV); and
- Return on capital employed benchmark requirements.

In addition, all mortgage products are strictly controlled through the Group's Mortgages and Savings Committee approval, in line with ALCO agreed funds transfer pricing, and subject to minimum return on capital employed and risk appetite.

The Group does not offer and has never offered sub-prime or self-certified mortgages.

Credit risk is calculated using the standardised methodology in line the CRR and CRD regulations. Non-defaulted retail mortgage assets up to 80% LTV attract a 35% risk weighting, whilst the proportion above 80% LTV attracts a 75% risk weighting. Mortgages in default attract a risk weighting of 100% if no provisions are held and LTV is less than or equal to 80%, and 150% where the LTV is greater than 80% and no provisions are held. While the Society has Mortgage Indemnity Guarantee insurance in place for lending greater than 80% LTV, this is not included as mitigation within capital calculations.

7.3 Loans to Housing Associations

The Society has a portfolio of loans to Housing Associations, which is reducing over time. The Society has not undertaken any new lending of this type with balances falling by £58.0m in 2021 to £323.4m, due to redemptions. There has been no loss experience on the portfolio since this area of business commenced and no Housing Association loans have expired or are impaired.

7.4 Commercial Credit Risk

Commercial lending is split between lending to low risk Housing Associations detailed above and Commercial and Residential investment lending.

The Group has not undertaken new commercial lending since 2008, but the Commercial Lending and Credit Risk departments continue to monitor the performance of the legacy loan books on a regular basis.

Generally, the Society expects all loans to be repaid on maturity given the strategy of winding down the portfolio but will grant forbearance in exceptional circumstances when this is also in the Society's best interests. If granted, forbearance to commercial borrowers can take 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.

7.5 Geographical Distribution

The geographical distribution of all mortgage assets at 31 December 2021 is as follows:

	Residential Mortgages	Housing Associations	Other Secured Lending	Commercial Real Estate	Serviced Apartments	Total Balances
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
UK	3,364.5	323.4	1.6	14.9	17.5	3,721.9
Jersey	0.9	-	-	-	-	0.9
Gibraltar	8.2	-	-	-	-	8.2
	3,373.6	**323.4**	**1.6**	**14.9**	**17.5**	**3,731.0**

The geographical distribution of all mortgage assets at 31 December 2020 was as follows:

	Residential Mortgages	*Housing Associations*	*Other Secured Lending*	*Commercial Real Estate*	*Serviced Apartments*	*Total Balances*
	£m	***£m***	***£m***	***£m***	***£m***	***£m***
UK	3,045.0	381.4	1.9	21.8	18.0	3,468.1
Jersey	2.0	-	-	-	-	2.0
Gibraltar	10.2	-	-	-	-	10.2
	3,057.2	**381.4**	**1.9**	**21.8**	**18.0**	**3,480.3**

The Group's Jersey and Gibraltar books are not material in size and considered to be of high credit quality.

The Group's geographic concentration across its residential and BTL lending is detailed below.

	2021 Exposure	**2020 Exposure**
North East	12.1%	12.6%
East of England	8.0%	2.0%
East Midlands	6.5%	6.8%
Gibraltar	0.3%	0.4%
Greater London	14.4%	15.5%
Jersey	-%	0.1%
North West	9.6%	9.5%
Northern Ireland	0.1%	0.1%
Scotland	8.9	8.5%
South East	15.1%	20.1%
South West	7.8%	7.2%
Wales	2.8%	2.4%
West Midlands	6.5%	7.1%
Yorkshire	8.0%	7.7%

7.6 Residual Maturity of Exposures by Asset Class

The following table shows the contractual maturity of the Group's mortgage book. Where a loan is repayable by instalment, each instalment has been treated as a separate repayment in the maturity analysis set out below.

The Group's experience is that, in many cases, mortgages are redeemed before their scheduled maturity date, therefore the maturity analysis illustrated below may not reflect actual experience. From liquidity and matching risk perspectives, the Society's Balance Sheet Management department monitors and reports on expected rather than contractual maturities to ALCO.

Residual maturity of mortgage assets at 31 December 2021:

Mortgage Assets	On demand £m	<12 months £m	1-5 years £m	> 5 years £m	Total £m
2021	3.1	114.6	407.2	3,206.1	**3,731.0**
2020	4.5	94.5	386.9	2,994.4	**3,480.3**

7.7 Treasury Credit Risk

The Group maintains liquidity to meet obligations under both normal and stressed conditions. Liquidity held by the Group meet the regulatory definitions of 'high quality liquid assets' (HQLA) and help to improve asset diversification whilst ensuring associated credit risk is mitigated akin to wider Group activities. As the Group operates with a banking book and not a trading book these assets are held with the intention of only being liquidated prematurely at times of stress.

The Group's treasury exposures giving rise to credit risk include UK Sovereign debt, multinational development banks, banks, building societies and to a lesser extent, other financial and non-financial institutions. The Group's treasury invests in both unsecured and secured assets which are collateralised against UK residential mortgages. All treasury assets are ring-fenced from normal activities and are controlled by the Group's treasury department.

Treasury credit risk also arises through the Group's hedging activities. The Group's treasury department purchases derivatives solely for the purpose of hedging interest rate risk. Credit risk arising from this activity is mitigated through the implementation of industry standard documentation (ISDA master agreements and Credit Support Annexe's) and where possible, the trades are centralised through a central clearing counterparty.

Treasury credit risk also arises through the Group's relationships with third-party providers of custodial services, payment operations as well as Central Bank operations.

The Board's policy on managing treasury credit risk is set out within the Group's treasury policy, Interest Rate Risk Policy and accompanying standards documents. All policies and standards are reviewed at least annually, or more frequently should material changes arise and are approved by both the Society's ALCO and GRC.

Credit limits are set for counterparties (on both an individual and group basis to avoid excessive concentration risk) using PRA recognised external credit assessment institutions (ECAI's) including, Standards & Poor's, Fitch, and Moody's. Market information, country of domicile and tenor of exposure are also considered when establishing limits and calibrating them against the Society's capital reserves so that risk is proportionate to our loss absorbing capacity. Whilst these policies do allow for investment in unrated institutions, permitted exposures are heavily restricted.

The Group's policies define processes on governing exposure limits, as well as introducing new counterparties and amending/removing existing exposures. Limits are monitored by independent departments within treasury and regular management information is reported to key internal stakeholders on a weekly and monthly basis.

The Group's policies and standards outline escalation paths and management actions required to remediate, as well actions required to be taken, should a counterparty's credit rating deteriorate, protecting the Society against material credit losses.

The Group's treasury risk department monitors forthcoming regulatory standards closely to assess any impact to the Group along with subsequent actions which ensure the Group remains compliant.

Note 37 of the 2021 Annual Report and Accounts gives further details of the treasury exposures as at 31 December 2021.

Liquidity Coverage Ratio and Net Stable Funding Ratio

The Group holds sufficient liquid assets, including high quality liquid assets, to cover Pillar 1 and 2 risks, and remained compliant with the Basel Committee on Banking Supervision's (BCBS) Liquidity Coverage Ratio throughout the planning horizon. At 31 December 2021 the Group held a Liquidity Coverage Ratio of 216%.This is in excess of the current minimum requirement of 100% set by regulators. The ratio is calculated with reference to a liquidity buffer of £688.8m and net liquidity outflows of £318.4m.

The BCBS Net Stable Funding Ratio is defined as the amount of available stable funding relative to the amount of required stable funding. The Group's Net Stable Funding Ratio at 31 December 2021 was 136%, well in excess of the expected minimum holding of 100%.

Credit risk exposures to Treasury counterparties

The table below shows the Group's credit risk exposures to Treasury counterparties at 31 December 2021.

	Risk Weighting	S&P rating and Fitch IBCA	Moody's Rating	2021	2020
				£m	£m
Central banks and Governments	0%	AAA-AA-	Aaa to Aa3	416.5	516.5
Cash collateral	0%			170.7	250.6
Multilateral Development Banks	0%	AAA-AA-	Aaa	16.6	16.0
Financial Institutions	20%	AAA-AA-	Aaa to Aa3	5.6	9.9
Asset Backed Securities	20% or 10%	AAA-AA-	Aaa to Aa3	158.6	161.5
Covered Bonds	10%	AAA-AA-	Aaa to Aa3	179.4	149.5
Cash in hand and equivalent	0%			9.0	5.2
				956.4	**1,109.7**

The Group calculates an 8% capital requirement based on the risk weighted assets for the above treasury assets. There is no material difference between the Group's exposures stated above and the Group's exposures prior to credit mitigation.

With the exception of Qualifying Money Market Funds of £5.6m, the Group had no direct treasury exposures to counterparties based in the Eurozone at 31 December 2021. Exposures to multi-national institutions resulting from cash collateral pledged to derivative counterparties contractually arise via the UK arm of those entities with exposures contractually denominated in Sterling. Any other exposures are to counterparties based in the UK and denominated in Sterling.

The table below summarises the treasury exposure by geographic region.

	2021 £m	2020 £m
UK	934.2	1,083.3
Europe (excluding UK)[1]	5.6	9.9
North America	-	-
Multilateral Development Banks	16.6	16.5
	956.4	**1,109.7**

Note

1. Includes £5.6m in Irish & Luxembourg exposures with respect to the Society's subsidiaries' investments in qualifying money market funds.

The residual maturity of treasury exposures at 31 December 2021 is as follows:

	less 12 months £m	1-5 years £m	5-10 years £m	Total £m
Central banks and Central Government[1]	379.8	36.7	-	**416.5**
Cash collateral pledged to derivative counterparties	170.7	-	-	**170.7**
Qualifying Money Market Funds	5.6	-	-	**5.6**
Multilateral Development Banks	-	16.6	-	**16.6**
Residential Mortgage Backed Securities	25.1	133.5	-	**158.6**
Covered Bonds	35.5	141.9	2.0	**179.4**
Cash in hand and equivalent cash items	9.0	-	-	**9.0**
	625.7	**328.7**	**2.0**	**956.4**

The residual maturity of treasury exposures at 31 December 2020 was as follows:

	less 12 months £m	1-5 years £m	5-10 years £m	Total £m
Central banks and Central Government[1]	476.5	25.0	15.0	**516.5**
Cash collateral pledged to derivative counterparties	250.6	-	-	**250.6**
Qualifying Money Market Funds	9.9	-	-	**9.9**
Multilateral Development Banks	-	16.5	-	**16.5**
Residential Mortgage Backed Securities	21.5	140.0	-	**161.5**
Covered Bonds	22.0	127.5	-	**149.5**
Cash in hand and equivalent cash items	5.2	-	-	**5.2**
	785.7	**309.0**	**15.0**	**1,109.7**

Note

1. Includes UK Government Gilts with a value of £36.7m (2020: UK Government Gilts with a value of £43.8m).

7.8 Impairment Provisions for loans and advances to customers

The Group's policy with respect to accounting for impairment of financial assets is given in Note 1 of the 2021 Annual Report and Accounts. Practical application of this policy is achieved as follows:

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.

Movement in credit risk is determined on the basis of the change in the risk of default, 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 Group no longer holds any expectation of subsequent receipt, typically at the conclusion of a negotiation or sale.

The ongoing administration of high quality IFRS 9 impairment models requires significant management experience and judgement, both in assessing historic performance trends and factors and in projecting these into uncertain future economic environments. Best practice guidance issued by professional audit and accountancy firms, IFRS implementation guidance, and banking centric governance and modelling guidance from European and domestic authorities form the foundation of the Group's IFRS 9 impairment response.

For further detail of the Group's application of IFRS 9, see note 41 of the Annual Report and Accounts.

7.9 Past Due and Defaulted Loans

Past due is defined as loans where the borrowers' contracted payments have not been received by the due date. The amounts shown as past due represent the full amount of the loan outstanding, and not just the amount that is past due.

The definition of default is aligned with the loan's categorisation as stage 3 under IFRS 9. A range of internal quantitative and qualitative criteria are used to determining the defaulted status, including arrears of three months or more.

An analysis of loan portfolios, by past due and default status, is given below.

Prime residential mortgage book

The prime residential mortgage book consists of traditional residential loans to homeowners. No sub-prime or self-certification lending has ever been undertaken. The below analysis includes equity release mortgage lending (excluding the fair value adjustment) that is not within the scope of the IFRS 9 credit risk.

	2021 £m	**2021 %**	**2020 £m**	**2020 %**
Neither past due nor in default	2,924.2	99.2	2,656.4	99.1
Past due up to 3 months but not in default	12.5	0.4	14.2	0.5
In default and past due 3 to 6-months	4.8	0.2	4.5	0.2
In default and past due over 6-months	6.3	0.2	4.5	0.2
In possession	0.1	-	0.2	-
	2,778.7	**100.0**	**2,679.8**	**100.0**

Retail BTL mortgage book

The Retail BTL mortgage book consists of buy-to-let individuals with balances < £1m (including legacy business).

	2021 £m	2021 %	2020 £m	2020 %
Neither past due nor in default	395.7	99.0	349.9	99.4
Past due up to 3 months but not in default	2.2	0.6	1.3	0.4
In default and past due over 6-months	1.6	0.4	0.7	0.2
LPA receivership	0.1	-	0.1	-
	399.6	**100.0**	**352.0**	**100.0**

Loans secured on serviced apartments

Loans secured on serviced apartments are loans to retail investors that are secured on apartments.

	2021 £m	2021 %	2020 £m	2020 %
Neither past due nor in default	17.0	96.8	17.5	97.2
LPA receivership	0.5	3.2	0.5	2.8
	17.5	**100.0**	**18.0**	**100.0**

Specialist residential book

The Specialist residential mortgage book consists of portfolio investor buy-to-let (including loans > £1m) and residential investment loans.

	2021 £m	2021 %	2020 £m	2020 %
Neither past due nor in default	27.7	100.0	28.5	89.1
LPA receivership	-	-	3.5	10.9
	27.7	**100.0**	**32.0**	**100.0**

Commercial lending book

The commercial lending book comprises loans secured on commercial property and loans to Housing Associations. Loans to Housing Associations totalling £323.4m have been excluded from the table below as no loans to Housing Associations were past due or in default at 31 December 2021.

	2021 £m	2021 %	2020 £m	2020 %
Neither past due nor in default	14.9	100.0	13.2	60.6
Not past due but in default	-	-	8.6	39.4
	14.9	**100.0**	**21.8**	**100.0**

Allowance for losses on loans and advances to customers

The following table summarises the loss provisions booked under IFRS 9.

Reconciliation table	Loss allowance at 1 January 2021 £000	Increases due to origination and acquisition £000	Decreases due to derecognition £000	Transition between stages £000	Changes in credit risk £000	Gross exposure at 31 December 2021 £000
Prime residential						
Stage 1	328.2	120.1	(40.0)	(828.0)	813.0	392.3
Stage 2	1,859.4	578.5	(164.7)	808.5	(2,061.9)	1,019.8
Stage 3	911.6	127.8	(40.7)	20.5	349.2	1,368.3
Total	**3,099.2**	**826.4**	**(245.4)**	**-**	**(899.7)**	**2,780.5**
Buy to Let						
Stage 1	95.2	7.8	(3.7)	(68.0)	448.1	479.4
Stage 2	236.3	26.0	(13.3)	130.6	(269.1)	110.5
Stage 3	357.6	1.9	-	(62.6)	(142.4)	154.5
Total	**689.1**	**35.7**	**(17.0)**	**-**	**36.6**	**744.4**
Legacy Buy to Let						
Stage 1	-	-	-	-	7.3	7.3
Stage 2	908.8	-	-	-	57.8	966.6
Stage 3	2,059.2	-	(2,059.2)	-	-	-
Total	**2,968.0**	**-**	**(2,059.2)**	**-**	**65.1**	**973.9**
Commercial						
Stage 1	-	-		8.5	110.2	118.7
Stage 2	460.3	-	(287.7)	1,444.8	(868.2)	749.2
Stage 3	5,182.6	-	(979.2)	(1,453.3)	(147.6)	2,602.5
Total	**5,642.9**	**-**	**(1,266.9)**	**-**	**(905.6)**	**3,470.4**
Housing Association						
Stage 1	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**
Serviced Apartments						
Stage 1	141.2	-	(11.2)	38.2	(132.3)	35.9
Stage 2	531.0	-	(49.7)	(138.4)	169.8	512.7
Stage 3	177.7	-	(50.2)	100.2	21.4	249.1
Total	**849.9**	**-**	**(111.1)**	**-**	**58.9**	**797.7**
Policy Loans						
Stage 1	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**
Total						
Stage 1	**564.6**	**127.9**	**(54.9)**	**(850.3)**	**(1,246.3)**	**1,033.6**
Stage 2	**3,995.8**	**604.5**	**(515.4)**	**2,245.5**	**(2,971.6)**	**3,358.8**
Stage 3	**8,688.7**	**129.7**	**(3,129.3)**	**(1,395.2)**	**804.4**	**4,374.3**
Total	**13,249.1**	**862.1**	**(3,699.6)**	**-**	**(1,644.7)**	**8,766.7**

Legacy equity release mortgages are not accounted for under IFRS 9 but under IFRS 4. An allowance for credit risk in respect to these assets is included in their fair value. For further information see Notes 13 and 34 to the 2021 Annual Report and Accounts.

7.10 Credit Risk Mitigation

The Group's core credit risk mitigation is to perform a full assessment of the borrowers' ability to service the mortgage and obtaining adequate security for the loan advanced.

Residential and Buy to Let Mortgages

Residential property is the Group's main source of collateral and means of mitigating credit risk inherent in its residential mortgage portfolio. All mortgage lending activities are supported by an appropriate form of valuation from the Society's approved panel of valuers. All residential property must be insured to cover property risks and this may be done via a third party. Additional protection is also afforded to borrowers through optional income protection insurance. Mortgage indemnity insurance is in place for all new lending higher than 80% LTV, and for loans that fall outside of the standard lending policy.

8. Operational Risk

Operational risk is defined on page 12.

The Operational Risk Capital Requirement (ORCR) for Pillar I capital is determined under the standardised approach as defined by the CRR. The ORCR is calculated by taking the Group's three year average net interest and other income, split across discrete business lines, and applying percentages representing the regulators' assumed risk inherent in these business lines.

8.1 Capital Requirement

At 31 December 2021, the Group's ORCR equated to 12% of net income (12.0% in 2020). The Group's reducing commercial net interest income, a direct result of reducing commercial balances in line with the Group's strategic plan, attract a higher operational risk weighting (15% weighting) than the Group's growing 'retail' (residential) net interest income (12% weighting). The Group's income has been split into 3 separate material business lines (retail, commercial and asset management) and the operational risk percentages as set out in Article 317 of the CRR are applied to calculate the base ORCR.

The ORCR provides the base for assessing the capital required for operational risk. A full assessment of the risks facing the Society and Group has been completed for the purposes of Pillar 2 and add-ons identified where it is felt that the Pillar 1 capital requirement is insufficient. The Group seeks to mitigate operational risk by implementing a strong control environment and ensuring adequate insurance cover is in place across all known high risk areas. For further detail see section 4 of this document, 'Risk Management'.

9. Market Risk

The principal market risk to which the Group is exposed is interest rate risk. The Group operates with a non-trading book.

9.1 Interest Rate Risk in the Non-trading Book

Interest rate risk arises on assets and liabilities which are subject to interest rates. For the Group, these include mortgages, savings and treasury instruments. Interest rate risk arises in case of timing differences on the re-pricing of assets and liabilities. For example, the Society's mortgage assets often have an interest rate that is fixed for 2 to 5 years, whereas interest rates on the Society's share deposits are mostly floating or shorter dated. This exposes the Society to interest rate rises, as in such an environment the costs to finance funding rise more quickly than income on mortgage assets. This risk is managed using financial instruments (derivatives) as well as natural hedging strategies e.g. matching two year fixed rate mortgages with two-year fixed rate bonds, where possible.

The Group's risk appetite for interest rate risk is documented in the Group's interest rate risk policy. This policy includes a comprehensive suite of metrics which ensures the Group does not take excessive amounts of interest rate risk and remains within the risk appetite set by the Board.

9.2 Use of Derivatives

The principal derivatives used by the Group are interest rate swaps. The Group uses such derivatives in accordance with the Building Societies Act 1986, meaning that these instruments are not used for trading activity or for speculative purposes and, accordingly, they are used exclusively to reduce the risk of loss arising from changes in interest rates, although not all derivatives are designated in formal hedge accounting relationships. The Group is not a market-maker and therefore only buys and never sells derivatives. Note 37 of the Annual Report and Accounts gives details of the derivative financial instruments held at 31 December 2021 and note 39 provides details about hedge accounting applied.

The Group uses interest rate gap sensitivity analysis to assess residual exposure to interest rate risk. This analysis shows the Group's exposure to interest rate risk in terms of the net risk after taking account of management action to hedge inherent exposures. The Group's Balance Sheet Management Department is responsible for reporting the Group's interest rate risk exposure monthly to ALCO.

The Group has defined its risk appetite interest rate risk set out within the interest rate risk policy with a majority of the metrics being set against either the Society's reserves or forecasted annual net interest income.

The impact for a 200bp parallel shift as at 31 December 2021 is shown below:

	2021		**2020**	
	+2%	**-2%**	**+2%**	**-2%**
	£m	**£m**	**£m**	**£m**
Next 12 months	(0.3)	0.3	0.4	(0.4)
Next 24 months	(1.4)	1.4	(1.1)	2.3
Next 36 months	(2.1)	2.1	(2.3)	4.6

Note 37 in the Annual Report and Accounts provides further details on the derivative financial instruments held at 31 December 2021.

10. Remuneration

10.1 Remuneration Committee

The Remuneration Committee has responsibility for ensuring compliance with the Regulators' Remuneration Code and for approving disclosures included in this report in relation to remuneration. Further details are available within the Remuneration Committee Report in the 2021 Annual Report and Accounts.

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

The Group's Remuneration Report was last voted on in April 2021. Member approval was given to the 31 December 2020 Directors' Remuneration Report (92.46% approval with 17,177 votes for, 1,400 against and 341 withheld).

10.2 Code Staff

Code Staff are currently defined as senior management, control functions and any employee 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	Typical Functions	Year	Number	Salary or Fees £000	Other Taxable Benefits	Variable Remuneration (Note 1) £000	Total Remuneration £000
Executive Directors	Chief Executive Officer Chief Financial Officer Chief Customer Officer	2021 2020	3 3	811 706	111 102	368 -	1,290 808
Other Directors	Chief Information Officer Chief People Officer Chief Risk Officer Chief Transformation Officer Managing Director of NSSL Managing Director of NFAL	2021 2020	6 7	861 624	128 102	323 -	1,312 726
Control Functions	Balance Sheet Management Compliance Customer Outcomes Internal Audit IT Services Product Development Risk Treasury Underwriting	2021 2020	10 7	745 528	109 95	44 18	898 641
Total		**2021** 2020	**19** 17	**2,417** 1,858	**348** 299	**735** 18	**3,500** 2,175

10.3 Decision Making Process for Determining the Remuneration Policy

The Remuneration Committee considers and makes recommendations to the Board on Executive remuneration and conditions of employment, and also on the general framework of colleague bonus schemes. The Committee met six times during 2021 and consists solely of Non-Executive directors. The Chair of the Committee is Anne Shiels, the other members are Bryce Glover and Mick Thompson. The Chairman, Chief Executive and HR Director (except for items relating to their remuneration) also attend meetings but are not members of the Committee. The Head of HR acts as Secretary to the Committee.

The Committee is responsible for the Group's remuneration policy, although, with the exception of Executive Directors, Executives and those designated as Code Staff, the day to day responsibility has been delegated to the Chief Executive for practical reasons.

The Committee's terms of reference are available online at https://www.newcastle.co.uk/about-us/governance/our-committees/

The Board believes remuneration should be sufficient to attract, retain and motivate colleagues and senior managers to continue to run the Group successfully. 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 whilst continuing to provide value for money for Members.

10.4 Design Structure of the Remuneration System

Basic Salaries

Remuneration packages are normally set at a level to attract, motivate and retain Executives, Officers and staff of the calibre necessary to oversee the Group's operations. Basic salaries are normally set by taking into account salary levels within similar sized financial services organisations and the market as a whole.

The 2021 pay rise for all colleagues ranged from 0% to 12%, with an average 3% received by all colleagues.

Executive Directors, Executives and other Code Staff receive salaries. Non-Executive directors are paid fees set at a level appropriate to reflect the skills and time required to oversee the Group's operations and progress. They receive a base fee and additional fees depending upon the Board Committees on which they sit or chair.

Benefits

All staff, including Executive Directors and Executives are eligible for membership of the Newcastle Building Society Group Personal Pension Scheme, which is a defined contribution scheme. All Code Staff receive a range of taxable benefits, which include a motor vehicle or cash equivalent, private health care, relocation benefits and the ability to participate in a concessionary mortgage scheme. No Executive participated in the concessionary mortgage scheme during the year. Life cover for a lump sum on death in service is also provided of four times basic salary.

10.5 Link between Pay and Performance

Key changes to the Directors' Remuneration Policy for 2021

Significant work has been carried out over recent years to introduce a robust and fair performance and reward framework for colleagues across the Society, in a way that reflects market practice and ensures that the organisation offers competitive total reward practices. Colleague reward is now deemed to be competitive, equitable and ethical, ensuring we can attract, retain, motivate and reward the right people with the right skills to deliver our strategy for our Members. The Executive team were not included in this initial work to adopt market principles and practice.

However, we recognised that these practices should also extend to our Executive team as the Society remained significantly behind the market in this area. During late 2020 the Society began a similar exercise for Executive Directors and other members of the Executive team by commissioning Willis Towers Watson to conduct an independent review of Executive Director and Executive level remuneration, benchmarking against the external market. The review was undertaken as one of a number of inputs that has informed the development of a reward strategy that set out the approach and roadmap for Executive Director and Executive remuneration for the following 3 years. This will ensure the Group can deliver on our aim to attract and retain the right talent at all levels of the organisation and reward them fairly and competitively for performance and achievements.

We stated in the 2020 Remuneration Report that we would begin to put the outcome of this review into practice, and in 2021 we implemented the first phase of realigning our Executive's compensation to bring them more in line with the market place. This represented adjustments of between 4% and 23%. This will be continued in 2022 when further changes will be made, bringing our Executive pay closer in line with peers in our sector and the wider marketplace. This is a crucial step to ensuring our continued success and sustainability.

Performance Related Bonuses

Variable remuneration is limited to discretionary participation in the Group's Bonus Schemes.

The Group operates an Executive Bonus Scheme that applies to Executive Directors and other members of the Executive Committee and a Corporate Bonus Scheme that applied to all other colleagues.

In agreeing the level of Executive bonus, the Remuneration Committee considers performance and a mix of financial and non-financial measures as well as personal objectives.

The Executive Bonus Scheme is performance dependent and is paid in three equal parts, with the first payment in the year after the bonus is earned and the remainder over the following two years. This allows the Committee to review whether the payment remains appropriate, 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.

In agreeing the level of colleague corporate bonus for the year, the Committee considers the Group's delivery of the Corporate Key Performance Indicators (KPIs) which include profitability, underlying business performance, people and customer satisfaction. Progress against the corporate KPIs is formally reviewed by the Remuneration Committee at the end of the financial year with progress being monitored by the Board on a monthly basis.

10.6 Further information on Directors

There is a requirement under the Society rule 14 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. None of the Group's staff or Non-Executive Directors hold any interest in Shares or Options relating to the Group's subsidiary companies.

For further information on the Group's management body, including qualifications and experience, directorships held, recruitment and diversity policies, and committee representation, please refer to the 2021 Annual Report and Accounts available at https://www.newcastle.co.uk/about-us/media-centre/financial-results/.

11. Encumbrance

The European Banking Authority defines encumbrance to mean “pledging an asset or entering into any form of transaction to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.”

The Group makes use of interest rate swaps to mitigate its exposure to interest rate risk as detailed in section 9 of this Pillar 3 report. Cash collateral is pledged to counterparties against the Group’s derivative liabilities to reduce the counterparty’s exposure to the Group. Similarly, cash collateral is received by the Group against its derivative assets to reduce the Group’s exposure to counterparties. Offsetting collateral is pledged in line with underlying Credit Support Annexes with the Group’s financial counterparties. Cash collateral pledged is considered to be encumbered as it is no longer under the legal ownership or control of the Group. Collateral posted is measured against counterparty mark-to-market values and may not reflect the Group's internal valuation of its financial instruments.

The Group also makes use of repurchase agreements with banks in order to access funding. Cash or other non-cash financial asset collateral, typically debt securities, is pledged to secure the funding and reduce counterparty exposure to the Group. The assets pledged are encumbered throughout the duration of the repurchase agreement in place.

There were no debt securities pledged as collateral under repurchase agreements with banks that were considered to be encumbered at 31 December 2021 (2020: £nil).

In the ordinary course of business, the Group may access market-wide facilities provided by central banks secured against non-cash collateral, including mortgage assets. Use of the facilities encumbers the assets pledged as collateral throughout the duration of the facility use.

The Group has also retained a Buy to Let RMBS issued in December 2021 that is held as contingent liquidity for use through the Bank of England facilities or with banks in order to access funding. The notes were not drawn as at 31 December 2021.

The Group’s encumbrance position as at 31 December 2021 is included in the following table. All figures are presented in £millions. The tables below present comparable information to the EBA Disclosure on asset encumbrance templates A and C. The following table is an extract of table F 32.01 – Assets of the reporting institution (AE-ASS). Any eliminated columns are nil:

31 December 2021	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
	Total £m	central bank's eligible £m	Total £m	central bank's eligible £m	Total £m	central bank's eligible £m	Total £m	central bank's eligible £m
Total assets	1333.5	1152.6			3559.3	727.8		
Loans on demand	10.1	-			380.6	369.7		
Debt securities	-	-	-	-	390.8	358.1	390.8	358.1
of which: covered bonds	-	-	-	-	179.4	165.9	179.4	165.9
of which: asset-backed securities	-	-	-	-	158.6	139.4	158.6	139.4
of which: issued by general governments	-	-	-	-	36.2	36.2	36.1	36.1
of which: issued by financial corporations	-	-	-	-	16.6	16.6	16.6	16.6
of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
Loans and advances other than loans on demand	1152.6				2639.1	-		
of which: mortgage loans	1152.6				2639.1	-		
Other assets[2]	170.8				148.8	-		

31 December 2020	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
	Total £m	central bank's eligible £m	Total £m	central bank's eligible £m	Total £m	central bank's eligible £m	Total £m	central bank's eligible £m
Total assets	1,077.3	818.7			3,787.0	825.1		
Loans on demand	8.0	-			478.3	464.5		
Debt securities	-	-	-	-	368.6	360.6	368.6	360.5
of which: covered bonds	-	-	-	-	149.5	149.6	149.5	149.5
of which: asset-backed securities	-	-	-	-	161.5	153.4	161.5	153.4
of which: issued by general governments	-	-	-	-	41.1	41.1	41.1	41.1
of which: issued by financial corporations	-	-	-	-	16.5	16.5	16.5	16.5
of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
Loans and advances other than loans on demand	818.7	818.7			2,659.2	-		
of which: mortgage loans	818.7	818.7			2,659.2	-		
Other assets[2]	250.6				280.9	-		

Notes

1. No encumbered assets are issued by other entities of the Group.
2. Derivative financial liabilities are a source of encumbrance with cash collateral pledged against these liabilities included as 'other assets' for the purpose of Pillar 3 reporting. The other assets category also includes deferred tax assets, plant, property and equipment and prepayments and accrued income. None of these are deemed available for encumbrance in the normal course of business.

The following is an extract of table F 32.04- Sources of Encumbrance (AE-SOU) (any eliminated rows or columns are nil):

31 December 2021	**Matching liabilities, contingent liabilities or securities lent[1]** **£m**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered[2]** **£m**
Carrying amount of selected financial liabilities	575.0	1323.3
Derivatives	-	170.8
of which: Over-The-Counter	-	-
Deposits	575.0	1152.6
Repurchase agreements	575.0	1152.6
of which: central banks	575.0	1152.6
Other sources of encumbrance	-	10.1
Other	-	-
TOTAL SOURCES OF ENCUMBRANCE	**575.0**	**1333.4**

31 December 2020	**Matching liabilities, contingent liabilities or securities lent[1]** **£m**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered[2]** **£m**
Carrying amount of selected financial liabilities	481.0	1069.3
Derivatives	-	250.6
of which: Over-The-Counter	-	-
Deposits	481.0	818.7
Repurchase agreements	481.0	818.7
of which: central banks	481.0	818.7
Other sources of encumbrance	0.0	8.0
Other		8.0
TOTAL SOURCES OF ENCUMBRANCE	**481.0**	**1,077.3**

Notes

1. None of the matching liabilities are from other entities of the Group
2. None of the assets are assets received and reused as collateral or encumbered own debt securities

12. Basel III: leverage ratio and transition

12.1 Leverage ratio

An underlying feature of the financial crisis was the build-up of excessive on and off-balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while maintaining their risk-based capital ratios. At the height of the crisis, the market forced the banking sector to reduce its leverage in a manner that amplified downward pressure on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling bank capital, and shrinking credit availability.

The Basel III reforms introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio is intended to:

- restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy; and
- reinforce the risk-based requirements with a simple, non-risk-based backstop measure.

The Basel Committee is of the view that:

- a simple leverage ratio framework is critical and complementary to the risk-based capital framework; and
- a credible leverage ratio is one that ensures broad and adequate capture of both on and off balance sheet leverage of banks.

The leverage risk appetite is considered on an annual basis with particular ratios agreed as appropriate across business as usual and stressed scenarios separately.

12.2 Transition

Basel III came into force on 1 January 2014 alongside a number of transitional provisions.

The table below shows the 31 December 2021 capital position under Basel III reporting including the existing transitional position and the end point position. The impact of Basel III is mainly in relation to Permanent Interest Bearing Shares (PIBS) which move from tier 1 to tier 2 capital over a transitional period. Other changes that have impacted the Group from 1 January 2014 include the deduction from Common Equity Tier 1 capital of deferred tax assets relating to trading losses, deductions in respect of intangible assets held on balance sheet and inclusion of the FVOCI reserve in capital.

The impact of Basel III has been reflected in the Group capital plans and the ICAAP.

The Group makes use of natural hedging through matching funding against lending in place of structured derivative based interest rate risk mitigation wherever appropriate. With a consequently relatively muted holding of derivative financial instruments for risk purposes and no trading book, the Group limits its risk of excessive leverage through off-balance sheet holdings.

	2021		2020	
	Transitional	End point	Transitional	End point
	Basel III	Basel III[1]	Basel III	Basel III
	£m	£m	£m	£m
Capital resource				
Common Equity Tier 1 capital	221.0	219.1	211.1	204.9
Additional Tier 1 capital	2.0	-	4.0	-
Total Tier 1 capital	**223.0**	**219.1**	**215.1**	**204.9**
Tier 2 capital	18.1	20.1	16.2	20.2
Total capital resource	**241.1**	**239.2**	**231.3**	**225.1**
Exposures				
Risk weighted assets[2]	4,754.3	4,754.3	4,654.5	4,654.5
Off balance sheet commitments	45.7	45.7	47.6	47.6
Potential future exposure[3]	7.1	7.1	3.6	3.6
Fair value adjustments	125.6	125.6	202.9	202.9
Total exposures	**4,932.7**	**4,932.7**	**4,908.6**	**4,906.6**
Leverage ratio (T1/ total exposures)[4]	**4.5%**	**4.4%**	**4.4%**	**4.2%**
Capital ratios at 31 December				
Total RWAs	1,601.1	1,601.1	1,494.1	1,494.1
CET1 ratio	13.8%	13.7%	14.1%	13.7%
Tier 1 ratio	13.9%	13.7%	14.4%	13.7%
Solvency ratio	15.1%	14.9%	15.5%	15.1%

Notes

1. The balances disclosed as the Basel III end point, excludes the transitional adjustment on IFRS 9, which accounts for the difference in Common Equity Tier 1 capital. The balances do not factor in expected accumulated Group profits or the utilisation of deferred tax assets in respect to trading losses by the end point of the transitional arrangement. Rather, it presents an end point Basel III position using the 31 December 2021 Group balance sheet, assuming no movement in reserves or other capital tier 1 and 2 items. Therefore the end point Basel III leverage ratio is expected to be higher than the figure disclosed above.
2. Total assets above reflect the Group's total assets per the 2021 Annual Report and Accounts, excluding fair value adjustments on equity release mortgage assets of £63.5m (2020: £86.1m), fair value adjustments for hedged risk of £62.1m (2020: £116.1m) and the fair value of derivative assets of £14.5m (2020: £nil) held on the balance sheet.
3. Potential future exposure relates to off balance sheet derivative exposures calculated using the current exposure method, applying netting rules.
4. The Group's leverage ratio, calculated as the simple arithmetic mean of the monthly leverage ratio over a quarter, sits at 4.5% for the quarter to December 2021 under the Basel III transitional basis and at 4.4% under the fully loaded Basel III end point.

13. Capital instruments key features

Disclosure template for main features of regulatory capital instruments		Permanent Interest Bearing Shares (PIBS)	
1	Issuer	Newcastle Building Society	Newcastle Building Society
2	Unique identifier: ISIN	GB0006361371	GB0006371529
3	Governing law(s) of the instrument	English	English
	Regulatory treatment		
4	Transitional Basel III rules[1]	Additional Tier 1 / Tier 2	Additional Tier 1 / Tier 2
5	Post-transitional Basel III rules	Tier 2	Tier 2
6	Eligible at solo/group/group & solo[2]	Group	Group
7	Instrument type	PIBS	PIBS
8	Amount recognised in regulatory capital (£m)	10	10
9	Par value of instrument (£m)	10	10
9a	Issue price	100.32%	100.45%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	22-Jun-93	15-Sep-92
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	n/a	n/a
15	Optional call date, contingent call dates and redemption amount	No issuer call	No issuer call
16	Subsequent call dates, if applicable	n/a	n/a
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	10.75%	12.63%
19	Existence of a dividend stopper[3]	Yes[4]	Yes[4]
20	Fully discretionary, partially discretionary or mandatory	Partially discretionary	Partially discretionary
21	Existence of a step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible

Disclosure template for main features of regulatory capital instruments		Permanent Interest Bearing Shares (PIBS)	
24	If convertible, conversion trigger(s)	n/a	n/a
25	If convertible, fully or partially	n/a	n/a
26	If convertible, conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a
30	Write-down feature	None contractual, statutory via bail-in	None contractual, statutory via bail-in
31	If write-down, write-down trigger(s)	n/a	n/a
32	If write-down, full or partial	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	Subordinated debt
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	n/a	n/a

Notes

1. PIBS transition out of AT1 capital into Tier 2 capital in line with the CRR's 'grandfathering' rules, falling fully to T2 capital instruments under fully implemented Basel III.
2. The Newcastle Building Society accounting and regulatory groups are the same.
3. Should the Board pass a resolution delaying or requiring a reduction in the interest payment on an interest payment date and the Society is unable to issue Payment PIBS or Payment Successor securities, the Society shall not pay interest or dividend on any other class of Deferred Shares of the Society, other than any Mandatory PIBS, for a period of 12 months following the passing of such resolution.
4. Interest in respect of the PIBS shall not be paid or credited in respect of any interest period if the Society has at any time before the date for payment of the interest cancelled the payment of any interest or dividend upon any other shares of any class other than deferred shares, or any deposit (including subordinated debt) with the Society.

Glossary of Terms

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 monthly mortgage payments.

Basel III – The third of the Basel Accords, issued by the Basel Committee on Banking Supervision, which are a set of long term changes that designed to strengthen regulatory standards for capital and liquidity. The standards are phased in from 1 January 2014. Basel III became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA / FCA Handbooks.

Capital Conservation Buffer is designed to ensure that a degree of excess capital is built up and retained, rather than used to support additional growth or further activities, during periods of non-stress which can be drawn down on if losses are incurred in the future. The Capital Conservation Buffer was phased in over 4 years until reaching the final level of 2.5% in 2019.

Common Equity Tier 1 Capital (CET 1) – Defined by the PRA as general reserves or qualifying capital instruments. The source of CET 1 for Newcastle Building Society Group are retained earnings and the fair value through other comprehensive income reserve, adjusted for off balance sheet risk, deferred tax, intangible assets and expected credit losses.

Countercyclical Buffer – An amount of capital, calculated against a firm's risk weighted assets that must be held in addition to the firm's Total Capital requirements (TCR) and the Capital conservation buffer. UK regulators are able to be vary the required rate over time to allow the ongoing provision of essential services, such as the supply of credit, to the real economy during times of stress. The Countercyclical Buffer was reduced to 0% of risk weighted assets in March 2020 amid the economic impact of Covid-19. This is due to increase to 1% in 2022 and expected to increase to 2% in 2023.

Counterparty Credit Risk – This is the risk that a counterparty to a transaction could default before final settlement of the transaction.

Credit Risk - The risk that a customer or counterparty is unable to honour their repayment obligations as they fall due.

CRR – Capital Resources Requirement, this is the minimum amount of capital resources that a financial institution must hold as set out in Basel III Pillar 1 rules.

Defaulted loans – Loans where an event has occurred which indicates the Group may not collect all contractual cash flows due, or expects to collect them later than they are contractually due.

Fair Value through Other Comprehensive Income (FVOCI) – financial instruments that are held at the balance sheet at fair value, but where fair value changes are recognised in Other Comprehensive Income, rather than the Income Statement and held in a dedicated reserve. This applies to the Society's Debt Securities. See note 1 to the Annual Report and Accounts for further details and explanations.

Fair Value through Profit and Loss (FVTPL) – financial instruments that are held at fair value, with fair value changes recognised in the Income Statement. This applies to the Society's Equity investments and the legacy equity release portfolio. See note 1 to the Annual Report and Accounts for further details and explanations.

ICAAP – Internal Capital Adequacy Assessment Process. 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.

Interest Rate Risk – This is the exposure to adverse movements in interest rates.

Material – The CRR considers information in disclosures shall be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Operational Risk – The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Past due – Loans on which payments are overdue including those on which partial payments are being made.

PIBS – Permanent Interest Bearing Shares, these are unsecured, deferred shares that are a form of Tier 1 and Tier 2 capital at 31 December 2021. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing Members of the Society.

Pillar 1 – Pillar 1 of the Basel III framework addresses the total minimum capital requirements for Credit, Market and Operational Risks.

Pillar 2 – This is the part of the Basel III framework which sets out the process by which financial institutions review their overall capital adequacy. Supervisors then evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments. This includes all risks, including Pillar 1 risks. The TCR is an outcome from Pillar 2, as is the PRA buffer.

Pillar 3 – This is the part of the Basel III framework which sets out the disclosure requirements for firms to publish details of their risks, capital and risk management. This report is the outcome of the Pillar 3 process.

PRA buffer – All institutions in the UK are subject to Capital Conservation Buffer requirements and Countercyclical Buffer requirements. Where these are not sufficient to capture a financial institution's risk appropriately, the PRA can require the institution to hold an additional PRA buffer under Pillar 2B of the capital framework.

Risk Weighted Assets (RWA) – The value of assets, after adjustment, under Basel III rules to reflect the degree of risk they represent. The Group measures RWA using the standardised approach.

Standardised Approach – the basic method used to calculate credit risk capital requirements under Basel III. For Credit risk, the risk weights used in the calculation are based on the underlying risk and are determined by supervisory parameters. For operational risk, an average of three year historical net income is multiplied by a factor of 12%-18%, depending on the underlying business being considered.

Stress Testing – Various techniques used to gauge the potential vulnerability to exceptional but plausible events.

Subordinated debt – 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). As at 31 December 2021, the Group has no subordinated debt in issue.

TCR – Total Capital Requirements, guidance from the PRA on the minimum level of capital that must be held, consisting of Pillar I and Pillar 2A capital requirements. This does not include capital buffers, which the Group must hold in addition.

Tier 1 Capital – Tier 1 capital is divided into Common Equity Tier 1 and Additional Tier 1 capital. Common Equity Tier 1 capital is defined above. Additional Tier 1 capital includes qualifying instruments, including PIBS under Basel II rules.

Tier 2 Capital – Comprises the Group's collective impairment allowance and PIBS under Basel III rules.