

# Your Branches

## England

### Newcastle upon Tyne

3 Hood Street, NE1 6LZ  
 136 Northumberland Street, NE1 7DQ  
 22 Denton Park Centre, NE5 2RA  
 240 Chillingham Road, NE6 5LP  
 105/107 High Street, Gosforth, NE3 1HA

### North East

**ALNWICK**  
 28 Bondgate Within, NE66 1TD

**ASHINGTON**  
 10 Station Road, NE63 9UJ

**BERWICK UPON TWEED**  
 12 Hide Hill, TD15 1AB

**CHESTER-LE-STREET**  
 45 Front Street, DH3 3BH

**CONSETT**  
 19/21 Middle Street, DH8 5QP

**CRAMLINGTON**  
 34/35 Craster Court, NE23 6UT

**DARLINGTON**  
 87/88 Skinnergate, DL3 7LX

**DURHAM**  
 25 Elvet Bridge, DH1 3AA

**GATESHEAD**  
 221/223 High Street, NE8 1AS

**HARTLEPOOL**  
 133/135 York Road, TS26 9DR

**HEXHAM**  
 3 Beaumont Street, NE46 3LZ

**LOW FELL**  
 574 Durham Road, NE9 6HX

**MIDDLESBROUGH**  
 38 Linthorpe Road, TS1 1RD

**MORPETH**  
 14 Market Place, NE61 1HG  
 Tel: **(0191) 232 0505**

**NORTH SHIELDS**  
 76 Bedford Street, NE29 0LD  
 Tel: **(0191) 261 4940**

**PONTELAND**  
 23 Broadway, Darras Hall, NE20 9PW  
 Tel: **(0191) 276 0330**

**SOUTH SHIELDS**  
 67 Fowler Street, NE33 1NS  
 Tel: **(01665) 603 344**

**STOKESLEY**  
 19 High Street, TS9 5AD  
 Tel: **(01670) 815 919**

**SUNDERLAND**  
 14 Waterloo Place, SR1 3HT  
 Tel: **(01289) 306 417**

**WALLSEND**  
 12/14 High Street East, NE28 8PQ  
 Tel: **(0191) 388 5266**

**WHICKHAM**  
 28 Front Street, NE16 4DT  
 Tel: **(01207) 502 636**

**WHITLEY BAY**  
 78/84 Park View, NE26 2TH  
 Tel: **(01670) 735 813**

**North West**

**CARLISLE**  
 2/4 English Street, CA3 8HX  
 Tel: **(01325) 383 656**

**PENRITH**  
 12 Market Square, CA11 7BX  
 Tel: **(0191) 384 3182**

**Scotland**

**DUMFRIES**  
 2/6 Queensberry Square, DG1 1BL  
 Tel: **(01429) 233 014**

**Overseas**

**Gibraltar**  
 197-201 Main Street  
 Tel: **(00 350) 200 41143**

Tel: **(01670) 514 702**

Tel: **(0191) 259 5286**

Tel: **(01661) 821 828**

Tel: **(0191) 454 0407**

Tel: **(01642) 711 742**

Tel: **(0191) 565 0464**

Tel: **(0191) 262 3496**

Tel: **(0191) 488 1766**

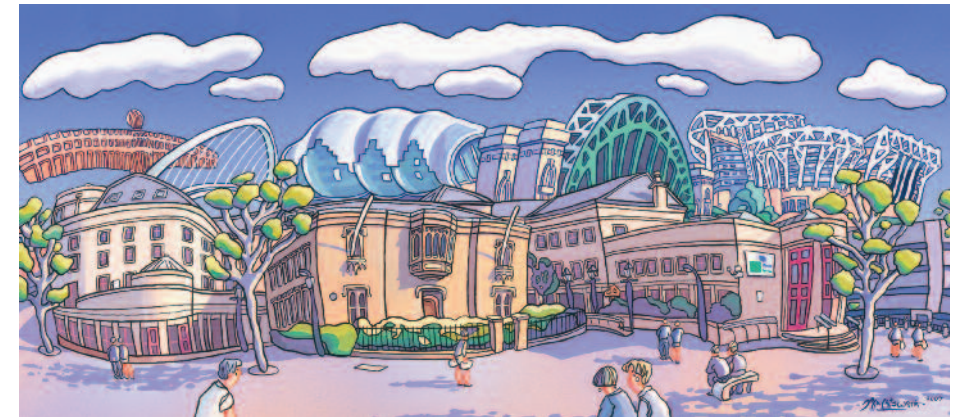
Tel: **(0191) 252 0642**

Tel: **(01228) 524 518**

Tel: **(01768) 862 888**

Tel: **(01387) 253 815**

## Newcastle Building Society



## Summary Financial Statement 2013

[www.newcastle.co.uk](http://www.newcastle.co.uk)

Principal Office: Portland House, New Bridge Street, Newcastle upon Tyne, NE1 8AL  
 Telephone: (0191) 244 2000.

Local knowledge. Mutual understanding.





Jim Willens - Chief Executive

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

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

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

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

#### Financial Performance

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

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

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

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

The number of mortgage loans in arrears of 3 months or more, across the whole mortgage portfolio, reduced from 0.76% to 0.64%; well below industry averages. Our liquidity at the end of the year was strong at 26% compared to 30% at the start of 2013. This reduction was in line with our expectations and we expect to see a further fall in 2014 as we see the momentum continue on residential lending and we reach a more optimal level of liquidity.

#### Members

We continued to support first time buyers throughout the year with a range of competitive 90-95% LTV products, which were very popular with homebuyers. We have operated in the first time buyer space for several years and the Society has its own mortgage indemnity insurance arrangements in place, which has meant we have not had to rely on government schemes to support first time buyer lending. The government initiatives have been successful in starting to rebuild confidence in the housing market and we are very supportive of the objectives of the schemes. Our lending to first time buyers more than doubled in 2013 in comparison to 2012 and our overall gross

lending increased to £350m. We expect to maintain this increased level of activity going forward. In addition to offering a great range of mortgage products we also invested in projects to streamline our mortgage processes with the main focus being on the customer journey and experience. Our "Members First" project team completed a review of the mortgage maturity and application processes and identified significant improvements, with the help of customer feedback, which has resulted in improved retention rates on maturities and quicker response times on mortgage applications. In 2014 we will be devoting significant resource to our online mortgage application system after several years of major investment in people and systems to be ready for the Mortgage Market Review, new regulatory requirements effective from 1 April 2014. We continue to offer all of our mortgage products to both new and existing customers.

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

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

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

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

### Employees

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

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

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

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

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

### Communities

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

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

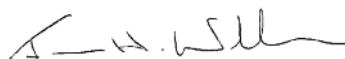
We have continued to provide support to our corporate charity of the Year. For 2012/2013 this was Help for Heroes who received a cheque for £24k and for 2013/2014 our chosen charity, as selected by staff, is the Alzheimer's Society. In addition to staff organising fund raising events the Alzheimer's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

As I mentioned in the Members section above, through the popularity of our Sir Bobby Robson Foundation accounts we have donated more than £700k to the charity, which has contributed towards its efforts in fighting the battle against cancer. More details of our work with communities and charitable activities are given on page 5.

### Summary

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

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



**Jim Willens**  
Chief Executive  
24 February 2014

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

### Our Cornerstones

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

### Boardroom Charity Challenge

2013 saw us engage with more than 650 school pupils aged 9 and 10 as part of our six-week long curriculum-based challenge. It aims to teach children more financial independence later in life through being educated about core numeracy and literacy skills now. Children, through their learning, had to develop a business idea that would utilise the £500 prize fund.

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



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

### Celebrating our Local Heroes

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

In 2013, The Young Person's award winners included a group of young teenagers who plunged into icy winter waters when a 78 year old stroke victim fell into the lake and could not lead himself to safety.

Without their help the incident could have resulted in a fatality.

While the Sir Bobby Robson Foundation Team award winner was the Dumfries and Galloway's Special Olympic Team. This group of extraordinary individuals had to overcome all sorts of personal difficulties to come together as a team; they are remarkable and great role models for people with disabilities.

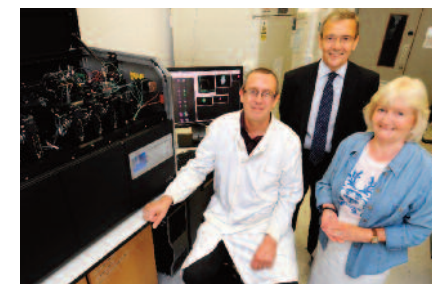


The Dumfries & Galloway Special Olympic Team with Pauline Buglass (centre) from the Sir Bobby Robson Foundation.

### Celebrating two years in partnership with the Sir Bobby Robson Foundation

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

There are many other CSR activities that take place within the Society, this is just an example. For more information please visit: [www.csr.newcastle.co.uk](http://www.csr.newcastle.co.uk)



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



## Supporting Savers in Becoming Homebuyers

The Society's Big Home Saver and ISA grew in popularity this year, which was supported by national media coverage, as savers took advantage of the competitive interest rate.

These products are mortgage deposit savings accounts that pay a competitive interest rate on savings and can reward investors with a bonus of up to £1,000, after successfully saving for and completing a mortgage with the Newcastle. Therefore helping them with the costs involved in buying their first home. The products were introduced in a bid to encourage potential homeowners to save for that all important mortgage deposit, which will help give borrowers extra flexibility when it comes to choosing a mortgage deal.

### Account Details:

- Interest Rates Monthly - (Variable, Including Bonus) 2.98% Gross/3.02% AER\*;
- Monthly (Variable, Excluding Bonus) 1.98% Gross/2.00% AER\*;
- Minimum initial investment - £1, maximum initial investment - £500, minimum monthly investment £1 and maximum monthly investment £500.

The Big Home Saver is available in our branch network and online, for full terms and conditions please visit: [www.newcastle.co.uk](http://www.newcastle.co.uk)

## Continuing to Help Homebuyers onto the Property Ladder

We continued to offer a fantastic range of mortgage products in 2013, up to 95% Loan to Value, covering fixed and variable interest rates to suit the borrower's circumstances.

Our gross lending increased to £350m in 2013 compared to 2012 and this included increased lending to first-time buyers helping them get their foot on the housing ladder. As confidence in the housing market continues to rebuild we expect current levels of activity to continue into 2014.

For information on these products and to see full terms please visit: [www.newcastle.co.uk/mortgages](http://www.newcastle.co.uk/mortgages)

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**

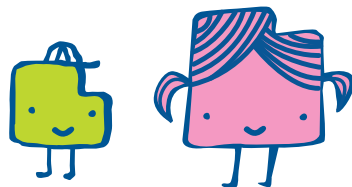
## Youngsters Encouraged to Save Early

Children continue to be encouraged to save through the Society's popular Big Little Saver product. This account encourages children to get into the habit of saving early by rewarding them for monthly deposits.

The Big Little Saver has been available since 2011 and since its launch has seen over 6,000 children start to save with the Newcastle. Within the account opening pack our young savers also receive a story book outlining the importance of saving.

The account can be opened as a savings account or a Junior ISA. The account pays a competitive rate of 2% and rewards monthly deposits with a 1% bonus, this is subject to no withdrawals, and savers can pay up to £250 a month into the account.

For terms and conditions please visit: [www.biglittlesaver.co.uk](http://www.biglittlesaver.co.uk)



### Don't miss out!

We have to remind all our Members from time to time that they can choose not to receive marketing mailings, emails or phone calls from the Society. To find out whether you are opted in or out, or to change your preferences, just ask next time you're in your branch or call our Newcastle-based Customer Contact Centre on **0845 734 4345\*** and our staff will be happy to help. Remember though, if you choose not to receive marketing messages from the Society, you may miss out when we launch new products and services.

### Important Information about Compensation Arrangements

Deposits with the Society are covered by the Financial Services Compensation Scheme (FSCS). The FSCS can pay compensation to depositors if a building society is unable to meet its financial obligations. Most depositors, including most individuals and small businesses, are covered by the scheme.

In respect of deposits, an eligible depositor is entitled to claim up to £85,000. For joint accounts each account holder is treated as having a claim in respect of their share so, for a joint account held by two eligible depositors, the maximum amount that could be claimed would be £85,000 each (making a total of £170,000).

The £85,000 limit relates to the **combined** amount in all the eligible depositor's accounts with the building society, including their share of any joint account, and not to each separate account.

For further information about the scheme, please call us on **0845 734 4345\*** or ask a member of staff from your local branch.

### Staying safe online

At the Newcastle, we take security very seriously but there are a few things you can do to help keep your online accounts safe:

- Don't write down your online log in details;
- Make sure you have up-to-date anti-virus and anti-spyware software installed on your computer;
- Take care when opening email attachments;
- Ensure you always log off properly when you've finished transacting online;
- We will never ask you to send personal details in an email; do not respond to suspicious emails asking for such information; and
- Never include your personal details on an email. Use our secure online email service.

### Want to be kept up to date?

Why not sign up to receive our regular e-Newsletter? The e-Newsletter is an email service that gives you regular updates, news and advice that we think could be useful. It's very straightforward to register, simply visit: [www.newcastle.co.uk/newsletter](http://www.newcastle.co.uk/newsletter) and sign up.

### Why not also join our Priority Register?

The Priority Register is an email service that keeps you up-to-date with our new products and services – just as they're launched, so you don't miss out. It's easy to join, simply ask in branch or telephone **0845 734 4345\***, provide your email address and that's it!

We always try to keep the marketing messages to a minimum – only sending you the information on products that we really think could be of interest to you.

\*Lines open Monday to Friday, 8am to 6pm (excluding Bank holidays)

### Notice of AGM

Notice is given that the AGM of Members of Newcastle Building Society will be held on Wednesday 23 April 2014 in the Sir Bobby Robson Suite, St James' Park, Newcastle United Football Club, Newcastle upon Tyne NE1 4ST at 1.45pm prompt, for the following purposes:

#### Ordinary Resolutions

1. To receive the Annual Report & Accounts.
2. To re-appoint PricewaterhouseCoopers LLP as auditors.
3. To approve the Report on Directors' Remuneration.


#### Election and Re-election of Directors

4. i) To re-elect David John Buffham  
ii) To elect Andrew Scott Haigh  
iii) To re-elect Ronald Joseph McCormick  
iv) To re-elect Richard Derrick Mayland  
v) To re-elect Philip James Moorhouse  
vi) To re-elect John Morris  
vii) To re-elect Angela May Russell  
viii) To re-elect Catherine Rosemary Reid Vine-Lott  
ix) To elect Ian William Ward  
x) To re-elect James Henry Willens

#### Special Resolution

5. To consider and, if thought fit, to pass the following resolution as a Special Resolution: That the Rules of the Society be amended in the manner specified in the document produced to the meeting and initialled by the Chairman for the purposes of identification.

By Order of the Board



**Ian Good**  
Group Secretary  
24 February 2014

### Notes

1. These notes form part of the Notice of Meeting.
2. Under the Society's Rules, a member entitled to attend the Meeting and vote may appoint a proxy to attend and vote on his or her behalf. You may appoint the Chairman of the Meeting or anyone else as your proxy and your proxy does not have to be a member of the Society. Your proxy may vote for you at the Meeting but only on a poll.
3. You may instruct your proxy how to vote at the Meeting. Please read the instructions on the Voting Form.

### How to Vote

#### Online

1. You can vote online at [www.newcastle.co.uk/agm](http://www.newcastle.co.uk/agm)
2. You must vote online by **5pm Thursday 17 April 2014**. 20p will be donated to our Charity of the Year, The Alzheimer's Society, for every online vote received.

#### Freepost

1. Complete, sign and detach the Voting Form.
2. Post it in the pre-paid envelope provided. No stamp is required. Your form should be received by the Society no later than **5pm Thursday 17 April 2014**.

**Please do not include passbooks or cheques in the pre-paid envelope.**

#### At the AGM

1. You can vote in person at the AGM on **Wednesday 23 April 2014**.
2. Bring your Voting Form, or other evidence of Membership, to the Meeting.

#### Agenda:

- Registration 1:00pm.
- AGM 1:45pm prompt.
- Refreshments served upon registration and after conclusion of the Meeting.

### AGM Business

1. The Annual Report and Accounts for the year ended 31 December 2013 are required to be received formally by Members at the AGM.
2. It is a requirement that the auditors are appointed by the Members each year. The Board is proposing the re-appointment of PricewaterhouseCoopers LLP as auditors.
3. Although it is not a legal requirement, in line with current best practice, Members are being asked to approve the Report on Directors' Remuneration for the year ended 31 December 2013.
4. In accordance with best practice on corporate governance, the Society's Directors who are available to stand for election or re-election at the AGM are doing so. Details of all the Directors are set out on pages 12 and 13.
5. The Board is proposing a number of changes to the Society's Rules at this year's AGM. These changes will permit the issue of new forms of capital instrument and will update the Rules regarding Permanent Interest Bearing Shares. The proposed changes are in line with changes to the Building Societies Association's Model Rules issued in October 2013. Further information, including a summary of the principal proposed changes to the existing Rules, can be found on page 11.

**The Board recommends that you vote in favour of all the resolutions and for the election or re-election of the Directors.**

### Being a Member

#### What does being a Member actually mean?

As a member of a building society, you are more than just a customer; you have certain rights to receive information and to voice your opinions on the way your building society is run. Building societies are unlike banks, which are public limited companies (plcs) owned by, and run for, their shareholders. As a mutual organisation, a building society does not have any other set of owners, separate from its Members, to influence or direct its business.

#### As a member what can I expect to receive?

Members are entitled to receive a range of information, including:

- A copy of the Society's Rules and Memorandum (on request);
- A copy of the annual Summary Financial Statement on the Society's business (which is sent to qualifying Members before the AGM);
- A copy of the detailed Annual Report and Accounts (on request); and
- Notice of the AGM.

#### Does every member have the same rights?

Most people taking out a mortgage or opening a savings account with a building society become Members and therefore have rights to receive information as mentioned above.

Saving Members with less than £100 in their account, borrowing Members with a mortgage of less than £100, and Members under the age of 18 have restricted rights, allowing them only to receive information on request. They cannot vote, nominate directors or speak at AGMs, for example.

#### Joint Account

In many cases, savers and borrowers have joint accounts; for instance, a husband and wife may hold one account between them. In such cases, only the first-named account holder is entitled to all of the Members' rights; the second, or subsequent, named holders are entitled to fewer rights - mainly regarding obtaining information. It is therefore important that careful consideration is given to the order of names on a joint account.

## How to get there

### By Road

From the A1 North or South take the A184 slip road. Follow signs for the A189 to cross the Redheugh Bridge, leading onto St. James' Boulevard. Travel all the way to the end of the Boulevard.

Turn left at the traffic lights on to Barrack Road (the Stadium is on the right) and over the next set of traffic lights move into the right-hand lane. Turn right at the next set of traffic lights into the football club.

### By Rail

Newcastle Central Railway Station is only five minutes from the football club by car or taxi. The Tyne & Wear metro station system provides a link direct to the football club. For details of the rail service please call National Rail on 08457 484 950.

For details of the Tyne & Wear Metro System call Nexus on 0191 203 3333.

### Local Travel Information

If you would like to find out more about local transport information you can also contact Traveline on 0871 200 2233.

### Venue Details

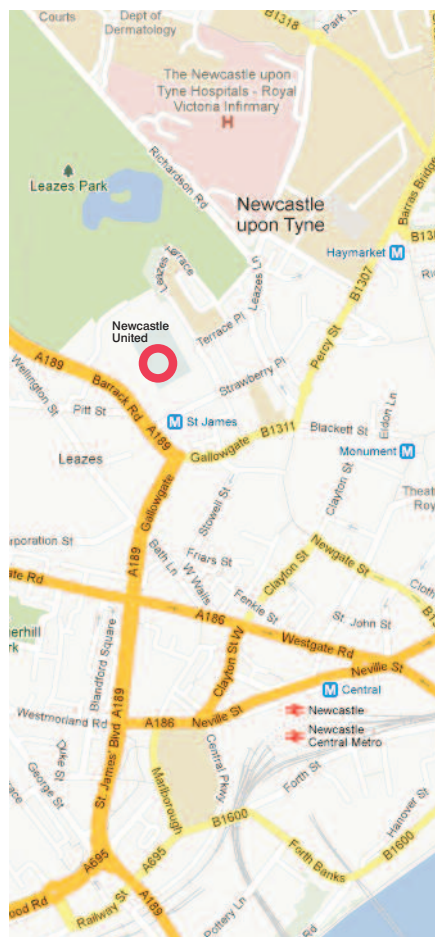
Upon arrival, if travelling by road you will be advised by an attendant where to park. The attendant will also direct you to the relevant reception area.

You may use the parking available at St James' Park, for which a cost is payable.

In the event of level 1 of the multi-storey car park being full, you may use the nearby low-level two storey car park. The cost there is 60p per hour from 8am - 10pm.

### Wheelchair access is available.

Some limited disabled parking spaces are also available and can be booked in advance by calling Christine Heslop on 0191 244 2735.



### Proposed Rule Changes

There is an item (number 5) on the agenda at this year's AGM where the Board is proposing to amend the Rules of the Society to permit the issue of new forms of capital instrument and to update the Rules regarding Permanent Interest Bearing Shares (PIBS) in line with an update to the Building Societies Association Model Rules issued in October 2013.

### PIBS Rules/Changes regarding Capital Instruments

The Society (like other building societies and banks) has to maintain capital as protection against losses. The Society's capital has to date consisted mainly of retained profits supplemented by issues of Permanent Interest Bearing Shares (PIBS). Regulatory changes in the UK and Europe mean that financial institutions are required to hold more Core tier 1 Capital (or 'Common Equity tier 1 Capital' as it is referred to) and that further issues of PIBS will no longer qualify to add to this.

New forms of qualifying capital instrument will be available to building societies under the new European regulations, including 'Core Capital Deferred Shares' (CCDS), which will count as Common Equity tier 1 Capital, and other forms of capital. The Rule alterations are designed to enable the Society to issue capital instruments of this nature, should the Board believe it is in the interests of Members to do so. The Society's existing Rules which cover PIBS are also being updated as part of these changes.

### Proposed alterations to the Rules include the following:

- Extending definitions to include 'Deferred Share' (which includes PIBS, CCDS and, potentially, other forms of capital under the new European regulations); there is also a specific definition of CCDS, and definitions relating to 'Periodic Distributions' i.e. any distributions paid to CCDS holders. In particular there is a definition of 'Periodic Distributions Cap' which, in order to protect the Society's reserves, limits the maximum amount of distributions which the Society may pay on any CCDS initially to £15 per share per year (calculated on an assumed first issue price of £100 per share), adjusted each year by reference to the UK Consumer Price Index.
- The Society will have the power to issue different types of Deferred Share to satisfy the requirements under the new European regulations for different types of capital instrument.

- The Board will have the authority to decide and publish the Society's policy on Periodic Distributions, and (subject to the Periodic Distributions Cap) to decide the amount of Periodic Distributions (if any) to be paid on the CCDS each year. Periodic Distributions will generally be paid from profits earned in the relevant year.
- Clarification of the order in which any losses of the Society would be met: generally, the reserves continue to take the first loss, and if they are fully depleted then investors in the Society will take losses according to the ranking of their investment in the Society. CCDS (which will absorb losses at the same time as reserves) will be the lowest ranking capital (ranking below creditors and all other Members). Under the new European regulations, the Society may also issue different types of instrument which, by their terms of issue or by applicable law, may, in certain circumstances, take losses even before the reserves are fully depleted.
- Clarification that, on a winding-up, a CCDS holder would not receive any payment until all creditors and other Members had been repaid. Also to provide that CCDS holders may share in any surplus assets on a winding-up: the terms of issue of CCDS will set out how this share is to be calculated.

### If you would like a copy of:

1. The existing Rules, with the alterations highlighted;
2. The Rules including all the proposed changes; and/or
3. The document setting out the proposed amendments,

then please visit the Society's website: [www.company-newcastle.co.uk/financial-results/](http://www.company-newcastle.co.uk/financial-results/) or, you can request copies from the Group Secretary, Newcastle Building Society, Portland House, New Bridge Street, Newcastle upon Tyne NE1 8AL.

It is intended that, if the alterations to the Rules are agreed at the AGM, they will take effect (subject to registration by the FCA) on 1 August 2014.

**The Board believes that these alterations will benefit the Society and its Members and recommends that Members vote FOR the resolution covering the alterations.**



**1. Jim Willens**

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

**2. Phil Moorhouse**

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

**3. Angela Russell**

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

**4. Andrew Haigh**

Chief Operating Officer  
Andrew has a track record in transforming and developing businesses. With 30 years' business experience and over 20 years in the mutual sector, he has held leadership roles as both an Executive and a Non Executive Director. As the former Chief

Executive of Engage Mutual Assurance, he led the organisation for over 10 years, through a period of sustained growth and innovation. Andrew gained his strong customer focus through his early career in marketing and customer service roles with British Airways, Barclays and National & Provincial Building Society. An advocate of mutuality, he was previously Chairman of Mutuo, an independent organisation which promotes the development of new and existing mutuals to Government.

**5. Patrick Ferguson**

Strategy, Planning and Risk Director  
Patrick is a new member to our Board having been appointed in February 2014 and will offer himself up for annual election at the 2015 AGM. Before this he was the Society's Group Risk Executive for almost four years. He has extensive experience in risk management, including conduct risk and regulatory compliance, in addition to financial reporting, planning, and budgeting. He has 15 years experience in the Building Society sector and has held the posts of Finance Director, General Manager, Finance and Head of Strategy and Planning. He qualified as a chartered accountant with PricewaterhouseCoopers.

**6. Richard Mayland**

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

**7. John Morris**

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

**8. Ian Ward**

Non Executive Director  
Ian has spent over forty years in financial services including being Chief Executive of Leeds Building Society (LBS) for sixteen years until his retirement from that role in August 2011. Ian is now a non-executive director of Harrogate and District NHS Foundation Trust and a member of its Audit Committee. He also undertakes consultancy work

for some other businesses. Ian was a director and vice-president of Leeds, York and North Yorkshire Chamber of Commerce and Chairman of its Property Forum. Also, he was a member of the national council of the Building Societies Association and a director and Chairman of the Audit Committee of Leeds Training and Enterprise Council. He has been a non executive director of Newcastle Building Society since July 2013 and is a member of the Group Risk Committee, and Director of Newton Facilities Management Limited (a subsidiary of the Society).

**9. Catherine Vine-Lott**

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

**10. David Buffham**

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

**11. Ron McCormick**

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



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

The main objectives of the committee are summarised as follows:

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

#### Composition of the Committee

The committee consists solely of Non Executive Directors; Catherine Vine-Lott (Chairman of the Committee), David Buffham, Richard Mayland and John Morris. The attendance record of the committee is shown on page 24 of the Annual Report and Accounts. The committee operates to a rolling agenda in order to ensure that it fully discharges its responsibilities. It normally meets at least three times each year.

The committee is supported by the Chief Executive and Human Resources Executive who attend meetings in an advisory capacity only. The Chief Executive does not attend any part of the meeting where his own remuneration is being discussed.

#### Regulators' Remuneration Code

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

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

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

#### Code Staff

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

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

A summary of the remuneration of Code Staff and the business areas in which they operate is shown on page 16. One Code staff member left the Society in the year (the Business Services Director) and details are given on page 16.

#### Remuneration Strategy

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

##### Basic Salaries

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

#### Performance Related Bonuses

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

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

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

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

##### Exceptional Items

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

##### Pensions

All staff (including Executive Directors and Executives) are eligible to join the Newcastle Building Society

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

##### Other Benefits

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

##### Service Contracts

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

##### Policy on Remuneration of Non Executive Directors

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

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



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

Notes:

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

Summary of the Remuneration of Code Staff

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

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

\*Includes benefits and pension contributions.  
There was no deferred remuneration in 2013 or 2012.

Catherine Vine-Lott  
Chair – Remuneration Committee  
24 February 2014



**Overview of Business and Strategy**

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

As well as providing mortgage and savings accounts to our Members we also provide a number of other related services, including regulated financial advice for investments through our partner Openwork LLP, insurance products including home and contents insurance through our partner Legal & General Group plc, as well as other services we believe our Members will benefit from.

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

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

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

- To reduce the cost base and improve profitability and key capital ratios to further strengthen the Society's financial base.

The Society uses a suite of Corporate Key Performance Indicators to monitor performance against the strategic plan and these are referred to in more detail in the Directors' Report on page 19 of the Annual Report and Accounts. Since 2010 the Society has made excellent progress against all of its key objectives and further details are provided in the Chief Executive's report on page 6, within the detailed commentary provided below and in graph format in the 2013 Key Highlights section on page 17.

**Overview of Financial Performance**

Profit before tax continued an improving trend, increasing 33% to £2.0m in 2013 from £1.5m in 2012. This improvement was mainly as a result of improved operating profit and lower overall provisions for liabilities and charges. Operating profit before impairments, provisions and exceptional items is considered by the Board to be a primary financial KPI; it improved to £10.6m in 2013 from £10.4m in 2012.

The modest improvement has been achieved despite significantly reduced income from the financial advice subsidiary Newcastle Financial Services Limited (NFSL) following the implementation of the Retail Distribution Review, as well as the costs of winding down legacy assets. This progress continues to be supported by a diversified income stream generated by the Solutions business coupled with a cost base that is becoming more efficient.

The Group balance sheet retains its strength and quality. Key financial metrics show liquidity remaining robust at 26.3% (2012: 30.2%) and the capital base continuing its improving trend with the Core Tier 1 ratio increasing by 1.2% to 11.9% from 10.7% in 2012. This important ratio, which provides a measure of protection afforded to Members, has increased by 37% since the Society's revised strategy was launched at the start of 2010.

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

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

**Income statement review**

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

**Net interest income**

Net interest margin has increased from 0.47% in 2012 to 0.61% in 2013, the increase driven mainly by increased lending volumes and lower funding costs as retail savings rates fell in response to falling mortgage rates and the funding initiatives provided by the Bank of England. The Society's margin also benefitted from holding reduced levels of liquidity.

**Administrative expenses and depreciation**

The Society's key measure of expenses is the ratio of cost incurred to income generated, where cost excludes property fair value adjustments. This metric improved to 76% in 2013 from 77% in 2012 and is expected to fall further.

**Overall Arrears**

The Society measures mortgage arrears of 3 months or more (excluding possessions) by both number of loans and balance as a percentage of total number of loans and total balance, respectively. The levels of arrears experienced continue to be below Council of Mortgage Lenders reported averages. Overall by number of loans arrears are down by 12bp to 0.64% from 0.76% in 2012.

**Customers**

In addition to financial indicators the Board monitors a range of measures designed to reflect how well the Group is meeting Members' and customers' needs. The Group's key customer metric being the customer

satisfaction survey which shows the proportion of our customers who say that they are pleased with the service they received.

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

**Staff**

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

**Outlook**

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

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

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

**Angela Russell**

Finance Director & Deputy Chief Executive  
24 February 2014

For the year ended 31 December 2013

This Summary Financial Statement is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to Members and depositors, free of charge on demand, at every branch of the Newcastle Building Society from 21 March 2014.

Approved by the Board of Directors on 24 February 2014:  
**Phil Moorhouse, Chairman**  
**Catherine Vine-Lott, Chairman of the Audit Committee**  
**Jim Willens, Chief Executive**

Group results for the year

	2013 £m	2012 £m
Net interest receivable	23.4	19.9
Other income and charges	24.7	27.9
Gains less losses from financial instruments and hedge ineffectiveness	0.5	0.7
Losses recognised on revaluation of investment properties	(1.1)	(1.0)
Administrative expenses and depreciation	(36.9)	(37.1)
<b>Operating profit before impairments, provisions, FSCS levy and exceptional items</b>	<b>10.6</b>	<b>10.4</b>
Impairment losses and other costs	(5.9)	(7.6)
Provision for liabilities and charges	(3.3)	(2.1)
Gain on disposal of Prepaid Cards Business	0.6	0.8
<b>Profit for the year before taxation</b>	<b>2.0</b>	<b>1.5</b>
Taxation expense	(1.9)	(1.5)
<b>Result after taxation for the financial year</b>	<b>0.1</b>	<b>-</b>

For the year ended 31 December 2013

Group financial position at the end of the year

	2013 £m	2012 £m
<b>Assets</b>		
Liquid assets	887.5	1,114.1
Mortgages	2,678.0	2,697.9
Fair value adjustments for hedged risk	13.6	40.0
Other loans	22.7	29.7
Derivative financial instruments	21.4	38.1
Fixed and other assets	46.5	120.3
<b>Total assets</b>	<b>3,669.7</b>	<b>4,040.1</b>

Liabilities

Shares	3,236.1	3,445.4
Fair value adjustments for hedged risk	4.5	17.5
Borrowings	141.6	246.0
Derivative financial instruments	13.1	40.0
Other liabilities	17.7	30.5
Subordinated liabilities	59.0	58.9
Subscribed capital	29.7	29.7
Reserves	168.0	172.1
<b>Total liabilities</b>	<b>3,669.7</b>	<b>4,040.1</b>

Summary of key financial ratios

	2013 %	2012 %
Gross capital as a percentage of shares and borrowings	7.60	7.05
Liquid assets as a percentage of shares and borrowings	26.28	30.18
Result for the year as a percentage of mean total assets	-	-
Management expenses for the year as a percentage of mean total assets	0.96	0.88



For the year ended 31 December 2013

## Notes

### Gross capital as a percentage of shares and borrowings

Gross capital represents reserves, plus subordinated liabilities and subscribed capital. The purpose of capital is to provide a buffer against any losses arising from a society's activities, thereby protecting investors' funds.

The gross capital ratio measures the extent to which a society's activities are funded by capital, compared to shares and borrowings. The higher this ratio is, the greater the protection for investors.

### Liquid assets as a percentage of shares and borrowings

Liquid assets are assets held by a society, which are in the form of cash or assets which are readily convertible into cash. The ratio is maintained at a level which the Directors consider appropriate for the activities of the Society.

### Profit for the year as a percentage of mean total assets

A building society needs to make a reasonable level of profit each year in order to maintain and strengthen its gross capital ratio. It is similar to a company's return on assets.

The Newcastle Building Society operates a policy of 'profit sufficiency' and one of the most appropriate measures of profitability is to express profit as a percentage of mean total assets.

### Management expenses for the year as a percentage of mean total assets

Management expenses are the costs of running a society and comprise administrative expenses, depreciation and amortisation. The lower this ratio is, the greater a society's efficiency.

We have examined the Summary Financial Statement of Newcastle Building Society set out on pages 20 to 22.

### Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Report and Accounts, Annual Business Statement, Directors' Report and Remuneration Committee Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Report and Accounts. The other information comprises only the Chief Executive's Review and the Remuneration Committee Report.

This statement, including the opinion, has been prepared for, and only for, the Society's Members as a body and Depositors as a body in accordance with Section 76 of the Building Societies Act 1986, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility to any other person to whom this statement is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

### Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 'The auditor's statement on the summary financial statement in the United Kingdom' issued by the Auditing Practices Board. Our report on the Group and Society's full Annual Report and Accounts describes the basis of our audit opinion on those Annual Report and Accounts.

### Opinion on Summary Financial Statement

In our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of Newcastle Building Society for the year ended 31st December 2013 and comply with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

**PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors  
Newcastle upon Tyne  
24 February 2014