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Newcastle
Building Society

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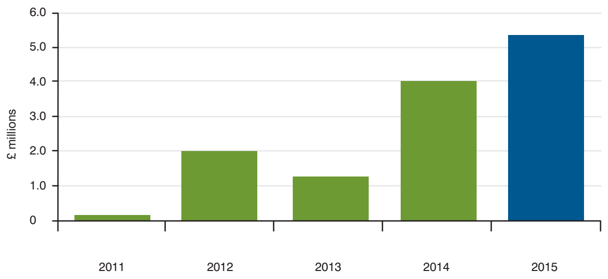

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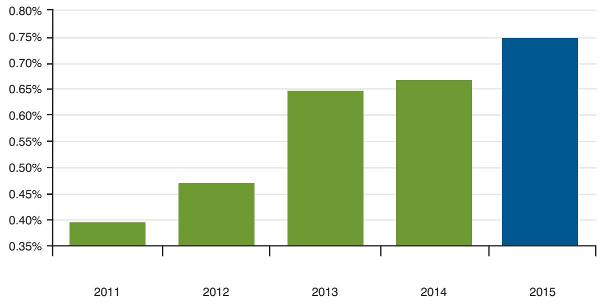

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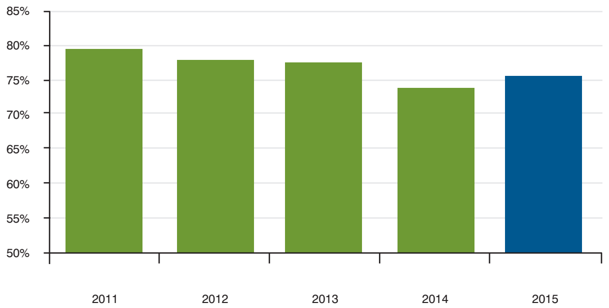

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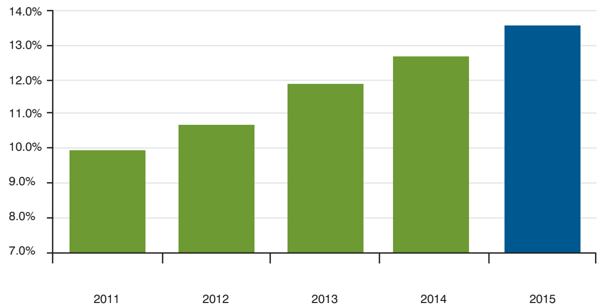

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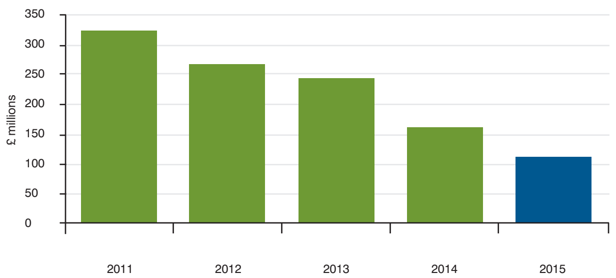

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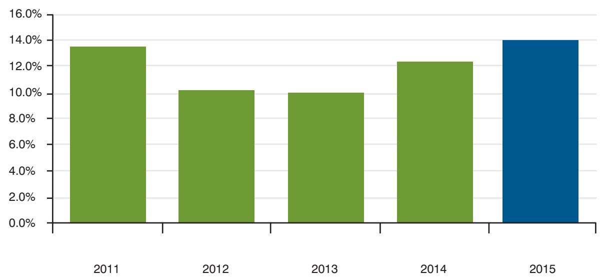

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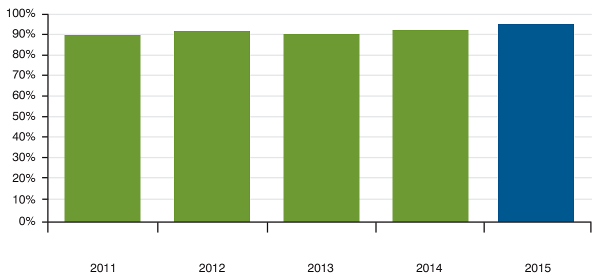

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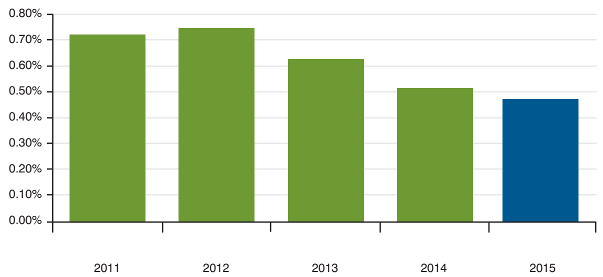


Chairman's Statement

Phil Moorhouse - Chairman

We have made good progress in 2015 across a range of areas in our business, building on the year on year improvement we have seen over recent years. We have invested significantly in the business in a number of key areas, which will help us to deliver our strategy with pace and ambition.

Our financial highlights show improvement in our key financial ratios, an increase in our profit before tax figure from £4.0m to £5.4m, strong total capital and liquidity ratios have been maintained at 18.7% and 17.7%, respectively.

We have started a programme of significant developments, across our branch network, continued to deliver competitive mortgage and savings products, focussed on growing our financial advice offering and supported and developed our people. We have seen continued growth in our outsourcing subsidiary, Newcastle Strategic Solutions Limited (NSSL), and have also invested in the core infrastructure and capabilities which support this subsidiary, and the Society.

Economy

The UK economy grew in 2015, driven by the UK's service sector. Inflation remained low throughout the year partly due to falling fuel and commodity prices, which benefitted consumers who also experienced positive wage growth leading to higher disposable incomes. While there was much discussion over a potential increase to the Bank of England Base Rate, it remained at an historic low level throughout 2015. Concerns remain over growth within China and the Eurozone, which contributed to uncertainty in the marketplace; this is likely to continue for some time yet.

House prices and gross lending experienced positive growth in 2015 and borrowers benefitted from a very competitive mortgage market with good supply across all areas including First Time Buyer and Buy to Let. Our gross residential lending figure remained healthy at £340m and demand for housing continues with the Government encouraging higher levels of build.

The savings market was more buoyant than in 2014, in part due to UK wage growth and stable employment, as well as the introduction of Government schemes, such as 'Help to Buy'. The Society was one of only 14 institutions that launched a Help to Buy ISA product on December 1st, which is when the scheme was officially introduced. There continues to be strong regulatory focus on the sector and we continue to maintain good relationships with our regulators. During 2015 we progressed a number of regulatory projects including in relation to the new Mortgage Credit Directive, Strengthening Accountability in Banking, Deposit Guarantee Scheme Directive, as well as enhancements to reflect changes in tax regulations.

Cyber security is a subject high on the agenda of Society business. We continue to develop infrastructure and systems to increase resilience to a cyber attack. The Society already has robust processes in place but will maintain focus and investment in this area in the years ahead.

Members

Significant investment has been made to maintain and improve the support we offer our Members. We commenced a multimillion pound improvement programme into our branch network that saw the relaunch of three branches within our heartland, we also initiated changes to our digital offering, which will lead to the development of a new, more engaging and interactive website for our customers.

We continue to launch competitive products focussing on helping people get onto and move up the housing ladder. These include having a regular stream of competitive first time buyer mortgages and launching the Help to Buy ISA, which aims to help those wanting to purchase their own home to save for a deposit by boosting their savings with a Government bonus.

We also launched into the Buy to Let market in 2015; this represents a significant share of the residential lending market and we expect to grow our offering in 2016. Additionally, we advanced our presence in the mortgage intermediary marketplace by launching a number of online and process service improvements and key staff appointments.

We achieved our best ever customer satisfaction scores in 2015 with 95% satisfaction overall (up from 92% in 2014) with Newcastle Financial Services Limited achieving 99% (up from 97%).

Newcastle Strategic Solutions Limited

We have made a number of changes to the organisation of our savings management outsourcing subsidiary to create a more robust and effective structure for the business in the future. Outsourcing is an attractive proposition to both existing and new entrants to the savings market place and it builds on the core competencies we have within the Society.

After more than 10 years of operation, the business continues to go from strength to strength and 2015 has been the most successful year since the business started. It has won and launched four new contracts, and has also seen expansion in existing clients. This has resulted in increased staff numbers and has also created great opportunities for existing staff.

Our People

We continue in earnest with our people programme and our commitment to staff development. Our Newcastle Financial Services Limited subsidiary (NFSL) teamed up with Openwork LLP to introduce the 'Ocademy' programme, which is a fantastic opportunity for staff with the ambition to become a qualified financial adviser.

We have expanded our Staff Volunteering Policy, which allows each staff member to take up to two working days every year to support local good causes. This has proved popular with around 80 staff supporting regional charities as part of this initiative.

Our Talent Management programme, which launched in 2014, saw its first students graduate in 2015. The purpose of the programme was to encourage personal transformation and development and deepen the understanding of leadership styles, all of which was supported by the University of Sunderland Business School. The investment in our staff is reflected in our latest staff survey with overall satisfaction of 91% and 84% of staff happy to recommend the Society as a place to work for family and friends.

Our Board

Jim Willens decided to step down from full time executive work after five years at the helm as Chief Executive at the Society. He provided effective leadership during a challenging time for UK financial institutions and helped us create a solid foundation upon which to start to grow our business again. The Board is very grateful to Jim for his significant contribution since 2010 and wish him well for the future.

Catherine Vine-Lott retired from the Board on 31 December 2015 after almost six years as a Non-Executive Director; she made a valuable contribution to the Society throughout this period.

Andrew Haigh, who had been the Chief Operating Officer at the Society since January 2014, took up the post of Chief Executive in May 2015. With more than 20 years in the mutual sector, including over than 10 years as Chief Executive of Engage Mutual Assurance, Andrew has a very strong customer focus and is ideally placed to lead the Society.

We cannot emphasise enough the importance of having strong corporate governance at the heart of the Society's business and you can read more about this in the Report of the Directors' on Corporate Governance on page 20. With this in mind, we plan to broaden and strengthen the expertise of our Board further in 2016 with the appointment of an additional Executive Director.

Overview

The Board is pleased with the progress made in 2015 and we can already see benefits starting to feed through from the increased investment being made in the business. This is set to continue into 2016. While it is still a challenging economic backdrop for financial institutions, we believe we have created a solid foundation within the business to deliver our long-term strategy, which will help to carry us forward with confidence into 2016 and beyond. We are focussed on being the leading building society for the North East, providing excellent service and a range of good value products for our members in relation to mortgages, savings and financial advice. Our Solutions business complements these activities.

Finally, it is important to acknowledge the continued support we receive from our staff. The dedication they show in helping us deliver our strategy can be seen in the achievements made in 2015. This commitment is critical in helping us realise our ambitions and the support and enthusiasm of our staff is very much appreciated by the Board.

Phil Moorhouse
Chairman
1 March 2016

Chief Executive's Review

Andrew Haigh - Chief Executive

I am pleased to report good progress in 2015 across both financial and non-financial key performance indicators. As a mutual our customers are at the heart of our business so I am very pleased to see higher customer satisfaction scores, low complaint volumes and achievement of great customer service levels. Of course financial performance is vitally important and whilst we have improved profitability, maintained strong capital and liquidity ratios and achieved record low arrears figures, we have also made significant investment in the business. In moving forward with our strategy it is essential that we focus on the long term success of the Society and invest for the future in our people, branches and technology so that we grow and develop to meet the changing needs of our customers.

Since taking on the role of Chief Executive in May 2015 I have been genuinely impressed with the culture and values that are central to the mutual ethos of the Society. These are demonstrated by our staff on a day to day basis, underpinning our vision to be the best regional building society, delivering excellent customer outcomes for the people of the North East and beyond.

2015 has been another year where we have seen uncertainty in financial markets with the path for UK interest rates still unclear. What is clear is that the world economy is still fragile and may provide significant headwinds to the UK's economic recovery whether this is from China, uncertainty around a potential 'Brexit' or from the Middle East. The Bank of England has indicated that the UK base rate of 0.5% will remain lower for longer and there is currently no sign of an increase coming through in 2016. Low rates have been great news for borrowers who have seen some of the most competitive mortgage products ever whilst at the same time seeing house prices rise and disposable incomes grow. Of course savers continue to fund the low rates on mortgages through lower rates on savings balances and this makes the provision of good financial advice to Members even more important so they can understand the options for investing their savings.

Financial Performance

Profit before tax improved to £5.4m for the year ended 31 December 2015 compared to £4.0m for 2014, an increase of 35%. Operating profit before impairment charges and the FSCS levy was down slightly from £12.4m to £11.9m due to a higher depreciation charge reflecting higher levels of investment in infrastructure and also increased investment in staff as we build our capability to grow the business. Net interest margin improved from 0.70% to 0.75% reflecting lower funding costs although spreads on mortgage lending also narrowed due to a much more competitive mortgage market.

The profitability of our outsourcing subsidiary, Newcastle Strategic Solutions, improved reflecting the launch of four new contracts in 2015. It is the nature of these contracts that there is significant investment in the year of launch but then as the contracts build over time the income and profitability grows. The Solutions business provides a diversified income stream, based on core competencies within the building society business. All of the profits from this business are ploughed back in to the Society and support increased investment in services for Members as well as providing capital to support and grow the business. The pipeline for the Solutions business continues to be very strong.

Our financial advice subsidiary, Newcastle Financial Services Limited, delivered a 7% increase in income in 2015 although profitability was flat compared to 2014 due to increased staff costs arising from investment in an administrative support team to enhance service to customers and higher salaries for financial planning managers. Significant investment is going in to this area of our business, which has the highest customer satisfaction rating across all areas of the Society's business at 99%. As part of this investment we will be increasing our seminar activity for new and existing customers and also creating two new financial advice centres in our heartland, this is in addition to the major refurbishment of our branches to provide a welcoming and engaging environment within which to provide face to face advice.

There was a decrease in impairment charges from £5.9m to £4.6m reflecting the ongoing reduction in the legacy commercial portfolio and the FSCS levy also decreased from £2.5m to £1.9m due to a reduction in the amount of the levy and lower eligible balances.

Capital ratios continued to improve with Common Equity Tier 1 ratio improving from 12.7% to 13.6% and Tier 1 capital ratio increasing from 14.6% to 15.3%. The Group's overall capital ratio (Solvency Ratio) increased from 18.6% to 18.7% and the Leverage Ratio improved from 5.2% to 5.6%.

The mortgage market was extremely competitive in 2015 which impacted our achievement of gross and net lending targets with both figures showing a reduction on the previous year; gross residential mortgage lending was £340m in 2015 compared to £350m in 2014 and net lending was £10m against £134m in the prior year. Net lending was also impacted by higher maturities and capital repayments. We have a much stronger mortgage pipeline going in to 2016.

The percentage of mortgage loans in arrears of 3 months or more, across the whole mortgage portfolio based on the number of loans, reduced again from 0.53% to 0.49%; considerably lower than the industry average with 2015 seeing a record low since we have been tracking 3 months arrears.

Our liquidity at the end of the year was 17.7%, excluding encumbered assets, slightly ahead of the level at the end of 2014 of 17.4%. Including encumbered assets the ratio increased from 23.6% to 24.3%. On 1 October 2015 a new European liquidity regime was introduced with the focus on the liquidity coverage ratio; against this new measure the Society's ratio was 230% against a minimum required level of 80%. This significant headroom reflects the quality of the Society's liquidity with the majority of it invested in highly rated assets.

Supporting our Members

Over the last 12 months we have engaged with our Members through "Meet the Chief Executive" road-shows, branch events, our customer panel, and most importantly listening to what our Members tell us when they give us feedback, whether it's good or bad. By understanding what is important to our Members we can continue to improve and expand the products and services we offer and also enhance the quality of our customer service.

2015 was a good year for Members moving home or taking their first steps to get on the property ladder. Throughout the year we offered a wide range of mortgage products with fixed rates ranging from 2 to 10 years duration, first time buyer products where only a 5% deposit was required and our fees free mortgage products continued to be extremely popular with borrowers. Many of our products featured in best buy tables and were available directly with the Society and via mortgage brokers. In 2015 the Society launched a new Buy to Let proposition with a maximum loan to value of 75% and prudent lending criteria, this recognises that a large proportion of residential lending in the UK relates to this sector. In addition the Society also launched a new online mortgage application system for mortgage brokers with further upgrades and enhancements made during the year. Following on from the launch of new mortgage regulations in 2014 (the Mortgage Market Review) there has also been major activity on regulatory projects in 2015 with the Society already implementing some of the changes required for the new European Mortgage Credit Directive due in March 2016.

The Government has also taken steps to help First Time Buyers with the launch of the Help to Buy ISA on 1 December 2015 with the Society being one of only 14 providers of the product at the date of launch. The Government scheme is very similar to the Big Home Saver product the Society has operated for many years with a bonus payable when the customer buys a home based on the amount saved. The Society has continued to offer its own home savings product alongside the Government scheme which means our customers can benefit from both great schemes by splitting their annual ISA allowance using our innovative CustomISA functionality.

While the low rate environment has meant another challenging year for savers the Society continues to offer a range of good value savings products including easy access, regular savings and fixed rate bonds, providing competitive rates wherever possible. We also offered Member exclusive products with better rates to reward our loyal savers. Our Big Little Saver was popular with parents and grandparents alike to help promote the savings habit in young children.

We have seen a significant fall in complaint volumes in 2015; total complaints fell by 26% with Mortgage Payment Protection Insurance (MPPI) complaints falling by 12% and non-MPPI complaints falling by 37%. The majority of cases referred to the Financial Ombudsman are found in the Society's favour.

Our most pleasing achievement has come in the form of increased customer satisfaction with the percentage increasing to 95% at the end of 2015 from 92% a year earlier. We also met or exceeded our targets for customer service levels in 2015.

Supporting our Employees

Growing and developing our staff is fundamental to the success of the Society and that is why in 2015 we have invested further in recruitment, training and development of our people. Over the course of 2015 we increased our headcount across the business by 80 staff, an increase of 9%, and the first time we have expanded our workforce since before the credit crisis. New roles have been created across the business to enhance customer service, support the growing Solutions business and other areas that are expanding including mortgage lending and financial advice. Underpinning our staff development programme is strong and regular communication so everyone understands their role in delivering the Society's strategy, culture and values.

In 2015 we partnered with Openwork LLP to launch 'Ocademy' to our staff, a dedicated training academy for staff to become Financial Planning Managers with Newcastle Financial Services Limited. The 12 month programme provides great career progression and means we are developing our own talent to support our financial advice proposition.

In 2014 we introduced the Talent Management programme, which is designed to support development of potential future leaders of our business and after an 18 month journey our management placements have now graduated. All placements completed master classes at the University of Sunderland Business School. This supplements other programmes that the Society already has in place.

Our staff turnover rate across the business increased from 12.6% in 2014 to 13.2%, reflecting a more competitive employment market and reducing rates of unemployment. While this increase was not unexpected given very low levels of turnover over recent years, we are still working hard to retain staff and also ensure we attract the best talent to the Society.

The results of the annual staff survey were again strong with overall satisfaction at 91% a slight increase over 90% last year. The most pleasing aspects of the survey are that so many of our staff would recommend the Society as a place to work, 84%, and that 94% of staff are committed to the Society and understand its future strategy.

In April we gave an annual pay award of 2% which was ahead of UK CPI inflation. In December the Remuneration Committee approved a Society-wide corporate bonus, based on achievement of the Corporate Key Performance Indicators of 3% of base salary.

Supporting our Communities

As a mutual we believe it is important to give something back to the communities in which we operate and in doing so we seek to reflect the views of our Members and staff in the charities and activities we support. The work we do with communities and charities in the region was recently recognised at the Charity Times Better Society Awards where the Society was awarded the top prize for Commitment to the Community.

Our financial education programme is now in its sixth year and has helped more than 1,700 school pupils learn about managing money and becoming financially independent. The main part of this programme is the 'Boardroom Charity Challenge' where schoolchildren develop business ideas that focus on benefiting their local community while also making a profit. The £1,000 prize money is then put towards turning the idea into reality with all proceeds going to a local charity. This six week long curriculum based learning not only helps children learn about business but also helps then develop their communication and presentation skills when they come in to the Society's Boardroom to pitch their proposal to senior executives.

We launched our new and improved volunteering policy in 2015 and more than 80 staff have already supported charities and local communities, turning their hand to a range of activities including painting and decorating, gardening, serving in hospice shops and helping to document a charity's strategy.

We've supported Percy Hedley Foundation, a local charity that provides a wide range of specialist care and education support to disabled people and their families, for almost two years and have raised more than £20,000 during this time. As well as many staff volunteering to help the charity we have also held a number of sponsored events including 19 runners from the Society taking part in the Great North Run.

We have maintained our close relationship with the Sir Bobby Robson Foundation, with donations to this leading cancer research charity in the North East now exceeding £1.8m over the period of the relationship.

Our fund within the Tyne & Wear Community Foundation has been running for over 25 years and has allowed us to donate thousands of pounds to local charities. Our staff nominate the charities they want to receive a donation, which ranges from £500 to £2,000, and over the last 12 months we have made donations to charities that support people in the region living with cancer, youth initiatives and help for homeless people. We are looking to expand the charities and communities we support in the region even further through the expansion of our Community Foundation fund, in 2016.

Summary

I am delighted with the Society's performance in 2015 which is against a backdrop of investment and development of the business for the longer term. Whilst there may be ongoing volatility in financial markets we will continue to focus on what is important to our Members; providing a great range of straightforward savings and mortgage products and trusted financial advice. We will continue to invest in the business, updating our branch footprint and digital presence whilst developing our staff to their full potential.

I would like to thank my predecessor, Jim Willens, for the excellent progress achieved since 2010 which means I have inherited a business in much better shape allowing me to focus my efforts on building the performance and capability of the Society in the years ahead.

Last but not least, I would like to pay tribute to the fantastic team of people we have working at the Society who work really hard to provide great service for our customers and make the Society such a great place to work. Their exceptional loyalty and commitment has enabled the Society to deliver the year on year improvement in our results and I would like to thank them for their contribution.

Andrew Haigh
Chief Executive
1 March 2016

The Directors present their Strategic Report on the Group for the year ended 31 December 2015.

Business and Strategy Overview

Newcastle Building Society has for over 150 years followed its core purpose to safeguard savings and provide mortgages to buy homes. As a mutual organisation our owners are our customers and those Members are at the focal point of everything we do.

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. From a financial perspective the Society needs to make profits in order to grow and protect our business but we do not seek to maximise profits. We look to optimise our profit position to maintain capital strength and allow us to continually improve our services to Members.

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.

For the last five years the Society has successfully followed a strategy which has seen a number of areas of improvement in our services and financial strength. These improvements have been made by focusing on key stakeholders, our Members, Staff, Communities, Regulators and Solutions customers. We have returned to a simple, straightforward building society model that puts Members at the heart of our business by providing good value products, excellent customer service underpinned by high customer and staff satisfaction levels.

The Society also provides IT and savings administration services to third party financial institutions. The Solutions business operates on a commercial basis, to make a profit, and the profits from this business generate capital enabling the Society to invest in the services it provides and do more mortgage lending than it otherwise would have been able to do. The Solutions business has gone from strength to strength providing a diversified income stream leveraging the key competencies from our building society business.

The Society continues to deleverage higher risk and non-margin enhancing legacy assets, with wind down of legacy books now exceeding £1bn.

The strategy set by the Society in 2010 has been reassessed going into 2016, not with the intention of changing the path so successfully followed for five years, rather to reinforce and gain momentum on delivering our vision.

Our Vision: to be the best regional building society, delivering excellent customer outcomes for the people of the North East and beyond.

Key Performance Indicators

The Society measures ongoing performance against its vision and strategy using a number of Key Performance Indicators (KPIs). The KPIs are reported to the Board on a monthly basis as they are an important means of monitoring both achievement of short-term objectives and progress against the strategic plan. The table below details the KPIs grouped against each of the priority areas in the Society's vision and strategy. Further details are provided in the Chief Executive's Review on page 6 and also within the detailed commentary provided below. The principal risks and uncertainties facing the Society in delivering the ongoing strategy are set out in the Risk Management Report on pages 30 to 33.

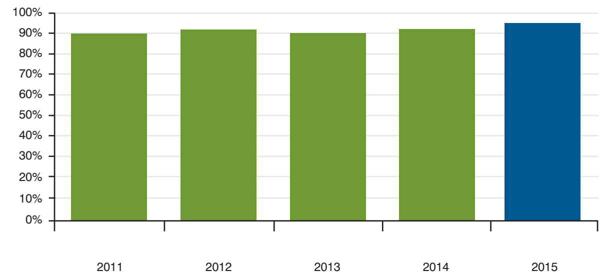
	2015	2014
CUSTOMERS		
Customer satisfaction	95%	92%
Complaints handling % achievement within service level	99%	99%
Telephones - % achievement of all service levels	86%	91%
Servicing - % achievement of all service levels	97%	99%
PEOPLE		
Staff turnover	13.2%	12.6%
Staff satisfaction	91%	90%
Staff absence	3%	3%
FINANCIAL - PROFITABILITY		
Profit before tax	£5.4m	£4.0m
Net interest margin	0.75%	0.70%
Cost to income ratio	76%	74%
Solutions profit before tax	£7.0m	£6.9m
NFSL profit before tax	£1.2m	£1.2m
FINANCIAL - BALANCE SHEET		
Common Equity Tier 1 ratio	13.6%	12.7%
Leverage ratio	5.6%	5.2%
Liquidity as a percentage of shares, deposits and liabilities	24.3%	23.6%
Liquidity as a percentage of shares, deposits, liabilities excluding encumbered assets	17.7%	17.4%
Liquidity coverage ratio	230%	211%
Gross lending	£340m	£350m
Net residential lending	£10m	£134m
3 months or more arrears for total mortgage portfolio, by number	0.49%	0.53%
3 months or more arrears for total mortgage portfolio, by balance	0.39%	0.75%

Customers

Newcastle Building Society like all mutual organisations exists and functions for the benefit of its Members, and so core to the Society's vision is being a trusted provider of family savings, mortgages and financial advice delivered with good customer outcomes and great customer experience.

The Board monitors a range of KPIs designed to reflect how well the Society is meeting Members' needs, the foremost being the customer satisfaction survey which shows the proportion of our customers who say that they are pleased with the service they received. The customer satisfaction survey showed overall satisfaction of 95% in 2015, the fifth consecutive year of achieving or exceeding our target of 90%, an increase on the 92% returned in 2014.

Overall Customer Satisfaction Percentage



The 2015 survey highlighted improvements in many aspects of the service offered by the Society including increases in scores for our friendliness and the ease of doing business with us compared to competitors, a higher net promoter score and a net easy score maintained well in advance of the 90% target. In addition the overall satisfaction within the financial advice subsidiary, Newcastle Financial Services Limited (NFSL), was 99% (2014: 97%). The near-perfect score is a major testament to the quality and value NFSL customers receive from the face to face financial planning service offered.

Other customer KPI metrics include the timeliness of response following customer feedback on those occasions when our service is not as good as we would want it to be, and customer service levels in our call and servicing centres. These metrics were above target across 2015.

The Society is always keen to develop and improve customer experience and gathering the thoughts of customers play a major role in shaping aspects of our products and services. That feedback influenced a number of features of the Society's Distribution Strategy which was launched in 2014 and gathered momentum in 2015. New customer-facing technologies and how our branches look and work from a customer point of view have resulted in over £2.5m of investment in 2015, with the full refurbishment of our Cramlington, Chester le Street and North Shields branches. The refurbishment programme continues with the plan for 2016 already well underway.

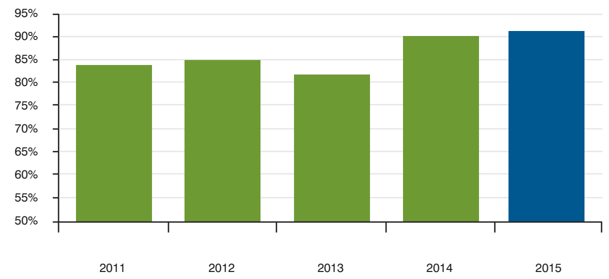
Improvements to our branch network, telephone and digital offerings are important in enhancing and expanding the service we give to customers. We estimate we will invest £10m over the next 3 to 4 years. Two new city centre based Advice Centres will be opened in Newcastle and an innovative new strategic partnership with Stockton Borough Council is also planned, which will enable the Society to re-establish a presence on Yarm High Street and offer traditional building society services and financial advice as part of a redeveloped library facility. This community pilot is expected to be the first of a number of other partnerships which over the longer term will enable us to further strengthen delivery of our vision.

People

The Society's people agenda forms an essential part of our vision and strategy, having the right people with the right skills who are motivated and suitably rewarded is key to the success of all other strategic objectives. The Society continues to invest in a number of initiatives to recruit and retain talent, and to support and develop staff in long-term and secure careers.

The Society places a great deal of emphasis on engaging its staff in the ongoing development of its business and delivering its strategy. The valued views of staff are regularly gathered through focus groups, a staff survey and interactive corporate updates delivered by the Chief Executive and senior management team. We listen very carefully to this feedback, which is used to shape aspects of how the Society improves as an employer. In 2015 the staff satisfaction survey returned a score of 91% compared to 90% in 2014 – a trend of significant and continuous improvement since 2010.

Overall Staff Satisfaction Percentage



As the first building society to achieve Investors in People (IIP) status in 1992 the Society has a long and consistent track record of investing in the development and learning of its staff. Our forward looking HR strategy seeks to enhance the reputation of the Society as an admired local employer, delivering worthwhile careers to people in the North East of England and being a great place to work. Further details regarding our training programmes including the Talent Management Programme and Ocademy are given in the Chief Executive's Review on page 7.

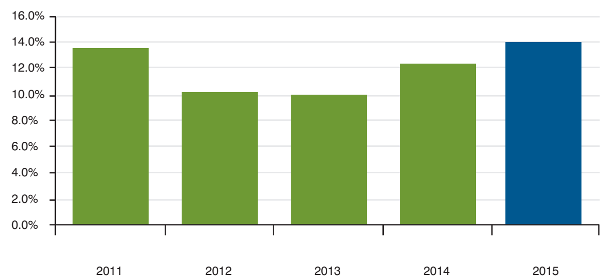
An annual pay review for all staff takes place on 1 April and the Group operates a Corporate Bonus Scheme for all staff based on delivery of KPIs linked to the Group's strategic objectives. The 2015 Corporate Bonus Scheme will pay all eligible staff an amount equal to 3.0% (2014: 3.0%) of base salary. Unite has negotiating rights on behalf of all staff up to and including senior management level.

The Society operates an Equal Opportunities Policy. It is the intention of the Society that no applicant or employee receives less favourable treatment on the grounds of disability, sex, transgender status, sexual orientation, marital status, civil partnership status, race, ethnic origin, colour, age, nationality, national origins, political beliefs or trade union membership, or is disadvantaged by conditions or requirements that cannot be shown to be justifiable. The Board also has an approved diversity policy. The gender diversity for the Society's staff at 31 December 2015 is as follows:

	Female		Male	
	2015	2014	2015	2014
Directors	27%	23%	73%	77%
Senior Managers	25%	22%	75%	78%
Managers	55%	55%	45%	45%
Employees	62%	63%	38%	37%
Overall	**61%**	**62%**	**39%**	**38%**

The Board views the staff turnover KPI as an important reflection of the success of the people agenda. Although Group staff turnover rate increased slightly to 13.2% in 2015 from 12.6% in 2014, this is below the KPI target and should be considered against a background of improving economic conditions having influenced the jobs market.

Percentage Staff Turnover



Financial KPIs and Analysis

Profitability

The Society seeks to make sufficient profit in order to invest in and grow the business for the benefit of its current and future Members. A building society must be profitable to demonstrate it has a long term sustainable business model and show financial strength to savers, borrowers and the regulators. Profitability is therefore a key performance measure the Board monitors closely.

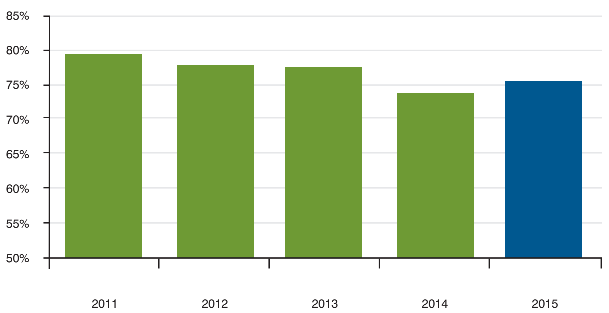
GROUP INCOME STATEMENT	2015 £m	2014 £m
Net interest income	27.1	25.1
Other income and charges	23.0	22.3
Total income	**50.1**	**47.4**
Administrative expenses	(36.1)	(33.2)
Depreciation	(2.1)	(1.8)
Operating profit before impairment provisions and FSCS levy	**11.9**	**12.4**
Impairment charges	(4.6)	(5.9)
Financial Services Compensation Scheme levy	(1.9)	(2.5)
Profit for the year before taxation	**5.4**	**4.0**

Profit before tax continued an improving trend in 2015, increasing to £5.4m in 2015 from £4.0m in 2014, influenced by a fall in mortgage impairment charges and the Financial Services Compensation Scheme levy.

Operating profit before impairments and provisions has reduced in line with expectations to £11.9m in 2015 from £12.4m in 2014 due largely to a one-off credit recognised in 2014 in relation to a pension liability management exercise. Underlying operating profit has improved but is influenced by continuing investment in staff and infrastructure begun in 2015 as the Group positioned itself to follow its strategic aims for the next 5 years.

Similar influences affected the profit efficiency ratio, cost to income. The Board considers this ratio to be an important measure of financial progress against internal targets and the return achieved on investment in the business. The investment in infrastructure, in conjunction with the prior year pension credit, has as expected led to a 2% increase in cost to income, rising from 74% in 2014 to 76% in 2015.

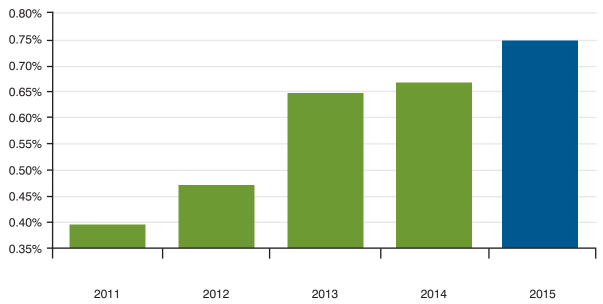
Cost to Income Ratio



Net interest margin

Interest margin, the ratio of net interest receivable to mean total assets, increased to 0.75% in 2015 from 0.70% as the Society continued to manage the margin with a view to the long term future by balancing the risks and rewards from residential lending while offering consistent value to savers.

Interest Margin as a Percentage of Mean Total Assets



Lower funding costs continued across 2015 as market-wide retail savings rates remained subdued in a market still influenced by funding initiatives provided by the Bank of England. Mortgage lending volumes were slightly down compared to 2014 as the market was significantly more competitive than previous years which also resulted in narrower margins on new business.

Other income and charges

Although net other income in total across the Group rose modestly by 3% to £23.0m in 2015 from £22.3m in 2014, there were offsetting factors in the divisional performance of the Member and Solutions businesses, please see Note 8 on page 50 for further details.

Other income and fees for the Member business was £1.9m lower in 2015 compared to the previous year which included over one million pounds of non-recurring fees associated with legacy asset wind-down. In addition the highly competitive mortgage market in 2015 influenced the Society's mortgage administration fees as the Society offered more fees free mortgage products to compete in a more competitive UK market.

Income from the Solutions' business rose from £15.2m to £17.6m as savings balances under management increased to a record level as existing clients expanded and four new clients launched during the year. Diversification through the Solutions business is a key element of the Society's strategy, the pipeline of savings management contracts is strong and further growth of the business is expected in 2016 and beyond.

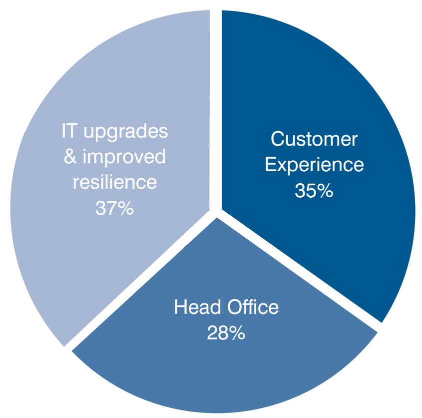
Administrative expenses and depreciation

Administrative expenses and depreciation (together "management expenses") increased to £38.2m in 2014 from £35.0m in 2014, a reflection of the Society's strategy to build on the progress over the last 5 years by investing significantly in all aspects of infrastructure, people and processes to support the expected growth in business.

As already noted above the 2014 management expenses charge also reflected a credit of £2.3m in relation to a pension liability management exercise which affects the year on year comparison. Note 6 to the Accounts on page 48 details the change in staff costs in 2015 compared to the prior year. The growth in staffing levels is mostly associated with supporting the growing Solutions business but many areas of the Member business have seen new posts created as the Society develops to meet the challenges and opportunities of a modern, forward looking building society.

Depreciation expense increased from £1.8m in 2014 to £2.1m in 2015. Significant capital investment in refurbishing our branches has begun, and will continue, so as to offer Members a modern, welcoming and much improved environment to do business with us. Our main head office has also undergone a refurbishment to improve the working environment for our staff. Information technology is a cornerstone of any business and the Society continues to invest in its computer and telephone networks, its systems and ever more importantly, the security of its data and enhancing resilience.

Capital Investment



Further investment is planned to ensure we offer the best service to customers and maintain our technology platforms at a leading level.

The ratio of management expenses to mean total assets increased to 1.06% in 2015 compared to 0.93% in 2014. Although a traditional method of measuring cost management for building societies, the Board considers the management expense ratio to be less reflective of the Group's business model in that the Solutions business income stream requires minimal assets to support it. The management expenses ratio excluding the Solutions business was 0.77% for 2015 compared to 0.71% in 2014.

Impairment charges

The impairment charge for loans and advances to customers has fallen overall to £4.6m in 2015 from £5.9m in 2014, excluding provision charges for suspended interest, which represents the fourth consecutive year of reduction in charges. The Society has been successful in its strategy to de-risk the commercial portfolio by winding down the loan book. The trend in reducing provisions is expected to continue going forward given the material reduction in the size of the book.

IMPAIRMENT CHARGES BY AREA	2015 £m	2014 £m
Commercial	4.5	7.7
Residential (1)/ Other	0.1	(1.8)
Provisions charge for the year	4.6	5.9
Interest added to provisions (2)	-	(0.2)
Total charge recognised	**4.6**	**5.7**

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

Note 11 on page 53 and Note 30 on page 74 contain further details.

Provisions for liabilities and charges

The charge recognised in the Income Statement of £1.9m relates to the Financial Services Compensation Scheme (FSCS) levy (2014: £2.5m). The fall in the charge reflects a lower overall expected levy for capital and interest charges in respect of the current year and also a fall in the level of eligible Protected Deposits.

Taxation

The Group shows an effective corporation tax rate of 40% in 2015 of £2.1m. The tax charge relates to the reduction in the deferred tax asset carried on the balance sheet. This reduction arises as taxable losses from previous years are used to extinguish the current year corporation tax charge. Corporation tax rate changes announced in 2015 were substantively enacted by the end of 2015 and therefore the impact of these tax rate reductions on the deferred tax asset have been written off in 2015. The Society and Group have not paid any corporation tax since 2007 due to the taxable losses available.

Other taxes paid by the Society are summarised in the table below:

TAXATION	2015 £m	2014 £m
Employers National Insurance	1.9	1.8
Value Added Tax	1.8	1.5
Total	**3.7**	**3.3**

Further details of the Group's activities and the tax jurisdictions in which it operates can be found in the Country by Country Reporting on page 78.

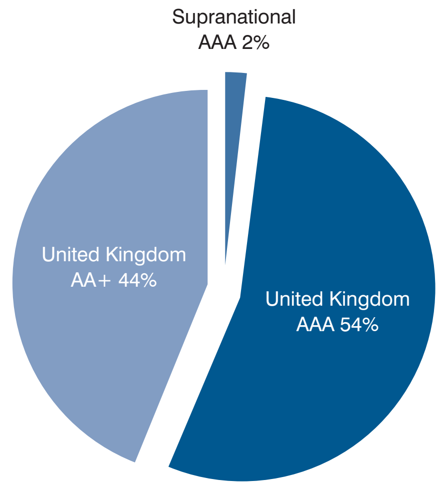
Balance Sheet

Liquid assets

The Society has continued to maintain a level of high quality liquid assets throughout 2015 which was comfortably higher than thresholds set by the regulators.

ASSET CLASS	2015 %	2014 %
Cash in hand and balances with the Bank of England	34.4	54.7
Cash with banks and building societies	0.4	0.5
Gilts	9.4	-
Floating rate notes	1.9	5.3
Residential mortgage backed securities	30.9	29.8
Covered bonds	23.0	9.7
	100.0	100.0

Almost all of the Society's liquid assets are placed with UK institutions, the remainder with supranational organisations. All liquid assets are AAA rated except the Gilts and deposits with the Bank of England which carry the UK Sovereign rating of AA+.



The Society also holds eligible mortgage collateral that can be used to draw down funding from the Bank of England liquidity schemes. The statutory liquidity percentage reported at 31 December 2015 remained unchanged compared to 31 December 2014 at 24% which reflects a lower level of liquidity and a proportionally lower level of share and deposit liabilities. Excluding encumbered assets the liquidity ratio is 17.7% at 31 December 2015 (2014: 17.4%).

In October 2015 new European liquidity rules came in to force for financial institutions with the introduction of the Liquidity Coverage Ratio (LCR). This new ratio measures the level of unencumbered liquid assets that are held consisting of cash or assets that can be easily converted into cash, to cover liquidity requirements for a 30 day stress scenario. The LCR as at 31st December 2015 was 230%, comfortably in excess of the transitional minimum set by the Prudential Regulation Authority of 80% and the final level expected of 100%.

Loans and advances to customers

Loans and advances to customers fell by £187m overall in 2015 as shown in the table below, which reflects the Society's strategy to wind down legacy portfolios and concentrate on prime residential lending.

LOAN PORTFOLIOS	2015		2014	
	£m	LTV%	£m	LTV%
Prime Residential	1,667	53.8	1,678	54.9
Retail BTL <£1m	22	66.4	14	69.9
Specialist Residential	72	62.5	87	69.5
Housing Associations	561	70.6	670	70.6
Commercial	135	97.4	192	86.8
Other	40	71.9	43	79.7
	2,497		2,684	
Provisions	(18)		(24)	
	2,479	**60.6**	**2,660**	**62.1**

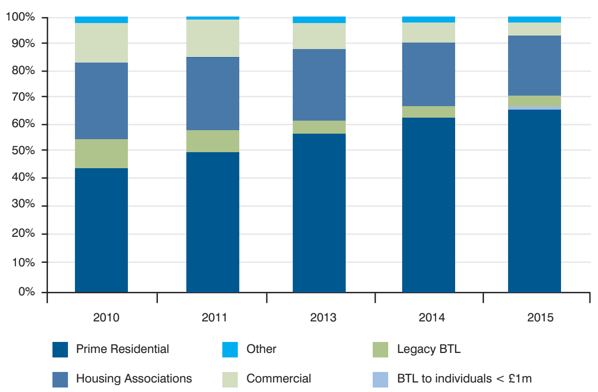
The net £187m balance reduction includes £197m fall in legacy books and a £10m increase in prime residential balances (NB there are also some legacy books in wind down within the prime residential portfolio e.g. the small loan book in Jersey). Although it is pleasing to see prime residential lending grow in 2015, albeit modestly, the Society will focus its strategy on growing its prime residential mortgage business further. Since the start of 2010 the Society has reduced legacy portfolios which either carry greater levels of risk or low margins by £1bn and this wind down strategy continues in 2016 and subsequent years.

The Society re-entered the residential BTL market in 2015, a strategic decision that will help to strengthen our overall mortgage proposition as the BTL market represents around 20% of the overall UK mortgage market. Our BTL proposition is focused on individuals looking to borrow on up to 3 properties, with a maximum loan size of £1m, and loan to value of 75%. The Society is not lending to professional BTL investors.

The Group's lending is all secured with a first charge registered against the collateral property. Residential loans are shown at indexed loan to value using the quarterly regional Halifax House Price Indices, remaining loans are shown without indexing. Further information on security loan to value is provided in Note 30.

The success of the Society's strategy to re-focus the Balance Sheet in favour of Prime Residential Lending is shown in the chart below:

Mortgage book profile



Mortgage Credit Quality

Arrears

The Society has KPI measures for 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. Although primarily a measure of the quality of the existing mortgage books, the Society also uses its arrears management functions to influence future lending with "lessons learned" fed back into lending policy.

ARREARS PERFORMANCE
3 months or more arrears

	By number of loans		By balance	
	2015	2014	**2015**	2014
	%	%	**%**	%
Residential	0.47	0.52	0.36	0.39
Commercial Investment	1.53	1.24	2.07	6.03
Housing Association	-	-	-	-
Other	0.92	0.76	0.51	0.36
Total	**0.49**	**0.53**	**0.39**	**0.75**

The overall level of mortgage arrears experienced has fallen once again in 2015, the fourth consecutive year for total arrears by number of loans, continuing well below Council of Mortgage Lenders reported averages. Overall by number of loans arrears are down by 4bp to 0.49%, by balance down by 36bp to 0.39%. The residential loan book has reduced arrears compared to previous year across both measures.

Forbearance

The Society will work closely with any homeowner experiencing difficulties, offering help and advice on the options available. Forbearance cases and options granted are monitored closely on a monthly basis by the Society's Retail Credit Committee with the levels of concessions granted not considered to be material for the size of the overall book.

The Society grants forbearance to commercial borrowers on a case by case basis. Forbearance options granted include extending the loan term on maturity, revision of the debt repayment plan which may include capitalising arrears, and adjusting the interest rate to aid serviceability particularly where a fixed rate has expired. The Society expects commercial investment loans to be repaid on maturity in most circumstances given the stated strategy of winding down the portfolio, but will grant forbearance when this is also in the best interests of the Society e.g. providing the borrower with a little more time to sell the security property following a tenant renewal. Note 30 on page 74 contains further details of commercial forbearance cases.

LPA Receiverships and Possessions

The Society continued to experience a low level of possessions on residential loans in 2015 with five possession properties at the end of the year in relation to owner occupied loans and one Buy to Let possession.

There were two new BTL cases subject to LPA receiver appointment in the year and four where a successful sale took place giving a reduced total of three loans being managed by an LPA receiver. Further, more detailed analysis of the credit quality of the Society's mortgages can be found in Note 30 on pages 72 to 75.

Funding

The Society manages its funding levels, mix and duration carefully to ensure it has the required resources in place to meet its liquidity and lending targets. In recent years, because of the success in winding down legacy mortgage books this has had the effect of reducing overall funding requirements.

Retail savings balances fell by £295m in 2015 with wholesale exposures increased across the year by £28m. This movement in funding mix resulted in the percentage of wholesale balances to total share and deposit liabilities increasing from 8.59% in 2014 to 10.29% in 2015.

The Group's mortgage loans remain wholly funded by retail savings balances.

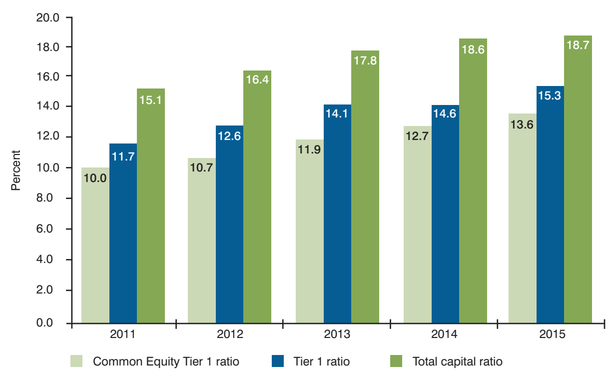
Capital

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

CAPITAL	**2015** **£m**	**2014** **£m**
Tier 1 Capital		
Common Equity Tier 1	161.8	159.7
Permanent Interest Bearing Shares	21.0	24.0
	182.8	183.7
Tier 2 Capital		
Subordinated Debt	37.3	45.4
Collective Impairment Allowance	2.3	4.2
	39.6	49.6
Total Capital	**222.4**	233.3
Risk Weighted Assets		
Liquid Assets	59.3	56.5
Loans and Advances to Customers	998.2	1,079.3
Other Assets	33.2	33.0
Off Balance Sheet	27.2	15.9
Operational Risk	73.4	72.2
	1,191.3	1,256.9
Capital Ratios	**%**	**%**
Common Equity Tier 1 Ratio	13.6	12.7
Tier 1 Ratio	15.3	14.6
Solvency Ratio	18.7	18.6

The Group complied with Individual Capital Guidance as notified by the Prudential Regulation Authority throughout 2015. The total capital ratio (Solvency Ratio) improved slightly to 18.7% (2014: 18.6%). More importantly Common Equity Tier 1, which offers the greatest protection to Member's funds in the unlikely event of unforeseen financial stress, increased to 13.6% in 2015 from 12.7% in 2014.

Capital Ratios



Introduced by Basel III in 2014 the leverage ratio is a simplified capital strength ratio measuring qualifying tier 1 capital against on and off balance sheet assets. The Board monitors the leverage ratio on a monthly basis with the 31st December 2015 metric on a transitional basis being 5.6% (2014: 5.2%) and the final end point measure 4.9% (2014:4.5%). This is, and has remained throughout 2015, well in excess of the proposed target.

Further details on the Group's capital position are given in the Pillar 3 disclosures to be published on the Society's website in April 2016.

Outlook

Investment in our infrastructure and capabilities will continue in 2016 and beyond. In January 2016 the Society announced details of a multimillion pound investment programme, with confirmation that we expect to create 100 new jobs in 2016 following on from the 80 new jobs introduced in 2015. Improvements to our branch network, telephone and digital offering are all part of the programme which amounts to over £10m of investment in the business. The programme involves the opening of a number of new branches, a comprehensive upgrade to others and closure of some less well used facilities, plus a completely new website to be launched in 2016 and other technology and infrastructure upgrades.

Global macroeconomic and political issues continue to impact on the UK economic recovery and it is likely that the low interest rate environment will continue for longer than anticipated earlier in the year. Lower than target inflation and steadily improving wage data would appear to suggest improving household budgets and with it the opportunity for the Society to help more Members save, borrow and take financial advice. Uncertainty surrounding the impending European referendum may well temper this recovery in addition to the impact of other global headwinds.

The Group's strategy and vision are clear and achievable, driving the business forward for the benefit of its Members, customers, staff and local communities.

On behalf of the Board
Angela Russell
Deputy Chief Executive & Finance Director
1 March 2016

Having an active and engaging community support programme is very important to us as an organisation. It enables us to add value to the local communities in which we operate and to understand their needs even more.

Over the past few years we have developed this programme to ensure it remains relevant for our organisation, our staff and our local stakeholders. We are proud of what we have achieved and the commitment and enthusiasm our staff have shown in support of this.

Newcastle Building Society's Financial Education Programme Goes From Strength to Strength

Mighty oaks from little acorns grow; this perfectly sums up both how our financial education programme has progressed over the years and also the school pupils that have taken part in it to date.

We started this programme around six years ago in two regional primary schools and it has grown far beyond our initial expectations.

Our aim is simple; to educate children now so they can be more financially independent later in life. How we do this is fun too and we have named the main part to our programme the Boardroom Charity Challenge.

For this we developed a timetable of learning activities for schools to use. This was created by teachers for teachers, which means that not only is it relevant and realistic for teachers but it forms part of the curriculum-based learning that schools have to take part in.

The age group we focus on is nine and ten year-olds (year five) as our research told us that this was a very influential and key age and young people are more likely to adopt what they learn in day to day life.

Our aim is simple; to educate children now so they can be more financially independent later in life.

Chief Executive, Andrew Haigh, with the winners of the 2015 Boardroom Challenge, Shiremoor Primary School.

The challenge sees hundreds of local schoolchildren compete to win £1,000 in prize money. The children are asked, as part of a six-week long curriculum based learning programme, to develop business ideas that focus on benefiting their local community while also making a profit.

The prize money is then put towards turning the idea into reality with all proceeds going to a regional charity.

Through the Boardroom Charity Challenge, over the past five years the Society has helped more than 1,700 children in schools across its heartland area learn more about managing money and becoming more financially independent.

Leigh Elsaghier, assistant head teacher and year six class teacher at the 2015 winning school, Shiremoor Primary, said: "This was a fantastic opportunity for the children to get some real-life experience of the financial and business world. They got to present their ideas to a board of people, which helped them to develop their communication, IT and presentation skills. The scheme has opened youngsters' eyes to the value of budgeting and given them skills that will stay with them for life."

One of the teams giving their presentation in the Boardroom.

Dale Barclay, branch manager, helping a team with their presentation.

Celebrating our Local Heroes

Now in the fifth year, the Cornerstone Awards were designed to highlight the immense and often unsung contributions that local people and groups make to the areas in which they live through their energy, enthusiasm and dedication.

The Awards cover four main categories - Volunteer Of The Year, The Young Person's Award, The Role Model Award and The Sir Bobby Robson Foundation Community Group Award - and additional awards are also made by the participating branch teams for their own favourite community success story.

The 2015 Cornerstone Awards have covered three different parts of the Society's operational area, with around 450 invited guests attending three events in Northumberland, Teesside and Cumbria.

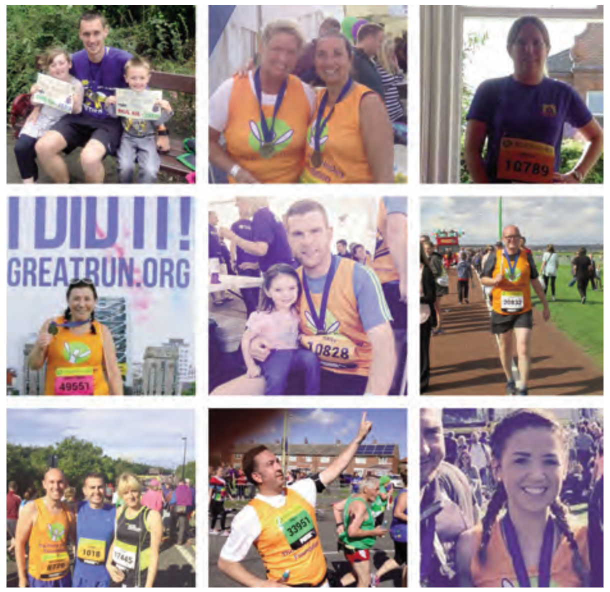
For the fourth year running we have held our very own local hero awards called Cornerstone of the Community Awards throughout the North East region.

Winners included 11 year-old Leia Ransley from Carlisle, who was chosen as the winner of the Young Person's Award for her tireless fundraising work for both her school charity and the Eden Valley Hospice, which she started following the death of her father while she was still at primary school. Leia spends her time organising events, such as raffles and cakes sales to raise money for the charities, and also enjoys speaking in public to help raise awareness of their work. A winner of our Volunteer Of The Year Award was Pauline Thompson from Ashington, who set up the Alligator Klub five years ago to help support local adults with learning difficulties, and to allow them to socialise and make new friends in a safe atmosphere.

The Yatton House Society from Great Ayton picked up the Sir Bobby Robson Foundation Community Group Award at our Teesside event for its work in developing adults with learning and/or physical disabilities by initiating and organising activities that are aimed at maximising each individual's potential. To date, more than 70 people and groups have been rewarded at our ceremonies.

Our Corporate Charity

We've supported Percy Hedley, a local group that supports children and adults with both mental and physical needs, for almost two years and have raised more than £20,000 during this time. This includes 19 runners from the Society taking part in the Great North Run, a half marathon, to raise vital funds for this great cause.



We launched our new and improved Staff Volunteering Policy in 2015 and more than 80 staff jumped at the chance of working in their local communities to help good causes for up to two days per year. This resulted in a lot of our staff getting grubby as they carried out a lot of manual labour such as painting and decorating, gardening, and building furniture, amongst other things.

We launched our new and improved Staff Volunteering Policy in 2015 and more than 80 staff jumped at the chance of working in their local communities to help good causes for up to two days per year.

Group is starry-eyed at funding

Charity scoops award for work

Building a Solid Foundation

Through a fund we have with the Community Foundation Tyne and Wear, which we've held for more than 25 years, we donate thousands of pounds every year to local good causes that need extra help.

Our staff nominated the groups they wanted to see receive a donation, which ranged from £500-£2,000. Over the past 12 months, we donated money to Daft as a Brush Cancer Care Trust, St Clare's Hospice, Corbridge Youth Initiative, St Chad's Community Project, Sunderland Astronomical Society, MS Research and Relief Fund, Destiny Streetworxs, and If you Care, Share.

In 2016 we are aiming to expand our activities with the Community Foundation even more.

Andrew Haigh
Chief Executive

Andrew became the Society's Chief Executive in May 2015 having joined the Board as Chief Operating Officer in January 2014.

He has a track record in transforming and developing businesses, with more than 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 that promotes the development of new and existing mutuals to Government.

Angela Russell
Deputy Chief Executive and Finance Director

Angela is a Fellow of the Institute of Chartered Accountants and a Certified Public Accountant with 27 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 Newcastle Building Society, which she has held since 2010. Angela is also Deputy Chief Executive for the Society. Prior to joining the building society sector Angela spent 12 years at PricewaterhouseCoopers LLP.

David Buffham
Non-Executive Director and Senior Independent 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 Group Risk Committee and also as a member of the Nominations and Remuneration Committees. He is a Director of Newcastle Systems Management Limited. He is also Senior Independent Director. He is an experienced Non-Executive Director and is a Director of Zytronic PLC, William Leech (Investments) Limited and The William Leech Foundation Limited.

Patrick Ferguson
Strategy, Planning and Risk Director

Patrick joined the Society's Board in February 2014; before this he was the Society's Group Risk Executive for almost four years.

He has extensive experience in risk management, including conduct risk and regulatory compliance, in addition to financial reporting, planning, and budgeting. He has 17 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 LLP.

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, Group Risk and Nominations Committees and is Chairman of the Remuneration Committee.

Richard Bottomley OBE
Non-Executive Director

Richard joined the Board in 2014 as a Non-Executive Director and he is also Chair of the Audit Committee.

He is a Fellow of the Institute of Chartered Accountants and in 2010 was awarded an Order of the British Empire for services to the Accountancy Profession and Business in the North East. He was Managing Partner at KPMG for 12 years prior to his retirement in 2008 and is a past President of the North East Chamber of Commerce. In his professional career spanning over 30 years he gained experience in Corporate Finance, Strategic Planning and was the Lead Audit Partner on some of the region's largest companies. More recently, Richard is Chairman of Greggs PLC Retirement Benefits Scheme, TL Dallas Group, Skillsbridge and a Director at Durham County Cricket Club.

Karen Ingham
Non-Executive Director

Karen has an extensive customer services background within the consumer sector and is extremely people and customer focused.

Her roles have included Head of Service and Customer Experience Director. She also spent 18 months as HR Director in the construction industry and started her career with 18 years in Financial Services at the Co-operative bank. Karen is a trustee of the Virgin Media Pension Scheme and a member of the Chief Customer Officer Forum. She is also a Director of Newcastle Strategic Solutions Limited and a member of the Remuneration Committee.

Ron McCormick
Deputy Chairman

Ron 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 had more than seven years' experience with Guardian Royal Exchange, as well as seven with KPMG, both in the UK and abroad. He is the Society's Deputy Chairman and is also a member of the Society's Audit and Group Risk Committees and is Chair of Newcastle Strategic Solutions Limited. He also works as a senior adviser to businesses within a range of sectors. He is Chairman of Grassington Hub Ltd and a Director of Threshfield Quarry Development Trust Limited.

Ian Ward
Non-Executive Director

Ian has extensive experience in financial services that includes his role as Chief Executive of Leeds Building Society for 16 years until his retirement in 2011.

He is Vice-Chairman and Senior Independent Director of the Charter Court Financial Services Group of Companies which includes Charter Savings Bank, as well as chairing their Risk Committee. Ian is a Non-Executive Director of Harrogate & District NHS Foundation Trust and is its Senior Independent Director and a member of its Audit and Finance Committees. He has been a Non-Executive Director of Newcastle Building Society since 2013 and is a member of the Group Risk Committee and a Director of Newcastle Systems Management Limited.

Phil Moorhouse
Chairman

Phil has been the Society's Chairman since the 2013 AGM. He is an experienced accountant and a Fellow of the Chartered Association of Certified Accountants.

He is the Chair of Newcastle Systems Management Limited and a Director of Newcastle Strategic Solutions Limited. He 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 was also Vice Chairman of Cumbria Partnership NHS foundation trust for four years. He is currently chair of Molins PLC. Phil brings 36 years of business experience to the Society's Board. His skills and expertise were recognised recently when he was awarded 'North East Non-Executive of the Year 2015' at the North East Business Executive of the Year Awards.

Directors' Report

The Directors present their Annual Report and Accounts and Annual Business Statement for the year ended 31 December 2015, which they consider to be fair, balanced and understandable, providing Members with the information necessary to assess the Group's position and performance, business model and strategy.

Objectives and Activities

It is the intention of the Directors that the Society will continue to remain an independent regional building society. Our strategic objectives are to provide long-term Member value and to deliver excellent service to both our saving and borrowing Members, to secure and reward long-term employment for our staff; and support the local communities in which we work. We also aim to provide best in class service for our Solutions business customers. Further details of the Society's strategy and objectives are given on page 8 of the Strategic Report.

Business Review and Future Developments

The Chief Executive's Review on pages 6 and 7 sets out the business performance in the year as well as likely future developments. The Strategic Report outlines the Group's Key Performance Indicators (KPIs), details of the Group's profit performance, its capital position and information on staff engagement.

The Annual Business Statement on page 76 and the Credit Risk section of Note 30 on page 72 contain respectively the ratios and arrears disclosures required by the Building Societies Act 1986.

The Board has reviewed medium and long term plans over a detailed 5 year horizon with particular emphasis on examining forecast liquidity, capital and profitability of the Group and the risks to those forecasts through a variety of stress testing scenarios. This horizon is considered appropriate through alignment to the Group's usual forecasting and management reporting allowing robust and continuous assessment of the Group's expected position and principal risks over the time-frame. Active risk management is undertaken to mitigate the Group's principal risks as detailed in the Risk Management Report on pages 30 to 33 of these Annual Report and Accounts.

The outcome of this review is that the Directors are satisfied that the Society and the Group have adequate resources to continue in business and meet its liabilities throughout the period of assessment. Accordingly the financial statements of the Society and the Group have been prepared on a going concern basis with no material uncertainties that the going concern basis of accounting is appropriate.

Risk Management, Principal Risks and Uncertainties

The Risk Management Report on pages 30 to 33 sets out the principal risks and uncertainties faced by the Group together with the risk management framework and risk governance structure. The Risk Management Report also details how the Group mitigates the specific key risks to which it is exposed, which include credit, liquidity, operational and, market risks.

In addition, Note 30 to the accounts on page 67 to 75 sets out the metrics associated with the key risks including sensitivity analysis and exposure levels.

Directors

As at 31 December 2015, the members of the Board, who have served throughout the year and continue to act as Directors, are as follows:

Richard Bottomley, David Buffham, Patrick Ferguson*, Andrew Haigh*, Karen Ingham, Ron McCormick, Phil Moorhouse, John Morris, Angela Russell*, and Ian Ward.

A number of changes were made to the Board during 2015. On 24 February 2015, Richard Mayland retired as a Non-Executive Director. On 1 May 2015, Andrew Haigh took on the role of Chief Executive following the retirement of Jim Willens on 30 April 2015. Prior to this, Andrew had been the Society's Chief Operating Officer. On 31 December 2015, Catherine Vine-Lott retired as a Non-Executive Director.

At the Annual General Meeting (AGM), to be held on 28 April 2016, all of the current Directors will offer themselves up for re-election. Directors and Officers insurance has been put in place by the Society.

*Executive Directors.

Independent Auditors

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

Statement of Disclosure to Auditors

So far as each Director is aware, there is no relevant audit information of which the Society's auditors are unaware. Each of the Directors, whose names and functions are listed in the Our Directors section on pages 16 and 17 has taken all steps that he or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the statement of auditors' responsibilities on page 37, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, Annual Business Statement and Directors' Report.

The Directors are responsible for preparing the Annual Report and Accounts, Annual Business Statement and Directors' Report in accordance with the appropriate law and regulations. The Building Societies Act 1986 (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under the Act they are required to prepare the Group and Society Annual Accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and applicable law.

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

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

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

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

The Directors are responsible for ensuring that the Group:

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

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

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

On behalf of the Board
Phil Moorhouse
Chairman
1 March 2016

Introduction
In discharging its responsibilities to be accountable to the Society's Members for the operation of the Society, the Board regards good corporate governance as extremely important. A revised UK Corporate Governance Code (the Code), issued by the Financial Reporting Council (FRC) in September 2014 is addressed to publicly quoted companies, however, the Society's Board considers it to be best practice to have regard to the Code when establishing and reviewing corporate governance arrangements. The Code applies to accounting periods beginning on or after 1st October 2014, and therefore, the Society has regard to the Code within the 2015 Annual Report and Accounts.

A working party continues to operate to ensure that the corporate governance procedures and processes within the Society are appropriately aligned with the Code on an ongoing basis, including when updates or revised guidance are published.

This report outlines the approach taken by the Society and how the Board considers it has demonstrated application of the principles of the Code.

The Board
The Society recognises that it must be headed by an effective Board which is responsible for the long-term success of the Society. The composition of the Board is detailed on pages 16 and 17. In carrying out its role, the Board aims to ensure that excellent service is delivered to its Members and customers. The Board has responsibilities in 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, dynamic and 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 Chairman 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 on pages 21 and 22.

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

Phil Moorhouse was appointed Chairman of the Society on 24th April 2013, and Ron McCormick appointed Deputy Chairman on 1st January 2011. On 1st January 2016 David Buffham took over the role of Senior Independent Director from Ron McCormick who had held the post since 1st January 2011. The Deputy Chairman and Senior Independent Director provide a sounding board for the Chairman and where necessary serve as an intermediary 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. Following the retirement of Catherine Vine-Lott on 31st December 2015, the number of Non-Executives on the Board reduced from eight to seven. There were three Executive Directors on the Board at the end of 2015.

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

Matters Reserved to the Board
The Board's Terms of Reference are reviewed on a regular basis and were last agreed by the Board in April 2015. 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 Corporate Strategy, with the responsibility for implementing it being delegated to the Executive team; monitoring operational and financial performance in pursuit of the strategy; overseeing and approving the Society's recovery options and resolution pack; monitoring any recovery plan and approving appropriate management actions; and approving budgets, forecasts and major capital expenditure.
- Culture – overseeing the culture and values of the Society.
- 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); changes to the Group's corporate structure; and approval of any programme for the issuance of long-term debt or capital.
- Financial Reporting and Internal Controls – approval of preliminary announcements of half year and final annual results; approval of the Annual Report and Accounts including the Strategic Report, Risk Management Report, Corporate Governance Report, and the Remuneration 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 regulation, including regulation by the Prudential Regulation Authority, and the Financial Conduct Authority.
- Board Membership and Senior Management Issues – approval of changes to the structure, size and composition of the Board, following recommendations from NomCo; ensuring that adequate succession planning for the Board and senior management is in place following recommendations from NomCo; and appointments to the boards of subsidiary companies;
- Appointment and/or re-appointment or removal of the external auditor to be put to members for approval, following the recommendation of the Audit Committee.
- Remuneration – agreeing the remuneration policy for the Directors and other Senior Executives, following recommendations from the Remuneration Committee.
- Delegation of Authority – ratifying the terms of reference for Board Committees and Subsidiary Companies; and receiving minutes and/or reports from the chair of the Board Committees and Subsidiary Companies.
- Corporate Governance Matters – to ensure that a formal evaluation of the effectiveness of the Board is undertaken on an annual basis and consider whether an external assessment using outside consultants as a facilitator is undertaken every three years; determining the independence of Directors; reviewing the Group's overall corporate governance arrangements; and agreeing the Directors' Conflict of Interest Policy and other relevant policies.

Board Changes and Elections/Re-elections
It is recognised that changes need to be made to the Board from time to time, and changes during 2015 are set out in the Directors' Report on page 18.

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

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

Management Information
The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. Board members receive meeting packs each month except in August when there is not a Board meeting. They also receive details concerning Management Information each month by way of email. A rolling Board agenda is tabled at each meeting to ensure all key areas are covered appropriately during the year. Sufficient time is set aside to ensure that constructive discussion and challenge can take place. Once a year, the Board considers whether the regular Management Information which Directors receive is adequate, and this was deemed to be so at the meeting held in April 2015.

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

Board Effectiveness
The Board conducts a review of its effectiveness on an annual basis with the last review undertaken in December 2015. This internal review was carried out using a three pronged approach:-

- All Directors were asked to complete a questionnaire;
- Action points were followed up from the previous review reported at the March 2015 Board meeting; and
- An assessment was made against the first two principles of Leadership and Effectiveness set out within the revised UK Corporate Governance Code issued in September 2014, together with the FRC's guidance on board effectiveness published in March 2011.

The Board concluded that the review demonstrated it was conducting its business in an effective manner, had the depth of experience, and reacted to the changing needs of the business, as appropriate.

In last year's Annual Report and Accounts reference was made to the fact that the review of effectiveness of the Board, carried out in January 2014, was supported by an independent review completed by the Society's Internal Audit function which received consulting advice on the review from Deloitte LLP (Deloitte LLP provides other consultancy services to the Society mainly in relation to taxation and treasury). The Board have decided to carry out an externally facilitated review of the effectiveness of the Board in the first half of 2016, and it has therefore been agreed to re-visit this area again after this has been completed, and to take into account the results from the internal review carried out in December 2015.

Board Committees
The Board has a number of Committees, all of which have their own Terms of Reference, which are reviewed on an annual basis, with further details provided below. The Chairman of each Committee reports to the Board at its subsequent meeting on the matters discussed at each Committee meeting.

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

Information concerning attendances at the meetings is detailed on page 24. Annually reviewed Terms of Reference for the Audit Committee and Internal Audit, Group Risk Committee, Remuneration Committee and NomCo are included on the Society's website: www.company-newcastle.co.uk/governance/.

Audit Committee
Details of the Audit Committee are contained in the Audit Committee Report on page 25. Through the work of the Audit Committee and the Internal Audit department during 2015, the Directors have carried out a review of the Group's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls.

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

Group Risk Committee
Details of the Group Risk Committee are contained in the Risk Management Report on page 30.

Nominations Committee (NomCo)
The Society has a separate NomCo comprising only of Non-Executive Directors, and which operates within the Terms of Reference agreed by the Board. The Terms of Reference and the effectiveness of NomCo are reviewed on an annual basis with the last review carried out in December 2015.

The main objectives of NomCo are summarised as follows:-
- To oversee the structure of the Board and Board Committees;
- To identify suitable candidates to fill Board vacancies;
- To ensure that the Board has the appropriate balance of skills, diversity and experience; and
- To oversee the Board's succession plan.

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

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

NomCo operates to a rolling agenda to ensure it discharges its full responsibilities. It normally meets a minimum of twice a year and in 2015 it met on two occasions.

NomCo is supported by the Chief Executive and the Human Resources Executive who attend meetings in an advisory capacity only.

Appointments to the Board
NomCo follows a stringent recruitment process when making appointments to the Board. This process is tailored to meet the requirements of each particular vacancy and the method of attracting candidates is adapted depending on the nature of the skills required for the vacancy. External consultants and advisers are normally utilised to ensure there is a robust list of suitable candidates with which to fill a vacancy.

During 2015 no new appointments to the Board were made.

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

On 1st May 2015, Andrew Haigh took on the role of Chief Executive following the retirement of Jim Willens. Andrew was previously the Society's Chief Operating Officer.

Diversity of the Board

The Board recognises and embraces the benefits of having a diverse Board which utilises a range of factors including skills, industry experience, background, race, gender and the other qualities of its Directors. Giving specific regard to gender ratios, there were three female Directors on the Board throughout 2015 representing over a quarter of the Board. It is important to note that all Board appointments are made on the basis of individual competence, skills and expertise measured against identified objective criteria. Appointment is therefore based on merit and the Board has not set any measurable objectives for diversity although the position will be kept under review.

Re-election to the Board

It has been agreed previously by the Board that all Directors, as appropriate, should be required to seek annual re-election, which will take place at the forthcoming AGM, to be held on 28th April 2016.

Non-Executive Directors are usually expected to serve more than one three year term, subject to satisfactory performance evaluations and re-election by Members. Only in exceptional circumstances will Non-Executive Directors be able to seek re-election when they have served nine years on the Board. NomCo has in place a risk based succession plan which is reviewed at each meeting as part of the standard agenda.

Independence of Directors

The Terms of Engagement for Non-Executive Directors require that they declare to the Society any other external interests.

NomCo carries out an annual review of the independence of Non-Executive Directors, against the criteria set out in the Code. This does not include the Chairman, Phil Moorhouse who was appointed Chairman of the Society on 24th April 2013, and at the time of appointment was considered to be independent by the Board (the Code states that the Chairman should, on appointment, meet the independence criteria, but thereafter the test of independence is not appropriate in relation to the Chairman). The last review was carried out by NomCo in December 2015 where it was confirmed that the independence requirements in terms of character and judgement were met; this was subsequently agreed by the Board in January 2016. In January 2015, one of the Non-Executive Directors, Ian Ward, was appointed as a director of a number of companies within the Charter Court Group, including Charter Court Financial Services Limited. He has previously advised the Board of the existence of this relationship, and under the Conflicts of Interest Policy has undertaken to advise the Board if any actual conflict arises.

The Society recognises that it is good corporate governance to have a Senior Independent Director. This role was held by the Society's Deputy Chairman, Ron McCormick from 1st January 2011 to 31st December 2015 however on 1st January 2016 this role was taken over by David Buffham, and it is intended that, subject to re-election, he continues in this role.

During 2015, the Chairman met separately with the Non-Executive Directors from time to time, without the Executive Directors present, in addition to regular telephone contacts with the Non-Executive Directors throughout the year.

Assessment of Directors

All Directors are subject to a formal appraisal of their performance on an annual basis. The Chairman conducted the appraisals of the Chief Executive and Non-Executive Directors, the Chief Executive conducted the appraisals of the Executive Directors, whilst the Deputy Chairman led the appraisal of the Chairman.

Skills and Continuous Development

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

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

In order to ensure that NomCo discharges its duties in this area effectively, a Board skills matrix and a training menu for Non-Executive Directors are in place.

Newcastle Strategic Solutions Limited (NSSL)

NSSL Board Members are:

Ron McCormick (NSSL Chairman), Phil Moorhouse, Karen Ingham, Phil Grand (Managing Director NSSL) and Tony Pierce (Finance Director NSSL).

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

- To oversee the strategic direction of NSSL ensuring this is consistent with the Society's agreed corporate strategy;
- To evaluate and monitor the financial and operational performance of NSSL against pre-determined objectives, which includes assessing performance in terms of contract contribution, profitability, efficiencies, risk and compliance and development of the savings management proposition;
- To ensure that appropriate mechanisms are in place to inform the Board about the performance of NSSL and any key issues identified;
- To ensure that NSSL complies with all relevant legislation and the appropriate regulations relating to its activities;
- To establish and review a risk appetite statement for NSSL;
- To ensure that an annual review of service resilience is conducted and that there is ongoing development to enhance resilience;
- To approve the NSSL budget on an annual basis (prior to inclusion in the Group budget which is approved by the Society's Board);
- To approve the NSSL statutory accounts;
- To consider and act upon the findings of any external/internal audits or reviews; and
- To ensure that a formal evaluation of the effectiveness of the NSSL Board is undertaken on an annual basis, the last review was undertaken in December 2015 where it was concluded the NSSL Board was effective.

Further details of the activities of NSSL, including a change in activities of the statutory entity in 2015, are given on page 10 of the Strategic Report.

Newcastle Systems Management Limited (NSML)

NSML Board Members are:

Phil Moorhouse (NSML Chairman), David Buffham, Ian Ward, Steve Watchman (Managing Director NSML) and Andrew Ward (Finance Director NSML and the Society's Group Financial Controller).

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

- To oversee the strategic direction of information technology and associated services and to ensure this is consistent with the Society's agreed corporate strategy for ongoing development and improvement in the IT proposition;
- To evaluate and monitor the performance of NSML against the objectives set, which includes assessing performance in terms of service delivery, contribution and effective management of risk and compliance;
- To monitor developments in the area of cyber risk mitigation to ensure the Group and Society are protected and resilience is enhanced on an ongoing basis;
- To ensure that appropriate mechanisms are in place to inform the Society's Board about the performance of NSML and any key issues identified;
- To ensure that NSML complies with all relevant legislation and the appropriate regulations relating to NSML activities;
- To establish and review a risk appetite statement for NSML;
- To ensure that an annual review of service resilience is conducted;
- To approve the NSML budget on an annual basis (prior to inclusion in the Group budget which is approved by the Society's Board);
- To approve the NSML statutory accounts;
- To consider and act upon the findings of any external/internal audits or reviews; and
- To ensure that a formal evaluation of the effectiveness of the NSML Board is undertaken on an annual basis, the last review was undertaken in October 2015 where it was concluded the NSML Board was effective.

Newcastle Financial Services Limited (NFSL)

NFSL Board Members are:

Angela Russell (NFSL Chairman), Stuart Dodson (Managing Director NFSL) and Steve Urwin (the Society's Managing Director of Sales and Marketing). The Society's Chairman, Phil Moorhouse, also attends NFSL Board meetings on a regular basis in an advisory capacity.

The NFSL Board also uses external consultants to provide challenge and advice to the Board. At least once a year directors from Openwork LLP attend an NFSL Board meeting to provide a financial and market update; NFSL is an appointed representative of Openwork LLP.

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

- To oversee the strategic direction of NFSL ensuring this is consistent with the Society's agreed corporate strategy;
- To evaluate and monitor the performance of NFSL against the objectives set, which includes assessing performance in terms of sales quality, customer satisfaction and outcomes, complaints, risk and compliance oversight (including consideration of the aspects that are specifically the responsibility of Openwork LLP) and profitability;
- To ensure that appropriate mechanisms are in place to inform the Society's Board about the performance of NFSL and any key issues identified;
- To ensure that NFSL complies with all relevant legislation and the appropriate regulations relating to NFSL activities;
- To approve the NFSL budget on an annual basis (prior to inclusion in the Group budget which is approved by the main Board);
- To approve the NFSL statutory accounts;
- To receive the minutes of strategic partner governance meetings and to be made aware of any changes to the framework for managing relationships with strategic partners;
- To review and approve the bonus scheme for NFSL ensuring that quality and customer outcomes are central to performance assessment;
- To consider and act upon the findings of any external/internal audits or reviews; and
- To ensure that a formal evaluation of the effectiveness of the NFSL Board is undertaken on an annual basis, the last review was undertaken in November 2015 where it was concluded the NFSL Board was effective.

Relations with Members

Member engagement is at the heart of our strategy and the Society develops relationships with Members on a number of different levels. The first and most obvious is through the AGM voting process where we encourage Members, as owners of the business, to use their vote and we try to make this process as easy as possible, including the ability to vote online. We also try to make the AGM as engaging as possible and encourage Members to attend.

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

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

Periodically we also hold 'Meet the Chief Executive' events for Members which provides an opportunity for Senior Management, including members of the Board, to engage with and listen to customer feedback.

Through our Corporate Social Responsibility (CSR) activities we are able to engage with both our Members and the communities we serve. Whether it is helping to raise money for local, worthy causes, or helping to develop financial education in local schools, we work hard to make a difference and improve the well being of people who live within our heartland. To encourage our staff to become more involved in our communities we introduced a new Staff Volunteering Policy in 2015.

Further details of Member and Community Engagement are given in the Corporate Social Responsibility Report on page 14. We also keep in touch with Members via our Priority Register Service and on-line newsletter.

Board and Board Committee Membership Attendance Record

The table below sets out the number of meetings attended by Directors during 2015 with the number in brackets representing the maximum number of meetings the Director was eligible to attend.

Director	Board	Audit Committee	Group Risk Committee	Remuneration Committee	Nominations Committee	NSSL	NSML	NFSL
Phil Moorhouse	11 (11)	-	-	-	2 (2)	5 (6)	5 (5)	6 (6)*
Ron McCormick	9 (11)	3 (4)	8 (8)	-	-	6 (6)	-	-
Richard Bottomley	11 (11)	4 (4)	-	-	-	-	-	-
David Buffham	11 (11)	-	8 (8)	3 (3)	2 (2)	-	5 (5)	-
Patrick Ferguson	11 (11)	-	-	-	-	-	-	-
Andrew Haigh	11 (11)	-	-	-	-	-	-	-
Karen Ingham	9 (11)	-	-	-	-	-	-	-
Richard Mayland	2 (2)	1 (1)	-	1 (1)	-	-	-	-
John Morris	11 (11)	4 (4)	8 (8)	3 (3)	2 (2)	-	-	-
Angela Russell	11 (11)	-	-	-	-	-	-	6 (6)
Catherine Vine-Lott	10 (11)	3 (4)	-	2 (3)	-	-	-	-
Ian Ward	11 (11)	-	8 (8)	-	-	-	5 (5)	-
Jim Willens	4 (4)	-	-	-	-	-	-	-

*attended in an advisory capacity.

Annual General Meeting (AGM)

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

All Members who are eligible to vote at the Annual General Meeting are encouraged to participate, either in person or by using their proxy voting form. The use of the online voting system is encouraged and for each vote placed online, the Society will be donating 30p to its charity of the year.

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

On behalf of the Board
Phil Moorhouse
1 March 2016

Audit Committee Report

Audit Committee

Members of Audit Committee at 31 December 2015 were:
Richard Bottomley (Committee Chair), Ron McCormick and John Morris. Catherine Vine-Lott was a member of the Audit Committee until 31 December 2015 when she retired from the Board.

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

Committee meetings:

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

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

Key roles and responsibilities as delegated by the Board:

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

- financial reporting;
- effectiveness of the internal control and risk management systems, including internal financial control;
- internal audit; and
- external audit including re-appointment.

Further details are given below.

Financial reporting:

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

This responsibility is discharged though:

- review of interim announcements and the Annual Report and Accounts, their clarity, completeness and compliance with relevant accounting standards and other regulatory and legal requirements;
- reporting to the Board on the consistency and appropriateness of critical accounting policies and any changes thereto, taking into account the views of the external auditor;
- review and challenge of significant financial reporting judgements, estimates and the actions and judgements of management;
- advice to the Board on whether the annual report and accounts, taken as a whole are fair, balanced and understandable and provides the information necessary for members to assess the performance, strategy and business model of the Group;
- review of any correspondence from regulators in relation to financial reporting; and
- review of the going concern and business viability assessment produced by the Deputy Chief Executive and Finance Director on a six monthly basis.

The main areas of financial reporting significance considered by the Audit Committee in 2015 were as follows:

- Commercial and residential loan impairment provisions: This is inherently an area of accounting estimate and judgement. The Society's commercial loan impairment provisions are agreed by the Society's Provisioning Committee and then reported to the Audit Committee. The Audit Committee reviews the level of provisioning through detailed discussion with management on the key judgements and estimates made including triggers for and methodology behind impairment calculations. The Committee also considers the models used for production of residential provisions although the resulting provisions are small relative to commercial provisions. The impact of forbearance in the mortgage portfolios has been considered and appropriate disclosures made in the financial statements. The Committee is satisfied with the assumptions adopted and models used to calculate provisions over the residential and commercial mortgage books.
- Going Concern: Preparing the Annual Reports and Accounts under the Going Concern assumption requires the Board and Audit Committee to be satisfied about the long term viability of the Group's business operations, business planning, business management and risk management. Long term liquidity, capital and funding budgets and forecasts alongside capital, cash flow and business viability considerations are assessed formally at the half year and year-end to coincide with the approval of the interim and annual accounts. A balanced consideration of positive and negative plan aspects is considered with supporting narrative provided by the Deputy Chief Executive and Finance Director. The Audit Committee concluded that the adoption of the Going Concern basis to prepare the accounts is appropriate.
- Provisions for other liabilities and charges: The Audit Committee reviews and challenges the estimates and assumptions made by management when calculating provisions at the end of the reporting period. The Committee was satisfied with provisions in relation to potential consumer redress and the Financial Services Compensation Scheme Levy.
- Hedge accounting: The Audit Committee is appraised of the Group's derivative and hedge accounting position and strategy and also agrees the accounting policy for hedging, including disclosures in the Annual Report and Accounts. The Committee has concluded satisfactorily in this area.
- Taxation: Recovery of deferred tax assets is the main area of focus of the Committee in relation to taxation and this is considered in conjunction with the review and approval of the Going Concern and Business Viability Review.

  The Committee was satisfied that deferred tax assets are recoverable. The Audit Committee reviewed the Group Tax Risk Policy which sets out compliance with relevant jurisdictional legislation, identifying areas of tax risk for appropriate focus and managing the overall Group tax risk.
- Pension: Consideration of the assumptions and disclosures relating to the defined benefit pension scheme with advice provided by independent actuary; First Actuarial.
- Intra-Group relationships: The project to separate operational aspects of the Solutions business and IT infrastructure into the Society's Newcastle Strategic Solutions Limited and Newcastle Systems Management Limited subsidiaries was subject to internal audit and progress reported to the Audit Committee. In addition consideration was also given to reports produced by advisors and the impact on related party transactions and disclosures in the Annual Report and Accounts.

Audit Committee Report (continued)

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

Having undertaken the above responsibilities and considerations throughout the Group's 2015 financial year the Audit Committee recommended to the Board that approval be given to the audited Annual Report and Accounts and Summary Financial Statements as at 31 December 2015.

Effectiveness of the 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 staff take appropriate responsibility for departmental, business unit and subsidiary risk mitigation and internal control. The Audit Committee also reviews management and Internal Audit reports on the effectiveness of systems for internal control and risk management across the Group.

Further details of risk management activities are given in the Risk Management report on pages 30 to 33 of the Annual Report and Accounts.

The Audit Committee is responsible for:

- review of the scope and effectiveness of the Group's internal controls and risk management systems including those for ensuring compliance with the regulatory environment in which the Group operates;
- review of the Society's procedures for detecting fraud and irregularities alongside review of the annual Money Laundering Reporting Officer's report;
- ensuring arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, control or other matters and to ensure independent investigation and appropriate follow up of such matters is undertaken; and
- reporting to the Board on significant findings concerning risk management, internal control, financial reporting and other aspects of relevance.

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

During the year the Audit Committee, through the Internal Audit department, completed a rolling review of the scope and effectiveness of the Group's internal controls. Specific areas of focus in 2015 included reviewing the controls in operation for; lending, information technology and cyber security, treasury, finance, risk management, regulatory reporting and key projects. The Internal Audit department utilised KPMG LLP and Deloitte LLP for co-sourced internal audits to provide specialist expert input and promote knowledge transfer to the department.

The Internal Audit department reflects the Audit Committee's primary available resource however the Committee retain the authority to obtain outside legal or independent professional advice as it sees fit. Reports from the Strategy Planning and Risk Director, Internal Audit, External Auditors and senior management provide input on key risks, uncertainties and controls direct to the Audit Committee.

Internal Audit

The Audit Committee is responsible for monitoring the effectiveness of the Group's Internal Audit function, its independence, objectivity and adherence with applicable professional standards. A formal review of the effectiveness of Internal Audit is undertaken by the Committee annually and most recently in November 2015.

The Committee approves and reviews the Internal Audit work programme and results and ensures the Internal Audit department maintains sufficient access to the Board, management and the books and records of the Society 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 and ensure appropriate management responsiveness to audit findings and recommendations given.

External audit:

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

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

The Audit Committee assesses annually the qualification, expertise and resources of the External Auditors seeking reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the Society that is considered to impact their independence. The External Auditors communicate their formal independence annually and appraise the Audit Committee of policies, processes and monitoring in place for maintaining their independence.

Prior to an External Audit engagement the Audit Committee discuss the nature and scope of the audit. They review findings of the auditors' work and assess the effectiveness of the audit process. This assessment reviews whether the auditors have met the agreed audit plan, considers the robustness and perceptiveness of the auditors in responding to questions from the Audit Committees and obtaining feedback about the conduct of the audit from key people involved.

The Audit Committee ensures that non-audit services provided by the External Auditors will not adversely impact the independence and objectivity of the audit firm in performing their duties. A formal Society policy on use of the External Auditors for non-audit work is reviewed annually encompassing pre-approved, low risk non-audit services alongside permitted and prohibited services requiring Audit Committee approval.

During 2015 the External Auditors were engaged to provide payroll services in relation to the Society's Gibraltar branch, advice in relation to corporate pensions, advice in relation to a conduct risk framework review, and rates rebates, by virtue of their expertise across these areas. All work was carried out by PwC partners and staff that had no connection to the external audit team. The fees paid to the External Audit firm for audit and non-audit services are set out in Note 5 to the accounts.

PwC have been external auditors to the Group since 1994. A formal external audit tender process was undertaken in 2013. A recommendation was made to Audit Committee and the Board to retain PwC as external auditors. The recommendation was made in light of a challenging and robust external audit and satisfaction with previous audits undertaken. The next formal external audit tender process is expected to be conducted in advance of the 2020 audit cycle, in line with the mandatory rotation of the audit's senior partner, Gary Shaw, at the end of 2019's audit.

Directors' remuneration, including the members of the Audit Committee, is detailed within the Remuneration Committee Report on page 27 of the financial statements. The Report on Corporate Governance on pages 20 to 24 also sets out the process for review of effectiveness of Board sub-committees including the Audit Committee.

On behalf of the Board
Richard Bottomley
Chairman of the Audit Committee
1 March 2016

Remuneration Committee Report

Introduction

This report details the Society's approach to pay for the period 1 January to 31 December 2015. It sets out the remuneration policy and remuneration details for the Executive and Non-Executive Directors of the Society and how it applies the principles of the UK Corporate Governance Code relating to remuneration, the Regulators' Remuneration Code and the disclosure requirements arising under the EU Capital Requirements Directive IV (CRD IV). The report is split into three main areas; the Statement by the Chairman of the Remuneration Committee, the Report on Remuneration and the Directors' Remuneration Policy.

i) Statement by the Chair of the Remuneration Committee

The Remuneration Committee operates within the Terms of Reference (TOR) agreed by the Board. The TOR are reviewed annually and were last reviewed on 24 November 2015. The effectiveness of the committee is also reviewed on an annual basis and was last reviewed on 24 November 2015.

The main objectives of the committee are summarised as follows:

- To ensure a formal and transparent procedure is in place for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors;
- To design an Executive remuneration policy that promotes the long term success of the Society;
- To ensure compliance with the Regulators' Remuneration Code;
- To consider and make recommendations to the Board on Executive remuneration and conditions of employment;
- Approval of the Society's Remuneration Policy Statement;
- Approval of Pillar 3 Remuneration disclosures;
- To consider and make recommendations to the Board on the general framework of staff bonus schemes; and
- To consider and make recommendations to the Board on fees paid to Non-Executive Directors.

The Board believes remuneration should be sufficient to attract, retain and motivate senior managers to continue to run the Society successfully, whilst avoiding paying more than is necessary for this purpose. The Remuneration Policy, therefore, focuses on rewarding our most senior Executives in line with the achievement of our goals set out in the annual strategic plan whilst continuing to provide value for money for our Members.

Composition of the Committee

The Committee comprises solely of Non-Executive Directors who have no personal financial interest in the recommendations. The Chairman of the Committee is John Morris, the other members are David Buffham and Karen Ingham (appointed 25 January 2016). Catherine Vine-Lott, the Committee's previous Chair retired on 31 December 2015, and Richard Mayland retired on 22 April 2015. The Chairman and Chief Executive (except for items relating to his own remuneration) also attend meetings but are not members of the Committee. The HR Executive acts as Secretary to the Committee. No use of external remuneration consultants was made by the Committee during the year.

During the year the Committee met three times and activities included:

- Overseeing compliance of the Society's approach to remuneration against the requirements of the Regulators' Remuneration Code;
- Considering and agreeing pay and benefits for Executive Directors, senior managers and the Chairman, as well as overseeing remuneration matters across the Society and its subsidiaries;
- Reviewing the performance for the financial year and approving the resulting level of Corporate Bonus to be paid based on achievement of the Corporate Key Performance Indicators; and
- Consideration of the disclosure requirements for the Remuneration Report including Pillar 3 disclosures.

ii) Report on Remuneration

The total remuneration received by Executive Directors is shown below. The information has been audited and shows remuneration for the years ended 31 December 2014 and 31 December 2015 as required under the Building Society (Accounts and Related Provisions) Regulations 1998.

Directors' Emoluments (Audited)

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

	Salary or fees	Other benefits	Annual bonus (Note 1)	Pension contributions to defined contribution scheme (Notes 2 & 4)	Total 2015 contractual benefits	Total 2014
	£000	£000	£000	£000	£000	£000
Executive Directors						
AS Haigh Notes 2 and 3	227	32	8	-	267	167
AM Russell	183	10	6	16	215	210
P Ferguson (appointed 19 February 2014)	132	10	4	12	158	136
JH Willens (retired 30 April 2015) - Note 4	261	34	-	-	295	349
Total for Executive Directors	803	86	18	28	935	862
Non-Executive Directors						
PJ Moorhouse	65	-	-	-	65	63
RJ Bottomley OBE (appointed 22 September 2014)	37	1	-	-	38	9
DJ Buffham	47	-	-	-	47	46
K Ingham (appointed 4 September 2014)	29	-	-	-	29	9
RD Mayland (retired 24 February 2015)	6	-	-	-	6	37
RJ McCormick	52	2	-	-	54	51
J Morris	43	2	-	-	45	37
CRR Vine-Lott (retired 31 December 2015)	43	3	-	-	46	44
IW Ward	42	1	-	-	43	41
Total for Non-Executive Directors	364	9	-	-	373	337
Total for all Directors	1,167	95	18	28	1,308	1,199

Notes:

1. The Society's Executive Directors participate in the Group's annual Corporate Bonus Scheme. The annual corporate bonus is determined based on achievement of the current year's corporate KPIs. There is no consequent deferral of the bonus payment or vested element.
2. Mr AS Haigh has elected to take his pension contribution amounting to £20,400 as a cash payment. He is liable for his own tax and National Insurance Contributions on this payment.
3. Mr AS Haigh's salary increased to £265,000 on 1st May 2015 following appointment to the role of Chief Executive Officer.
4. Mr J H Willens had elected to take his pension contribution amounting to £22,500 as a cash payment. He is liable for his own tax and national insurance contributions on this payment. He received £181,000 in lieu of notice.

The Chief Executive is the Society's most highly paid employee and no employee earns more than any Executive Director. For details of other Director positions held by the Society's Executive Director team see the Annual Business Statement on page 77 of these Report and Accounts. None of the current Executive Directors retained any remuneration as a result of their non-Society positions. JH Willens held the position of Chief Executive of the Society until his retirement on 30 April 2015 and also held a Non-Executive Director position with Brown Shipley & Co Limited, retaining the remuneration from this directorship as agreed by the Board.

iii) Directors' Remuneration Policy

The Society's Remuneration Policy is designed to provide competitive remuneration packages that attract, retain and reward our senior team, to deliver business objectives in support of the Society's strategy whilst providing value for Members. The Society's Remuneration Policy does not include significant performance-related variable remuneration.

In implementing the Policy, the following key principles are observed:

- The Policy is clearly linked to the Society's business strategy, objectives and values;
- Policy, process and practice are consistent with and promote effective risk management, whilst creating an acceptable relationship between risk and reward;
- Basic pay and total remuneration is set at a competitive level to attract and retain the appropriate calibre of people;
- The approach to pay satisfies regulatory requirements and good Corporate Governance practice;
- Remuneration arrangements are transparent, consistent and fair, reflecting individual responsibilities and performance; and
- Remuneration arrangements are straightforward to understand, communicate and administer.

Remuneration for Executive Directors

The table below shows the elements of remuneration for Executive Directors and the way they operate.

How elements support our strategy	Operation	Maximum potential value	Performance conditions and assessment
Basic Salary Supports the recruitment and retention of Executive Directors, reflecting their individual roles, skills and contribution.	Basic salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual. In setting appropriate salary levels, the Committee takes into account data for similar roles in comparable organisations. The Society aims to position Executive Directors competitively within the reference group.	Increases to base salary are determined annually by the Committee taking into account: • Individual performance; • The scope of the role; • Pay levels of comparable organisations; and • Pay increases elsewhere in the group.	None applicable however individual performance is taken into account when considering base increases.
Pension Supports recruitment and retention of Executive Directors at a cost that can be controlled by the Society.	Generally the Society contributes to a defined contribution pension scheme for the Executive Directors. The contribution can instead be paid in cash (which is excluded from bonus calculations) if the Executive Director is likely to be affected by the limits for tax approved pension saving.	9% of basic salary.	None applicable.
Benefits • To attract and retain Executive Directors; and • Provides a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including car or car allowance, private medical insurance, life insurance and permanent health insurance. The Committee reviews benefits and from time to time may make changes, for example to reflect market practice or the needs of the business.	The Society bears the cost of providing benefits which may vary from year to year.	None applicable.
Short Term Incentive Scheme • Supports attraction and retention of Executive Directors; • Supports the development of a high performance culture; and • Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate strategy.	Performance measures and targets are set on an annual basis and are measured over the financial year. Payment is made in cash, after performance has been assessed. Payment is made at the discretion of the Committee.	The Committee determines the maximum incentive. A corporate bonus payment has been awarded of 3.0% of base salary in relation to 2015 performance.	The performance measures attached to the Corporate scheme are delivery of the Corporate KPIs which include: • Group profit, capital and liquidity targets; • Quality measures around service, complaints and satisfaction; • Targets for savings and mortgage business; and • Other KPIs covering people, Solutions business and delivery of major projects. The measures are assessed by the Committee. (Further information on KPI performance can be found on page 8 of the Strategic Report.)

Notes to the table

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

Remuneration of Non-Executive Directors

The table below set outs the elements of Non-Executive Directors' remuneration and the policy on how each element is determined.

Element	Approach
Basic Fees	Reviewed annually based on time commitment and responsibility required by Board and Board committee meetings. Review takes into account fees paid by comparable financial services organisations. Fees set by the Remuneration Committee.
Additional Fees	Additional fees are payable for additional responsibilities such as committee chairmanship or membership.
Other items	Non-Executive Directors are not eligible to participate in any form of performance pay and do not receive pensions or other benefits.

The Remuneration Committee also determines the Chairman's fee.

Directors' service agreements and notice periods

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

Non-Executive Directors do not have service agreements. Non-Executive Directors are appointed for an initial three year term. They will generally be expected to serve more than one three year term.

All Directors volunteer for annual re-election.

Policy on termination pay

The Committee aims to treat departing Executive Directors fairly, taking into account the circumstances of their departure, but is always careful to ensure that the interests of Members are considered and that there are no rewards for failure.

Executive Directors are entitled to be paid their basic salary and contractual benefits (including pension contributions) during their notice period. The Society has the discretion to pay these as a lump sum in lieu of notice.

The rules of the Corporate Bonus Scheme set out the treatment for an individual who ceases to be an employee or Director of the Society.

Consideration of remuneration for individuals elsewhere in the Society

The Committee is responsible for setting the remuneration of the Executive Directors and approves the policy for senior managers who have material impact on the Society's risk profile (Code Staff).

In addition, the Committee reviews recommendations from the Chief Executive for approval on the remuneration of other executives.

When setting salary increases for Executive Directors, the Committee considers the level of salary increases across the Society.

All employees of the Society receive a basic salary and benefits consistent with market practice, and are eligible to participate in the Society's Corporate Bonus Scheme and pension arrangements.

Consideration of Member views

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. In 2014, the Society voluntarily elected to adopt some of the changes to remuneration reporting that apply to UK listed companies and one of the factors that the Committee took into consideration was the opportunity to give Members a chance to vote on the Society's Remuneration Policy. Members voted and gave their support (89.35% voted to approve the policy with 18,145 votes for, 2,163 against and 539 withheld) to the policy in April 2015 which took immediate effect. Similar approval was given to the Directors' Remuneration Report (89.85% approval with 18,297 votes for, 2066 against and 485 withheld). In accordance with the Code, the policy will be put forward for vote again in 2018.

Summary of the Remuneration of Code Staff

A summary of the remuneration of Code Staff during 2015 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 (note 1) £000	Total Remuneration 2015 £000	Total Remuneration 2014 £000
Executive Directors	CEO, Finance Director & Deputy CEO, Chief Operating Officer (see note 2), Strategy Planning & Risk Director	4	917	18	935	862
Other Executives	Sales & Marketing, Treasury, Information Technology, Operations, Human Resources, Commercial Services, Business Assurance	8	787	21	808	774
Control Functions	Compliance, Underwriting	2	117	3	120	116
Total		14	1,821	42	1,863	1,752

Notes:
1. Variable remuneration reflects participation in the Group's annual Corporate Bonus Scheme.
2. The Society's Chief Operating Officer was appointed Chief Executive Officer on 1 May 2015.

There was no deferred remuneration during 2015. As the Society's Remuneration Policy does not include significant performance-related variable remuneration, no formal ratio between fixed and variable remuneration is relevant.

John Morris
Chairman of the Remuneration Committee
1 March 2016

Overview

The Society's risk management framework is designed to enable the Society to proactively identify and manage risks to support the achievement of the Society's objectives.

It includes monitoring and controlling the significant risks to which the Society is exposed to ensure the security and resilience of the Society. The Society's 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.

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 consistent. To assist the Board a Group Risk Committee (GRC) oversees the management of risk across the Group (see below).

The GRC is supported by an independent Group Risk department that is responsible for ensuring that appropriate risk management is used. This includes the provision of reports on risks, and risk management for the GRC and its sub-committees. The Strategy, Planning and Risk Director provides formal updates on risk management to the Board, in relation to the Group, at least quarterly.

Risk Framework

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

The risk framework includes the use of Board approved risk appetite statements covering profitability in a stressed scenario, capital, liquidity, operational risk, credit risk, interest rate risk, the 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 formally approved annually.

The risk framework makes use of stress testing and scenario testing. Stress tests consider the potential outcomes for portfolios and for the Society in the event of stressed scenarios incorporating, for example, falling house prices and rising unemployment. Scenario tests consider the outcome in the event of a particular risk or event occurring, and are used to help evaluate the controls, and assess the adequacy of the Society's incident management and business continuity plans.

Group Risk Committee

The GRC oversees the Society's risk management and governance framework, and oversees the Society's overall risk profile. The Committee meets at least six times a year and more frequently when required.

Members of the GRC throughout the year, all of whom were Non-Executive Directors, were David Buffham (Committee Chairman), Ron McCormick, John Morris, and Ian Ward.

The duties of GRC include:

- Oversight of overall risk appetite, risk management strategy and framework, including oversight of both prudential and conduct risk appetites;
- Oversight of compliance with risk policy;
- Oversight of the risk sub-committees (see below);
- Review and assessment of the adequacy of risk management information to monitor and control risks;
- Approval of new initiatives and projects, including the risks those initiatives and projects expose the Group to;
- Consideration and approval of the top risks for the Society and Group including low likelihood, high impact risks; and
- Approval of stress testing and scenario testing.

During 2015 the committee met eight times and in particular considered the following matters:

- Review of the risk appetites for prudential, and conduct risk;
- Oversight of the annual stress testing report including low likelihood high impact risks;
- Oversight of the risk management proposals for the Society's entry into Buy to Let lending, and approval of the Buy to Let lending underwriting criteria and risk limits;
- Review and ratification of key risk policies covering lending, treasury, and operational risk;
- Review and approval of the Society's compliance plan;
- Review of compliance with the Building Society Sourcebook limits; and
- Review of the Society's risk framework, including a review of the Society's conduct risk framework.

The GRC is supported by four Executive committees that meet on a monthly basis, as follows:

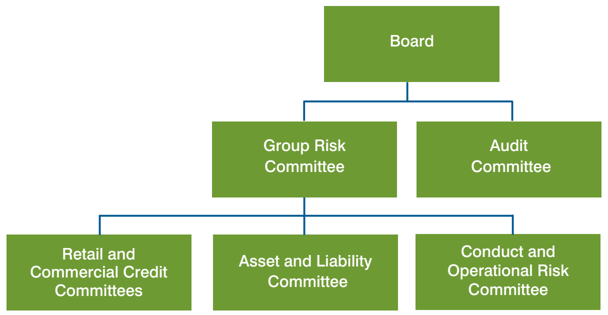
The Retail Credit Committee (RCC) is responsible for credit risk across the Group arising from the retail mortgage portfolio including lending policy, underwriting, limit setting and monitoring, forbearance, possessions, affordability, scorecard effectiveness and efficiency, and residential stress testing. The committee also considers conduct risk in relation to mortgage lending activities.

The Commercial Credit Committee (CCC) is responsible for credit risk across the Group's non-retail mortgage portfolio including loan strategy, limit monitoring, risk indicators and stress factors, annual reviews and breach reports, loan renegotiations and restructures, monitoring risk trends on the portfolio, and stress testing.

The Conduct and Operational Risk Committee (CORC) is responsible for operational and conduct risks arising across the Group, including operational risk policy, compliance policy, monitoring compliance with policies, risk event trends, actions on significant risk events, project risks, conduct risk indicators, business continuity policy, and scenario testing.

The Assets and Liabilities Committee (ALCO) is responsible for all aspects of treasury risk management including liquidity risk, interest rate risk, counterparty credit risk, and balance sheet management.

Risk Governance Structure



Risk and Impact	Mitigation	Change	Commentary
Credit Risk The primary credit risks relate to commercial, residential, and investment (see below).			
Commercial 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.	The commercial loan book is being actively managed down. Commercial loans over £500k are subject to annual reviews reporting to the Commercial Credit Committee (CCC). Higher risk loans are subject to quarterly review. Concentration risk to single names and to sectors is monitored, In the event of a breach a report is provided to the CCC. Borrower and tenant watchlists are maintained by the Commercial credit risk team, and are reviewed monthly. Watchlists for borrowers and tenants are updated on a real time basis. Sector reviews are completed regularly. Where appropriate the Society uses property experts to provide it with options analyses. Stress testing is used to determine the risk associated with the portfolio and with individual loans within it.		The Society withdrew from new commercial lending in 2008. Lending balances on commercial property have fallen by £57m (29.5%) in 2015, and now represent 5.5% of the mortgage book. The Society's exposure to single name risk has also materially reduced. Loans to registered social landlords (RSL) are subject to the same controls as commercial loans. However, the risk of default in relation to an RSL loan is extremely low. The assessment of risks has fallen significantly based on stress test losses.
Residential 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, and interest rates	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 is subject to review at least annually. The residential book is subject to monthly reporting in relation to its credit risk characteristics (including loan to value, loan to income, arrears, 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.		The Society has increased its lending to retail borrowers in 2015, including BTL lending to individuals, and has a strategy to continue to do so. The Society's risk to residential lending has increased as the overall book has increased. Indexed LTV has reduced due to house price rises and capital repayments. All new lending has been done on a capital and repayment basis since 2011. Loans 3 months or more in arrears are at their lowest reported level. The retail book remains within the Society's risk appetite. Actual losses on the residential book remain very low at less than £0.1m p/a.
Investment/Liquidity Credit 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).	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 to management daily, and reported to the Assets and Liabilities Committee (ALCO) on a monthly basis, 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.		The Society's overall risk exposure has fallen as total liquidity has fallen, and the proportion of liquid assets held with highly rated counterparties has been maintained.

Risk and Impact	Mitigation	Change	Commentary
Conduct Risk Conduct risk is the risk of customer detriment arising from the Society's activities. 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 (see below) 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).	Conduct risk is wide-ranging, and the key mitigants are; The Society maintains a risk appetite statement relating to customer outcomes and measures performance relative to that statement monthly, reporting to the Conduct and Operational Risk Committee (CORC) with oversight from the GRC. All new products are approved by a Product Approval Committee, which includes consideration of an assessment of risks to customer outcomes. The Society maintains a Treating Customer Fairly dashboard, which looks at evidence supporting good customer outcomes (or suggesting poor outcomes) and this is reviewed quarterly and reported to the Board. The Society maintains an annual Compliance Plan, which is risk based, reporting to CORC with oversight from the GRC. (See also Operational Risk).		The Society has a simple product range covering mortgages, savings, insurance, and financial advice via Newcastle Financial Services Limited (an Appointed Representative of Openwork). The Society does not offer structured products, personal loans, payment protection products, or credit cards.
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.	Liquidity is subject to a GRC approved Policy, which sets out limits in relation to liquidity. Liquidity is monitored and reported to management daily, and reported to the Assets and Liabilities Committee (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.		Overall liquidity risk is unchanged.
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 the LIBOR rate, and liabilities where the rate is set by the Society.	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's 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.		The Society's policy in relation to interest rate risk has not been changed in the year nor has the overall interest rate risk to which the Society is exposed. Note 30 gives details of the derivative financial instruments held at 31 December 2015, together with the impact of a rate shock of 1% and 2%.

Risk and Impact	Mitigation	Change	Commentary
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.	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. The Board receives quarterly updates on the Society's Pension Scheme including mitigation strategies.		The pension fund deficit on an IAS 19 basis has reduced from £3.7m at the end of 2014 to £1.7m at the end of 2015. The pension scheme has rebalanced its investment strategy in favour of investments that better match the liabilities of the scheme (Liability Driven Investment) and has also diversified its investments to reduce overall risk (via Diversified Growth Funds). However the Scheme is still exposed to significant market volatility particularly in long term gilt rates.
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 is subject to a GRC approved policy, which covers the framework for operational risk, including the measurement and management of risk, operational risk appetite, use of scenario testing for operational risk, tracking of risk events and operational losses, timescales for implementation of action plans and escalation procedures for more serious risk events that require immediate action to mitigate loss. Key risks and controls are identified for all areas of the business. Risk assessments remain the responsibility of the relevant departmental managers and Executives, and are updated regularly for new risks, the results of risk events and following internal audit reviews. Corporate insurance policies are negotiated with regard to the key risks within the Group requiring greater mitigation.		As the Society's business model includes diversification via the Solutions Business, this increases exposure to operational risk particularly in relation to IT systems capability and human error. The Society implemented several projects and recruited additional specialist risk staff in 2015 to further enhance its resilience and combat risks from cyber crime. The value of savings balances managed by the Solutions business had increased by around a third by the end of 2015 (see also segmental analysis in Note 8).
Capital Risk Capital risk is the risk that the Society is or becomes inadequately capitalised to address the risks to which it is exposed.	The Society updates its ICAAP on an annual basis. Capital adequacy is monitored on a monthly basis by the Board and the 5 year capital plan has been updated on a regular basis between ICAAP reviews against the background of changing economic circumstances and updated budgets and forecasts. The Group maintains its capital at a level in excess of its Individual Capital Guidance. The Group publishes further information about risk exposures in its Pillar 3 disclosures, available on the Society's website (www.newcastle.co.uk) shortly after the publication of these accounts		The Society's Common Equity Tier 1 ratio has improved to 13.6% from 12.7%.

David Buffham
Chairman of the Group Risk Committee
1 March 2016

Report on the Annual Accounts

Our opinion

In our opinion, Newcastle Building Society's Group Annual Accounts and Society Annual Accounts (the "Annual Accounts"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2015 and of the Group's and the Society's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group Annual Accounts, Article 4 of the IAS Regulation.

What we have audited

The Annual Accounts, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Group and Society Balance Sheets as at 31 December 2015;
- the Group and Society Income Statements and Statements of Comprehensive Income for the year then ended;
- the Group and Society Cash Flow Statements for the year then ended;
- the Group and Society Statements of Movement in Members' Interests for the year then ended; and
- the Notes to the Annual Accounts, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the Notes to the Annual Accounts. These are cross-referenced from the Annual Accounts and are identified as audited.

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

Our audit approach

Overview

Materiality

- Overall Group materiality: £1,240,000 which represents 0.5% of net assets.

Audit scope

- We conducted all of our audit work from Newcastle upon Tyne using one team.
- Audit procedures were performed over all material account balances and financial information in the Society due to its significance to the Group's financial performance and position.
- Audit procedures were performed over specific account balances and financial information in three other Group undertakings that materially contributed to Group's financial performance and/or position.

Areas of focus

- Allowances for losses on loans and advances secured on commercial property/land.
- Valuation of derivative financial instruments and application of hedge accounting.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the Annual Accounts. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus

Allowances for losses on loans and advances secured on commercial property/land

See Note 1 to the Annual Accounts for the Directors' disclosures of the related accounting policies, judgements and estimates and Notes 11 and 30 for detailed disclosures.

The Society has recognised an impairment charge on loans and advances to customers secured on commercial property/land of £4.6m (2014: £5.9m) in the year, leaving a balance of £119.1 on the balance sheet (2014: £170.9m). This balance includes a specific provision of £15.0m (2014: £18.5m) and a collective provision of £2.0m (2014: £3.6m) for cases in the portfolio where an impairment event has occurred but has not been specifically identified. Whilst the Society has had success in its strategy of winding down this loan book over recent years, the portfolio remains significant both in the context of both the overall Balance Sheet and the results of the Group in the current and previous years.

Significant judgement needs to be applied by the Directors to estimate the potential loss on loans where an impairment event has occurred. Judgement is required in respect of identifying an impairment trigger event on loans and, once identified as impaired, the estimate of loss on a loan is calculated by use of models to discount the future cash flows expected to be received on the loan. This calculation is impacted by a number of assumptions which we focussed on, including, but not limited to:

- The value of the underlying security;
- Likelihood of re-letting where part/all of property remains vacant or tenancy agreements contain break clauses which pre-date the loan's maturity; and
- The exit strategy of the Society and, where this pre-dates the contractual maturity of the loan, the feasibility of delivering this strategy.

We also paid particular attention to the Director's assumptions in assessing the timing and value of future cash flows, as this is subject to significant estimation uncertainty and as a result there is an increased risk that impairment allowances may be materially understated.

How our audit addressed the area of focus

We evaluated and challenged the Directors' future cash flow forecasts for loans where specific impairment allowances had been recognised, and the process by which they were drawn up. We tested the significant inputs in the models to underlying evidence, for example agreeing property values to valuations provided by external third parties and other details to tenancy agreements. Where properties were sold post year end, we agreed cash proceeds to amounts used in the models.

Where the Directors had obtained and relied upon third party property valuations, we obtained and read copies of these reports to check that the valuations were consistent with those applied in the Directors' cash flow models, and found no exceptions. We also independently assessed the competency of the external third party property valuers contracted by the Group to undertake these valuations as well as their independence and objectivity. We did not identify any issues with the quality of the valuations undertaken, with the organisations involved, or with the validity of other evidence provided.

Our work on the cash flow forecasts also involved assessing the reasonableness of the assumptions used (as described) to derive the expected future cash flows. We also undertook sensitivity analyses to assess the changes required in those assumptions that would be required to result in material misstatement of the allowances, and the likelihood of such changes arising individually and in aggregate. The results of our work lead us to conclude that no reasonably possible changes in assumptions resulted in material changes to provisions recognised, and hence the assumptions used by the Directors were reasonable.

We evaluated the outcome of commercial loans redeemed in the year by comparing these to management's previously expected outcome to ascertain whether losses realised were consistent with previously recorded provision allowances. No significant variances were noted during this testing, which provides us with further evidence over the Directors' ability to estimate future cash flows accurately.

The appropriateness of the collective provision of £2.0m was assessed through reading management's related accounting paper and utilising the evidence we had obtained from the procedures outlined above against the impairment criteria defined in accounting standards. We did not identify any material error in the collective provision based on the evidence obtained from those procedures.

In evaluating the completeness of specific impairment provision allowances on commercial loans and the appropriateness of the collective provision, we:

- Re-performed controls relied upon by the Directors to address accurate capture of arrears information, including testing over the allocation of cash receipts from borrowers to the correct loan accounts and recalculation of arrears for a sample of borrowers;
- Obtained "watch lists" representing borrowers being closely monitored by the Commercial Credit Committee and minutes of the Committee's meetings to identify any loans of higher risk and we investigated the past performance of these loans to assess if an impairment event had occurred and the likelihood of loss in the event of default;
- Identified specific commercial loans which had not been assessed by the Directors as impaired but in our view represented a heightened risk of potential impairment, including loans with significant balances outstanding at the balance sheet date, with high Loan to Values (LTVs) and loans in arrears or where forbearance had been granted and again investigated the past performance of these loans to assess whether an impairment event had occurred and the likelihood of loss in the event of default;

  Following completion of the above procedures, we did not identify any errors in the capturing and recording of arrears information and we did not identify any loans recorded on the watch lists or identified as higher risk through use of our own selection criteria for which we considered there to be evidence of a need for a specific provision.

Area of focus

Valuation of derivative financial instruments and application of hedge accounting

See Note 1 to the Annual Accounts for the Directors' disclosures of the related accounting policies and Note 30 for detailed disclosures.

The Society's operations expose the Group to significant interest rate risk, as a result of a mismatch between fixed and floating cash inflows and outflows to and from Members, from investments or to providers of funds.

The Directors have sought to mitigate the risk of future movements in market interest rates affecting the Group's profitability through the use of a number of derivative financial instruments, mainly in the form of interest rate swaps. The Group has designated a number of these derivatives as accounting hedges, in accordance with accounting standards to reduce the volatility of future movements in interest rates on the amounts recorded in the income statement.

The Group has a significant number of derivative instruments and uses valuation systems, and in some instances, valuations provided by counterparties, to determine the fair value of each instrument at the balance sheet date. The Group also uses systems, and in some cases bespoke cash flow models, to assess hedge effectiveness for the accounting hedges as required by accounting standards.

We focused on this area as there are a larger number of instruments that require valuations, and these require judgement. The process of recording the valuations in the accounting records requires manual input and the criteria for achieving hedge accounting are onerous and complex, both of which increase the risk of error in application.

In particular we focused on:

- the interest yield curves and discount rates applied in the Society's valuation systems and/or counterparty valuations; and
- the Society's hedge documentation and calculation spreadsheets used to calculate ineffectiveness in hedge relationships.

How our audit addressed the area of focus

We agreed fair values derived for each derivative financial instrument by management to the values recorded in the Annual Accounts.

We obtained a sample of derivative contracts and undertook independent valuations for these instruments at the balance sheet date using our own models. Within our models we used externally available sources for interest yield curves and discount rates for the Group, in arriving at our own independent estimates of fair value.

We compared our independently determined fair values to those calculated by management for the same instruments (whether through the use of valuation systems or those provided by counterparties) to evaluate any differences arising. In performing this comparison we calculated tolerable thresholds for valuation differences which took into account the complexity of the instrument being valued. We noted no significant differences outside of those tolerable thresholds.

We obtained and read the Group's hedging documentation to evaluate whether this documentation was compliant with the accounting requirements for applying hedge accounting and found no issues.

We also obtained and re-performed the hedge effectiveness calculations undertaken by management in assessing the effectiveness of the Group's hedge relationships. In performing this work we also recalculated the ineffectiveness recorded in the income statement within the 'Gains less losses on financial instruments and hedge accounting" line. In performance of these procedures we noted no differences to the effectiveness as calculated by the Directors and recorded in the accounts.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Annual Accounts as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Substantially all of the Group's activities are in the United Kingdom and it reports its operating results along two business lines, being the Member business and the Solutions business (refer to Note 8 of the Annual Accounts).

The Group has a number of subsidiaries, but the majority of the Member business and Solutions business is undertaken by, and recorded within, the accounting records of the Society. A project has commenced, however, to carve out the Solutions business from the Society into a separate legal entity, Newcastle Strategic Solutions Limited (NSSL). This is due to desire from the regulators to have distinct businesses in separate legal entities. All new external Solutions contracts will be made with NSSL and related staff costs now reside in NSSL. As a result, we performed testing over payroll costs in NSSL as this balance comprises a significant portion of the overall Group staff costs balance. Significant activity in other Group entities include:

- The provision of financial advice to customers, reported as a Member business activity, undertaken by a subsidiary undertaking of the Society, Newcastle Financial Services Limited (NFSL); and
- The provision of managed IT services to other Group companies, as well as managing a small number of external contracts, undertaken by a subsidiary undertaking of the Society, Newcastle Systems Management Limited (NSML).

Certain Group assets reside in other entities, including material leasehold land and buildings held within a subsidiary undertaking, Newcastle Portland House Limited (NPHL). The accounting records and functions for both business lines, which encompass the Society and its subsidiary undertakings, are all located at the Society's Principal Office in Newcastle upon Tyne, with the consolidation of the Group Annual Accounts performed centrally from this location.

Accordingly, due to majority of the 'Member business' and the 'Solutions' business being conducted by the Society, and the financial significance of this to the Group Annual Accounts, we performed an audit of all material account balances and other financial information for the Society, together with the assessment of management's going concern assumption.

We also determined it necessary to perform specific audit procedures over account balances and other financial information in certain subsidiary undertakings where such entities significantly contributed to the amount recorded in the Group Annual Accounts. As a result, we performed audit procedures on fee and commission income recorded in NFSL, payroll costs in NSSL and leasehold land and buildings recorded in NPHL. No specific audit procedures were deemed necessary on the account balances and other financial information in NSML, as the entity did not contribute materially to the Group's financial performance or position.

Taken together, our audit procedures on the Society and its subsidiary undertakings provided us with sufficient audit evidence as a basis for our opinion on the Group Annual Accounts as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the Annual Accounts as a whole.

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

Overall group materiality	£1,240,000 (2014: £1,270,000).
How we determined it	0.5% of net assets
Rationale for benchmark applied	We believe that net assets is the most appropriate benchmark to use for the Society and Group, whose strategy is not one of profit maximisation. Regulatory capital is a key benchmark for management and regulators and hence we continue to use net assets, a GAAP enshrined proxy to regulatory capital, as our benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £62,000 (2014: £63,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Other required reporting

Consistency of other information and compliance with applicable legal requirements

Opinions on other matters prescribed by the Buildings Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Annual Accounts are prepared is consistent with the accounting records and the Annual Accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Propriety of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the Annual Accounts and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Director's Responsibilities set out on page 19, the Directors are responsible for the preparation of the Annual Accounts and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the Annual Accounts sufficient to give reasonable assurance that the Annual Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Annual Accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
1 March 2016

Income Statements for the year ended 31 December 2015

	Note	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Interest receivable and similar income	2	**78.0**	85.3	**78.2**	85.3
Interest payable and similar charges	3	**(50.9)**	(60.2)	**(50.9)**	(60.2)
Net interest income		**27.1**	25.1	**27.3**	25.1
Other income	4	**24.6**	24.0	**22.8**	20.8
Other charges	4	**(1.7)**	(1.7)	**(1.7)**	(1.7)
Gains less losses on financial instruments and hedge accounting		**0.1**	-	**0.1**	-
Total operating income		**50.1**	47.4	**48.5**	44.2
Administrative expenses	5	**(36.1)**	(33.2)	**(36.5)**	(31.3)
Depreciation	15	**(2.1)**	(1.8)	**(1.5)**	(1.6)
Operating profit before impairment provisions and FSCS levy		**11.9**	12.4	**10.5**	11.3
Impairment charges on loans and advances to customers	11	**(4.6)**	(5.9)	**(4.6)**	(5.9)
Provisions for liabilities and charges	23	**(1.9)**	(2.5)	**(1.9)**	(2.5)
Profit for the year before taxation		**5.4**	4.0	**4.0**	2.9
Taxation expense	7	**(2.1)**	(1.1)	**(2.0)**	(1.5)
Profit after taxation for the financial year		**3.3**	2.9	**2.0**	1.4

The notes on pages 44 to 75 form part of these Accounts.

Statements of Comprehensive Income for the year ended 31 December 2015

	Note	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Profit for the financial year		**3.3**	2.9	**2.0**	1.4
Other comprehensive (expense) / income:					
Items that may be reclassified to income statement					
Movement on available for sale reserve		**(0.8)**	(1.3)	**(0.8)**	(1.3)
Income tax on items that may be reclassified to income statement		**0.2**	0.3	**0.2**	0.3
Total items that may be reclassified to income statement		**(0.6)**	(1.0)	**(0.6)**	(1.0)
Items that may not be reclassified to income statement					
Actuarial remeasurements on retirement benefit obligations	28	**0.4**	(6.0)	**0.4**	(6.0)
Income tax on items that will not be reclassified to income statement	16	**(0.1)**	1.2	**(0.1)**	1.2
Total items that will not be reclassified to income statement		**0.3**	(4.8)	**0.3**	(4.8)
Total comprehensive income / (expense) for the financial year		**3.0**	(2.9)	**1.7**	(4.4)

The notes on pages 44 to 75 form part of these Accounts.

Balance Sheets as at 31 December 2015

	Note	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
ASSETS					
Cash and balances with the Bank of England		**183.1**	310.6	**183.1**	310.6
Loans and advances to banks	9	**195.7**	203.9	**194.8**	203.8
Debt securities	10	**347.2**	253.6	**347.2**	253.6
Derivative financial instruments	30	**7.3**	16.4	**7.3**	16.4
Loans and advances to customers	11	**2,478.6**	2,660.1	**2,470.2**	2,649.2
Fair value adjustments for hedged risk	12	**190.8**	201.8	**190.8**	201.8
Assets pledged as collateral	13	**-**	48.5	**-**	48.5
Investment in subsidiaries	14	**-**	-	**29.8**	16.0
Property, plant and equipment	15	**23.4**	23.0	**12.7**	15.0
Deferred tax assets	16	**7.8**	9.8	**7.7**	10.3
Other assets	17	**11.6**	8.5	**18.4**	15.6
TOTAL ASSETS		**3,445.5**	3,736.2	**3,462.0**	3,740.8

The notes on pages 44 to 75 form part of these Accounts.

Balance Sheets as at 31 December 2015

	Note	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
LIABILITIES					
Due to Members	18	**2,678.8**	2,973.7	**2,678.8**	2,973.7
Fair value adjustments for hedged risk	12	**5.3**	8.4	**5.3**	8.4
Due to other customers	19	**205.3**	164.9	**217.6**	165.0
Deposits from banks	20	**100.8**	113.6	**100.8**	113.6
Debt securities in issue	21	**1.0**	1.0	**1.0**	1.0
Derivative financial instruments	30	**190.4**	201.6	**190.4**	201.6
Other liabilities	22	**10.3**	10.6	**15.6**	14.9
Provisions for liabilities and charges	23	**2.7**	3.1	**2.7**	3.1
Retirement benefit obligations	28	**1.7**	3.7	**1.7**	3.7
Subordinated liabilities	24	**50.0**	59.5	**50.0**	59.5
Subscribed capital	25	**30.0**	29.9	**30.0**	29.9
Reserves		**169.2**	166.2	**168.1**	166.4
TOTAL LIABILITIES		**3,445.5**	3,736.2	**3,462.0**	3,740.8

These Accounts were approved by the Board of Directors on 1 March 2016 and signed on its behalf by:

Phil Moorhouse, Chairman
Richard Bottomley, Chairman of Audit Committee
Andrew Haigh, Chief Executive

The notes on pages 44 to 75 form part of these Accounts.

Statements of Movements in Members' Interests for the year ended 31 December 2015

GROUP	General reserve £m	Available for sale reserve £m	Total £m
At 1 January 2015	166.1	0.1	166.2
Movements in the year	3.6	(0.6)	3.0
At 31 December 2015	**169.7**	**(0.5)**	**169.2**

	General reserve £m	Available for sale reserve £m	Total £m
At 1 January 2014	168.0	1.1	169.1
Movements in the year	(1.9)	(1.0)	(2.9)
At 31 December 2014	**166.1**	**0.1**	**166.2**

SOCIETY	General reserve £m	Available for sale reserve £m	Total £m
At 1 January 2015	166.3	0.1	166.4
Movements in the year	2.3	(0.6)	1.7
At 31 December 2015	**168.6**	**(0.5)**	**168.1**

	General reserve £m	Available for sale reserve £m	Total £m
At 1 January 2014	169.7	1.1	170.8
Movements in the year	(3.4)	(1.0)	(4.4)
At 31 December 2014	**166.3**	**0.1**	**166.4**

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

The notes on pages 44 to 75 form part of these Accounts.

Cash Flow Statements for the year ended 31 December 2015

	Note	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Cash outflows from operating activities	27	**(61.6)**	(149.1)	**(51.9)**	(151.8)
Payment into defined benefit pension scheme		**(2.0)**	(2.0)	**(2.0)**	2.0
Net cash outflows from operating activities		**(63.6)**	(151.1)	**(53.9)**	(153.8)
Cash (outflows) / inflows from investing activities					
Purchase of property, plant and equipment		**(2.5)**	(3.5)	**(1.8)**	(3.5)
Sale of investment properties		**-**	4.3	**-**	-
Sale of property, plant and equipment		**-**	-	**2.6**	-
(Increase) / decrease in loans to subsidiary undertakings		**-**	-	**(13.8)**	7.2
Purchase of investment securities		**(317.4)**	(234.4)	**(317.4)**	(234.4)
Sale and maturity of investment securities		**271.1**	405.0	**271.1**	405.0
Net cash (outflows) / inflows from investing activities		**(48.8)**	171.4	**(59.3)**	174.3
Cash outflows from financing activities					
Interest paid on subordinated liabilities		**(3.0)**	(3.6)	**(3.0)**	(3.6)
Interest paid on subscribed capital		**(3.5)**	(3.8)	**(3.5)**	(3.8)
Repayment of subordinated liabilities		**(9.6)**	-	**(9.6)**	-
Repayments under finance lease agreements		**(0.1)**	(0.1)	**(0.1)**	(0.1)
Net cash outflows from financing activities		**(16.2)**	(7.5)	**(16.2)**	(7.5)
Net (decrease) / increase in cash		**(128.6)**	12.8	**(129.4)**	13.0
Cash and cash equivalents at start of year		**315.1**	302.3	**315.1**	302.1
Cash and cash equivalents at end of year	27	**186.5**	315.1	**185.7**	315.1

The notes on pages 44 to 75 form part of these Accounts.

1 Significant Accounting Policies

Basis of Preparation

The Annual Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Statements Interpretations Committee (IFRSIC); as adopted for use in the EU; and with those parts of the Building Societies (Accounts and Related Provisions) 1998 applicable to building societies reporting under IFRS.

The Board has reviewed medium and long term plans with particular emphasis on examining forecast liquidity, capital and profitability of the Group and the risks to those forecasts through a variety of stress testing scenarios.

The outcome of this review is that the Directors are satisfied that the Society and the Group have adequate resources to continue in business and meet its liabilities throughout the period of assessment.

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

The Annual Report and Accounts have been prepared under the historical cost convention except for those financial assets and hedging instruments which are required by IAS 39 to be carried at fair value. A summary of the Group's principal accounting policies is set out below:

Basis of Consolidation

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

Income Recognition

Interest Income and Expense

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

EIRM is used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument. In calculating the effective interest rate all contractual terms of the financial instrument (for example, early redemption charges) are taken into account.

Other income and charges

Fees and Commissions

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

Financial Assets

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

Loans and Receivables

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

The Group holds equity release mortgage assets on the Balance Sheet for which a limited portion contains no-negative-equity guarantees. The guarantees meet the IFRS 4 criteria for classification as insurance contracts. Income on the equity release mortgage assets is recognised in line with the Group's disclosed loans and receivables accounting policy. The Group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities is sufficient to cover current estimates of future cash flows. At 31 December 2015 the insurance component of the Group Equity Release assets is wholly immaterial.

At Fair Value through Profit and Loss

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

In accordance with IAS 39, all derivative financial instruments (both assets and liabilities) are initially and on an ongoing basis, assessed to determine whether they are highly effective in offsetting the changes in fair value of hedged items. Derivatives are recognised at fair value on the date the derivative contract is entered into, and subsequently re-measured at their fair value with changes going through the Income Statements along with changes in fair value attributable to the hedged risk of the hedged items.

The carrying value of the hedged item is included on the balance sheet under the heading "Fair value adjustments for hedged risk". Any gain or loss arising from an ineffective portion is recognised immediately in the Income Statements under the heading "Gains less losses on financial instruments and hedge accounting".

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

Available for Sale

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

Significant Accounting Policies Continued

Cash and Cash Equivalents

For the purpose of the Cash Flow Statements, 'Cash and cash equivalents' comprises cash in hand, balances with the Bank of England, loans and advances to banks available on demand or with original maturities of three months or less (excluding cash collateral balances) and investment securities with a maturity period of three months or less i.e. highly liquid assets readily convertible into cash. For operational purposes, the Group's debt security portfolio is maintained for liquidity purposes with the assets therein demonstrably convertible into cash regardless of maturity.

Impairment of Financial Assets

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

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

Financial Liabilities

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

Property, Plant, Equipment and Depreciation

On transition to IFRS, the Group elected to adopt the exemption in IFRS 1 which permits an entity to use, on transition to IFRS, a value, which is not depreciated cost, as the 'deemed cost' of the asset. Property, plant and equipment and intangible assets are stated at cost (or 'deemed cost') less accumulated depreciation/amortisation and any provisions for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The Group's intangible assets reflect externally purchased software. No internally generated intangible assets have been capitalised as at 31 December 2015.

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

Freehold buildings and leasehold buildings:

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

Equipment, fixtures, fittings and motor vehicles:

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

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

Lease Purchase and Leasing

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

Taxation

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

Pension Scheme Costs

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

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

Significant Accounting Policies Continued

Under the revised IAS 19, the Scheme assets are measured at bid value at each Balance Sheet date and the obligations are measured by an independent actuary using the projected unit valuation method, discounted using a high quality corporate bond rate. The resulting pension scheme surplus or deficit is recognised immediately on the Balance Sheet and any resulting actuarial remeasurements are recognised immediately in the Statements of Comprehensive income with service cost and net interest recognised in the Income Statements.

Provisions

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. No contingent liabilities have been recognised.

Segment Information

The operating segments disclosed (Member business and Solutions business) are those used in the Group's management and internal reporting structures (for the Chief Operating Decision Maker) in accordance with IFRS 8. No segment information is presented on geographical lines, because substantially all of the Group's activities are in the United Kingdom.

Accounting Estimates and Judgements in applying Accounting Policies

The Group has to make judgements in applying its accounting policies which affect the amounts recognised in the Annual Report and Accounts. These judgements are based on management's best knowledge but the eventual outcome may differ from them. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following year. The most significant areas where judgements and assumptions are made are as follows:

Pensions

Significant judgements are required in relation to the assumptions for the valuation of the pension scheme surplus or deficit including discount, interest and mortality rates, inflation, take up of the Pension Increase Exchange offer and future salary increases. The Board receives independent external advice from actuarial consultants in arriving at the scheme assumptions which are outlined together with sensitivity analysis in Note 28 to the Annual Report and Accounts.

Effective Interest Rate (EIR)

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

Impairment of Financial Assets

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

A forced sale adjustment that was higher by 5% would increase residential provisions by £0.1m. Loans secured on commercial property or land are more individually significant. Provision is made against loans in arrears, possession or Law of Property Act 1925 (LPA) receivership, or where a trigger event raises the likelihood of future problems servicing the loan. The key assumptions used in the discounted future value calculations used to determine the level of impairment required in respect of individual financial assets include:

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

Fair Value of Derivatives and Financial Assets

Fair values are determined by the three tier valuation hierarchy as defined within IFRS 7, Financial Instruments. Where available, quoted market prices are used to facilitate valuations made. Financial valuation models using observable input data are used to value derivative financial instruments for which no active market exists. Further details are given in Note 30 to the Annual Report and Accounts.

Financial Services Compensation Scheme Provision

As explained in Note 23, the Society is committed to paying a levy to the Financial Services Compensation Scheme (FSCS). The provision for FSCS interest costs in this year's Annual Report and Accounts is dependent on the interest charge levied which will not be invoiced until July 2016. The Society has estimated its obligation to the Scheme with reference to currently available external information on interest due on the loan.

Taxation

The Group is subject to tax in three jurisdictions and, consequently, estimates are required in determining the provision for corporation tax. As shown in Note 16 to the Annual Report and Accounts the Group has deferred tax assets which are considered recoverable given the Society and Group plans over the planning horizon.

Accounting Developments

At the date of approval of these financial statements the following new and amended International Financial Reporting Standards are mandatory for the first time for the financial year beginning 1 January 2015.

Annual improvements 2011-2013. Amendments made to IFRS 1, 'First-time Adoption of International Financial Reporting Standards', IFRS 3 'Business Combinations', IFRS 13 'Fair Value Measurement' and IAS 40 'Investment Property'. The cycle of amendments have not had significant impact to the Group or Society accounts.

Developments not effective at 31 December 2015

IRFS 9 is expected to be effective for periods beginning on or after 1 January 2018. Early adoption is permitted, however the Society does not expect to adopt the standard before its mandatory application date.

IFRS 9 Financial instruments will supersede IAS 39 giving classification and measurement, impairment and hedge accounting requirements for financial instruments. The Society has monitored the development of IFRS 9 closely. IFRS 9 has not yet been endorsed by the EU but is expected to be effective for periods beginning on or after 1 January 2018.

2 Interest receivable and similar income

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
On loans and advances to customers	**98.2**	102.8	**98.5**	102.8
On debt securities				
- interest and other income	**4.1**	6.8	**4.0**	6.8
- profits net of losses on realisation	**0.2**	3.0	**0.2**	3.0
On other liquid assets				
- interest and other income	**2.0**	1.9	**2.0**	1.9
Net expense on derivatives hedging assets	**(26.5)**	(29.2)	**(26.5)**	(29.2)
	78.0	85.3	**78.2**	85.3

3 Interest payable and similar charges

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
On shares held by individuals	**49.6**	69.4	**49.6**	69.4
On subscribed capital	**3.5**	3.8	**3.5**	3.8
On deposits and other borrowings				
- subordinated liabilities	**3.0**	3.6	**3.0**	3.6
- to other depositors and borrowers	**2.3**	1.6	**2.3**	1.6
Net income on derivatives hedging liabilities	**(7.5)**	(18.2)	**(7.5)**	(18.2)
	50.9	60.2	**50.9**	60.2

4 Other income and charges

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Other income				
Fee and commission income	**6.3**	8.6	**2.9**	5.4
Other operating income	**18.3**	15.4	**19.9**	15.4
	24.6	24.0	**22.8**	20.8

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Other charges				
Fee and commission expense	**1.7**	1.7	**1.7**	1.7

5 Administrative expenses

	Note	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Staff costs	6	**24.8**	21.2	**18.5**	19.4
Rentals under operating leases for land and buildings					
- payable to third parties		**1.6**	1.4	**1.6**	1.4
- payable to subsidiary undertaking		**-**	-	**0.1**	0.1
Other administrative expenses		**9.7**	10.6	**16.3**	10.4
		36.1	33.2	**36.5**	31.3

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

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Fees payable to the Society's auditors for audit of Society and consolidated financial statements	**0.2**	0.2	**0.2**	0.2
Fees payable to the Society's auditors for other services	**-**	0.2	**-**	0.2
	0.2	0.4	**0.2**	0.4

Fees payable to the Society's auditors for the audit of consolidated financial statements includes **£17k** (2014: £22k) attributable to subsidiary companies. Fees payable to the Society's auditors for other services includes **£1k** (2014: £nil) for tax services, and **£47k** (2014: £180k) for other non-audit services.

6 Staff costs

	Note	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Wages and salaries		**20.7**	19.5	**15.4**	18.0
Social security costs		**1.9**	1.8	**1.3**	1.6
Pension costs for:					
- defined benefit scheme		**-**	(2.3)	**-**	(2.3)
- defined contribution scheme		**2.2**	2.2	**1.8**	2.1
	5	**24.8**	21.2	**18.5**	19.4

Included within pension costs for 2014 is a credit of £2.6m in relation to the reduction in pension liabilities in the defined pension scheme following the successful implementation of a pension increase exchange exercise. Associated costs amounted to £0.3m giving a net credit of £2.3m.

Directors' emoluments are disclosed in the Remuneration Committee report on page 27.

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

	GROUP 2015	GROUP 2014	SOCIETY 2015	SOCIETY 2014
Full time	**662**	641	**484**	613
Part time	**213**	212	**191**	211
	875	853	**675**	824
Principal Office	**674**	643	**494**	636
Branches	**201**	210	**181**	188
	875	853	**675**	824

On 1 July 2015 Newcastle Building Society completed an accounting and physical separation of its savings management business and its managed IT business. As part of this separation 324 employees of the Society transferred to become employees of the subsidiary companies Newcastle Strategic Solutions Limited and Newcastle Systems Management Limited.

7 Taxation expense

	Note	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Current tax					
UK corporation tax on profit at **20.25%** (2014: 21.49%) for the year		**-**	-	**-**	-
Group relief for the year		**-**	-	**-**	-
Adjustments in respect of prior years		**-**	-	**-**	0.3
Total current tax		**-**	-	**-**	0.3
Deferred tax					
Current year		**1.6**	1.1	**1.5**	1.1
Adjustments in respect of prior years		**0.5**	-	**0.5**	0.1
Total deferred tax	16	**2.1**	1.1	**2.0**	1.2
Total taxation expense in the Income Statements		**2.1**	1.1	**2.0**	1.5

Analysis of taxation expense for the year

The tax on the Group and Society profit before tax differs from (2014: differs from) the theoretical amount that would arise using the weighted average tax rate applicable to profits as follows:

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Profit for the year before taxation	**5.4**	4.0	**4.0**	2.9
Profit before taxation at the standard rate of corporation tax in the UK of **20.25%** (2014: 21.49%)	**1.1**	0.9	**0.8**	0.6
Expense / (income) not taxable / deductible for tax purposes:				
Expenses	**0.1**	0.2	**0.3**	0.6
Non-taxable expenses credit	**-**	(0.5)	**-**	(0.5)
Tax losses in respect of capital losses	**-**	0.5	**-**	0.5
Rate change	**0.5**	-	**0.4**	-
Adjustments in respect of previous years	**0.4**	-	**0.5**	0.3
Total taxation expense	**2.1**	1.1	**2.0**	1.5

Factors affecting future tax charges

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

8 Segment information

The Chief Operating Decision Maker has been identified as the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors. The operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The 'Member business' segment provides mortgage, savings, investment and insurance products to Members and customers. The 'Solutions business' segment (also referred to as NSSL) provides business to business services through people, processes and technology. The Board assesses performance based on profit before tax after the allocation of all central costs. Operating profit before impairment provisions and FSCS levy is also assessed as this provides information on underlying business performance excluding legacy portfolio impairment charges, levies outside of management's direct control and non-recurring items.

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

Income and directly attributable costs are allocated to each segment and support costs are apportioned, based on direct salary costs and detailed allocations by budget holders.

Year to 31 December 2015	Member Business £m	Solutions Business £m	Total £m
Net interest receivable	27.1	-	27.1
Other income and charges	5.4	17.6	23.0
Administrative expenses	(26.1)	(10.0)	(36.1)
Depreciation	(1.5)	(0.6)	(2.1)
Operating profit before impairment charges and FSCS levy	4.9	7.0	11.9
Impairment charges on loans and advances to customers	(4.6)	-	(4.6)
Provisions for liabilities and charges	(1.9)	-	(1.9)
(Loss) / profit for the year before taxation	(1.6)	7.0	5.4
Taxation expense			(2.1)
Profit after taxation for the financial year			3.3
Total assets	3,441.0	4.5	3,445.5

Year to 31 December 2014	Member Business £m	Solutions Business £m	Total £m
Net interest receivable	25.1	-	25.1
Other income and charges	7.1	15.2	22.3
Administrative expenses	(25.3)	(7.9)	(33.2)
Depreciation	(1.4)	(0.4)	(1.8)
Operating profit before impairment provisions and FSCS levy	5.5	6.9	12.4
Impairment charges on loans and advances to customers	(5.9)	-	(5.9)
Provision for liabilities and charges	(2.5)	-	(2.5)
(Loss) / profit for the year before taxation	(2.9)	6.9	4.0
Taxation expense			(1.1)
Profit after taxation for the financial year			2.9
Total assets	3,732.3	3.9	3,736.2

Notes to the Accounts for the year ended 31 December 2015

9 Loans and advances to banks

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

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Accrued interest	0.1	0.1	0.1	0.1
On demand	2.3	3.1	1.4	3.0
In not more than three months	205.1	212.5	205.1	212.5
Gross loans and advances to banks	207.5	215.7	206.6	215.6
Less: allowance for losses on loans and advances to banks	(11.8)	(11.8)	(11.8)	(11.8)
	195.7	203.9	194.8	203.8

Allowance for losses on loans and advances to banks

	GROUP and SOCIETY 2015 £m	GROUP and SOCIETY 2014 £m
Balance at 1 January	11.8	18.9
Amounts utilised during the year	-	(7.1)
At 31 December	11.8	11.8

At 31 December 2015 the Society had loans and advances to banks totalling **£13.2m** (2014: £13.3m), against which allowance for losses of **£11.8m** (2014: £11.8m) has been made.

10 Debt securities

Transferable debt securities	GROUP and SOCIETY 2015 £m	GROUP and SOCIETY 2014 £m
Issued by public bodies - listed	50.3	-
Issued by other borrowers - unlisted	296.9	253.6
	347.2	253.6

These have remaining maturities as follows:	2015 £m	2014 £m
Accrued interest	2.8	1.6
In not more than one year	43.4	10.0
In more than one year but not more than five years	239.8	242.0
In more than five years	61.2	-
	347.2	253.6

The Directors consider that the primary purpose of holding securities is to comply with prudential requirements. All transferable debt securities are held with the intention of use on a continuing basis in the Group's activities. They are designated by management on initial recognition as being available for sale and are recognised, both initially and subsequently, at fair value with changes recognised directly in other comprehensive income.

Unlisted debt securities are primarily AAA related holdings of Residential Mortgage Backed Securities and Covered Bonds.

11 Loans and advances to customers

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Loans fully secured on residential property	**2,321.9**	2,448.7	**2,313.5**	2,437.8
Loans fully secured on land	**158.3**	215.6	**158.3**	215.6
Other loans	**16.8**	19.6	**16.8**	19.6
Gross loans and advances	**2,497.0**	2,683.9	**2,488.6**	2,673.0
Less: allowance for losses on loans and advances	**(18.4)**	(23.8)	**(18.4)**	(23.8)
	2,478.6	2,660.1	**2,470.2**	2,649.2

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

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
On demand	**6.2**	7.7	**6.2**	7.7
In not more than three months	**66.9**	92.0	**66.9**	92.0
In more than three months but not more than one year	**54.2**	98.4	**54.1**	98.3
In more than one year but not more than five years	**280.3**	290.5	**279.7**	289.6
In more than five years	**2,089.4**	2,195.3	**2,081.7**	2,185.4
Gross loans and advances	**2,497.0**	2,683.9	**2,488.6**	2,673.0
Less: allowance for losses on loans and advances	**(18.4)**	(23.8)	**(18.4)**	(23.8)
	2,478.6	2,660.1	**2,470.2**	2,649.2

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

11 Loans and advances to customers Continued

Allowance for losses on loans and advances

GROUP and SOCIETY

	Loans fully secured on residential property Individual £m	Loans fully secured on residential property Collective £m	Loans fully secured on land Individual £m	Loans fully secured on land Collective £m	Other loans Individual £m	Other loans Collective £m	Total Individual £m	Total Collective £m	Total £m
Balance at 1 January 2015	0.9	0.5	18.5	3.6	0.3	-	19.7	4.1	23.8
Charge / (credit) for the year	0.4	(0.3)	5.6	(1.1)	-	-	6.0	(1.4)	4.6
Utilised during the year	(0.6)	-	(9.4)	-	-	-	(10.0)	-	(10.0)
Interest suspended adjustment	-	-	0.5	(0.5)	-	-	0.5	(0.5)	-
At 31 December 2015	**0.7**	**0.2**	**15.2**	**2.0**	**0.3**	**-**	**16.2**	**2.2**	**18.4**

GROUP and SOCIETY

	Loans fully secured on residential property Individual £m	Loans fully secured on residential property Collective £m	Loans fully secured on land Individual £m	Loans fully secured on land Collective £m	Other loans Individual £m	Other loans Collective £m	Total Individual £m	Total Collective £m	Total £m
Balance at 1 January 2014	1.7	0.4	22.6	5.5	0.3	-	24.6	5.9	30.5
(Credit) / charge for the year	(1.9)	0.1	10.6	(2.9)	-	-	8.7	(2.8)	5.9
Written back / (utilised) during the year	1.1	-	(13.5)	-	-	-	(12.4)	-	(12.4)
Interest suspended	-	-	(1.2)	1.0	-	-	(1.2)	1.0	(0.2)
At 31 December 2014	**0.9**	**0.5**	**18.5**	**3.6**	**0.3**	**-**	**19.7**	**4.1**	**23.8**

12 Fair value adjustment for hedged risk

As disclosed in the statement of accounting policies, when specific criteria are met, the Group applies fair value hedge accounting and the adjustments to assets and liabilities are included on the balance sheet under the heading 'Fair value adjustment for hedged risk'.

The cumulative fair value adjustment for hedged risk for assets for the Group and Society at 31 December 2015 was **£190.8m**, (2014: £201.8m). The cumulative fair value adjustment for hedged risk for liabilities for the Group and Society at 31 December was **£5.3m**, (2014: £8.4m).

13 Assets pledged as collateral

Assets are pledged as collateral under repurchase agreements with banks. Securities pledged with banks were debt securities with a market value of **£nil** (2014: £48.5m).

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

	Group and Society Asset 2015 £m	Group and Society Asset 2014 £m	Group and Society Related liability 2015 £m	Group and Society Related liability 2014 £m
Debt securities pledged	**-**	48.5	**-**	30.0

Further information on mortgages pledged as collateral can be found in the Financial Instruments note, Note 30 on page 69.

14 Investment in subsidiaries

SOCIETY

Investments in subsidiary undertakings	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2015	6.0	13.7	19.7
Additions	6.0	10.8	16.8
Repayments received	-	(3.0)	(3.0)
At 31 December 2015	**12.0**	**21.5**	**33.5**
Provisions			
At 1 January and 31 December 2015	**0.6**	**3.1**	**3.7**
Net book amount at 31 December 2015	**11.4**	**18.4**	**29.8**

Investments in subsidiary undertakings	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2014	6.0	20.9	26.9
Additions	-	0.5	0.5
Repayments received	-	(7.7)	(7.7)
At 31 December 2014	**6.0**	**13.7**	**19.7**
Provisions			
At 1 January and 31 December 2014	**0.6**	**3.1**	**3.7**
Net book amount at 31 December 2014	**5.4**	**10.6**	**16.0**

The Society directly holds 100% of the issued ordinary share capital of all its subsidiary undertakings.

The Directors believe that the carrying value of the investments in subsidiary undertakings is supported by their underlying net assets.

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

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

Further information on transactions between Group entities can be found in the Related Parties note, Note 29 on pages 65 and 66.

15 Property, plant and equipment

GROUP

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Intangible Assets £m	Total £m
Cost					
At 1 January 2015	6.7	12.2	23.0	8.5	50.4
Additions	-	-	1.8	0.7	2.5
Disposals	-	-	(6.5)	(3.6)	(10.1)
At 31 December 2015	**6.7**	**12.2**	**18.3**	**5.6**	**42.8**
Accumulated depreciation					
At 1 January 2015	1.0	3.4	15.7	7.3	27.4
Charge for the year	0.1	0.2	1.4	0.4	2.1
Disposals	-	-	(6.5)	(3.6)	(10.1)
At 31 December 2015	**1.1**	**3.6**	**10.6**	**4.1**	**19.4**
Net book amount at 31 December 2015	**5.6**	**8.6**	**7.7**	**1.5**	**23.4**

GROUP

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Intangible Assets £m	Total £m
Cost					
At 1 January 2014	6.7	12.2	21.0	8.0	47.9
Additions	-	-	3.0	0.5	3.5
Disposals	-	-	(1.0)	-	(1.0)
At 31 December 2014	**6.7**	**12.2**	**23.0**	**8.5**	**50.4**
Accumulated depreciation					
At 1 January 2014	0.9	3.2	15.4	7.0	26.5
Charge for the year	0.1	0.2	1.2	0.3	1.8
Disposals	-	-	(0.9)	-	(0.9)
At 31 December 2014	**1.0**	**3.4**	**15.7**	**7.3**	**27.4**
Net book amount at 31 December 2014	**5.7**	**8.8**	**7.3**	**1.2**	**23.0**

15 Property, plant and equipment Continued

SOCIETY

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Intangible Assets £m	Total £m
Cost					
At 1 January 2015	6.7	0.9	21.1	8.3	37.0
Additions	-	-	1.5	0.3	1.8
Disposals	-	-	(9.9)	(7.1)	(17.0)
At 31 December 2015	**6.7**	**0.9**	**12.7**	**1.5**	**21.8**
Accumulated depreciation					
At 1 January 2015	1.0	0.1	13.7	7.2	22.0
Charge for the year	0.1	-	1.1	0.3	1.5
Disposals	-	-	(8.0)	(6.4)	(14.4)
At 31 December 2015	**1.1**	**0.1**	**6.8**	**1.1**	**9.1**
Net book amount at 31 December 2015	**5.6**	**0.8**	**5.9**	**0.4**	**12.7**

SOCIETY

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Intangible Assets £m	Total £m
Cost					
At 1 January 2014	6.7	0.9	19.1	7.8	34.5
Additions	-	-	3.0	0.5	3.5
Disposals	-	-	(1.0)	-	(1.0)
At 31 December 2014	**6.7**	**0.9**	**21.1**	**8.3**	**37.0**
Accumulated depreciation					
At 1 January 2014	0.9	0.1	13.4	6.9	21.3
Charge for the year	0.1	-	1.2	0.3	1.6
Disposals	-	-	(0.9)	-	(0.9)
At 31 December 2014	**1.0**	**0.1**	**13.7**	**7.2**	**22.0**
Net book amount at 31 December 2014	**5.7**	**0.8**	**7.4**	**1.1**	**15.0**

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

	GROUP and SOCIETY 2015 £m	2014 £m
Cost		
At 1 January	**0.8**	0.8
Accumulated depreciation	**(0.1)**	(0.1)
Net book amount at 31 December	**0.7**	0.7

16 Deferred tax assets

Deferred tax is calculated on all temporary differences under the liability method using a tax rate of **18%** (2014: 20%).
The movement on the deferred tax account is shown below.

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
At 1 January	**9.8**	9.4	**10.3**	9.7
Income Statements expense	**(1.6)**	(1.1)	**(1.5)**	(1.1)
Under provision in respect of prior years	**(0.5)**	-	**(0.5)**	(0.1)
Credited on items taken directly through reserves	**0.1**	1.5	**0.1**	1.5
Transfer of capital (assets) / losses (to) / from subsidiary undertaking	**-**	-	**(0.7)**	0.3
At 31 December	**7.8**	9.8	**7.7**	10.3

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

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Deferred tax assets				
Short term timing differences	**-**	0.1	**-**	0.1
Other items	**0.3**	1.4	**0.3**	1.4
Trading losses	**6.0**	6.9	**6.0**	6.9
Depreciation in excess of capital allowances	**1.5**	1.4	**1.4**	1.9
	7.8	9.8	**7.7**	10.3

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	**1.6**	1.2	**1.2**	1.2
Deferred tax asset to be recovered in more than 12 months	**6.2**	8.6	**6.5**	9.1
	7.8	9.8	**7.7**	10.3

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

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Short term timing differences	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Other items	**(0.9)**	(0.8)	**(0.9)**	(0.6)
Trading losses	**(1.0)**	(0.5)	**(0.9)**	(0.7)
Depreciation in excess of capital allowances	**0.3**	0.3	**0.3**	0.2
Adjustment to tax rate	**(0.4)**	-	**(0.4)**	-
	(2.1)	(1.1)	**(2.0)**	(1.2)

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. Deferred tax assets are recognised based on the expected prevailing rate of tax at the time of utilisation. Where there is a reduction in the expected tax rate an adjustment is made to write down deferred tax assets. In 2015 the Chancellor announced a reduction in the future Corporation Tax rate to 18%, having been subsequently substantively enacted, this has been utilised for calculations.

In 2014 the Chancellor announced a 50% restriction on the proportion of annual taxable profits that can be offset by brought forward tax losses. This would have had a significant impact on the Society as it would have doubled the period over which the Society would recover its deferred tax assets. Following lobbying by the Building Societies Association a £25m taxable profits threshold was granted to building societies and due to this concession the 50% restriction does not have a material impact on the period over which deferred tax assets are recovered.

17 Other assets

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Receivable from subsidiary undertakings	-	-	1.1	0.6
Interest receivable on financial instruments	-	0.2	-	0.2
Prepayments and accrued income	9.4	6.3	15.1	12.8
Other	2.2	2.0	2.2	2.0
	11.6	8.5	18.4	15.6

18 Due to Members

	GROUP and SOCIETY 2015 £m	GROUP and SOCIETY 2014 £m
Held by individuals	2,678.5	2,973.4
Other shares	0.3	0.3
	2,678.8	2,973.7

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

	2015 £m	2014 £m
Accrued interest	18.0	29.3
On demand	1,431.5	1,550.6
In not more than three months	682.1	697.3
In more than three months but not more than one year	350.5	485.2
In more than one year but not more than five years	183.3	197.5
In more than five years	13.4	13.8
	2,678.8	2,973.7

Included in share balances is a contractual balance of **£15.1m** (2014: £74.2m) relating to Capital Protection Bonds. The fair value includes adjustments of **£1.9m** (2014: £7.6m) which are attributable to changes in benchmark equity and interest rate indices. The Society is contractually required to pay only the par value of the shares on maturity, plus the relative performance of the index.

19 Due to other customers

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Amounts owed to subsidiary undertakings	-	-	12.3	0.1
Other	205.3	164.9	205.3	164.9
	205.3	164.9	217.6	165.0

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

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Accrued interest	0.9	0.7	0.9	0.7
On demand	3.3	2.8	3.3	2.8
In not more than three months	87.2	99.7	87.2	99.8
In more than three months but not more than one year	78.9	57.2	91.2	57.2
In more than one year but not more than five years	35.0	4.5	35.0	4.5
	205.3	164.9	217.6	165.0

20 Deposits from banks

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

	GROUP and SOCIETY 2015 £m	GROUP and SOCIETY 2014 £m
Accrued interest	0.2	0.2
In not more than three months	69.6	40.4
In more than three months but not more than one year	31.0	73.0
	100.8	113.6

21 Debt securities in issue

	GROUP and SOCIETY 2015 £m	GROUP and SOCIETY 2014 £m
Certificates of deposit	1.0	1.0

Debt securities have remaining maturities of more than 3 months but not more than 1 year.

22 Other liabilities

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Amounts payable to subsidiary undertakings	-	-	6.8	5.1
Third party income tax withheld	0.3	0.5	0.3	0.5
Current tax liabilities	-	0.2	-	-
Obligations under finance leases	1.1	1.1	1.1	1.1
Other creditors	1.1	0.9	1.1	0.9
Accruals and deferred income	7.8	7.9	6.3	7.3
	10.3	10.6	15.6	14.9

Obligations under finance leases fall due as follows:

	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Within one year	0.1	-	0.1	-
In one to two years	0.1	0.1	0.1	0.1
In two to five years	0.1	0.2	0.1	0.2
In more than five years	0.8	0.8	0.8	0.8
	1.1	1.1	1.1	1.1

These liabilities are secured by charges over the assets to which they relate.
There is not a material difference between the minimum lease payment at the balance sheet date and their present value.

23 Provisions for liabilities and charges

GROUP and SOCIETY

	Repositioning Programme £m	FSCS Levy £m	Other Provisions £m	Total £m
Opening Provision at 1 January 2015	**0.4**	**1.3**	**1.4**	**3.1**
New Provisions during the year	**-**	**1.9**	**-**	**1.9**
Amounts utilised during the year	**(0.2)**	**(2.1)**	**-**	**(2.3)**
Closing Provision at 31 December 2015	**0.2**	**1.1**	**1.4**	**2.7**

GROUP and SOCIETY

	Repositioning Programme £m	FSCS Levy £m	Other Provisions £m	Total £m
Opening Provision at 1 January 2014	0.6	1.5	1.4	3.5
New Provisions during the year	-	2.5	-	2.5
Amounts utilised during the year	(0.2)	(2.7)	-	(2.9)
Closing Provision at 31 December 2014	0.4	1.3	1.4	3.1

Provision for Financial Services Compensation Scheme Levy
In common with all regulated UK deposit takers, the Society pays a levy to the Financial Services Compensation Scheme (FSCS) which covers a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes, using the rights that have been assigned to it. Beginning in the latter part of 2008 claims against the FSCS were triggered by the transfer of Bradford and Bingley's retail deposit business to Abbey National (now Santander) and defaults of several banks and a building society.

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

At 31 December 2015 the Society had a liability of £1.1m in relation to interest payable in respect of the 2015/16 Scheme year as interest is paid in arrears being billed in July 2016 and paid by September 2016. Interest payable is calculated using the latest available data from the FSCS.

Provision for Repositioning costs
The Society established a £4m provision in 2010 to cover costs and fees associated with its programme of cost reduction, business simplification and property rationalisation. At 31 December 2015 £0.2m (2014: £0.4m) of the provision remained, relating to the remaining vacant properties that the Society is currently marketing with property agents.

Other provisions
Other provisions include an estimate of the costs of potential consumer redress.

24 Subordinated liabilities

	GROUP and SOCIETY 2015 £m	2014 £m
6.375% fixed rate subordinated notes 2015	**-**	9.6
7.190% fixed rate subordinated notes 2017	**25.0**	25.0
3.849% fixed rate subordinated notes 2019	**25.0**	25.0
Less: unamortised issue costs	**-**	(0.1)
	50.0	59.5

On a winding up, the subordinated notes rank behind the claims against the Society of all depositors, creditors and investing Members (other than holders of deferred shares i.e. permanent interest bearing shares) of the Society.

The notes are repayable, at the Society's option, with the prior consent of the Regulators, only on the payment of a penalty, on any interest date within five years of the maturity date.

The 6.375% subordinated notes were repaid on maturity on 23 August 2015.

25 Subscribed capital

	GROUP and SOCIETY 2015 £m	2014 £m
12.625% permanent interest bearing shares	**10.0**	10.0
10.750% permanent interest bearing shares	**10.0**	10.0
12.000% permanent interest bearing shares	**10.0**	10.0
	30.0	30.0
Less: unamortised issue costs	**-**	(0.1)
	30.0	29.9

The 12.625% and 10.750% subscribed capital issues were issued for an indeterminate period and are only repayable in the event of the winding up of the Society. The £10m 12.0% PIBS can be called by the Society on 18 December 2018 by giving 30 to 60 days notice to the PIBS holders, subject to having gained regulatory consent in advance of sending the notices.

26 Guarantees, contingent liabilities and commitments

(i) Until 11 June 1996, under Section 22 of the Building Societies Act 1986, the Society had an obligation to discharge the liabilities of its subsidiary undertakings insofar as they were unable to discharge the liabilities out of their own assets. Subsequently, the Society has voluntarily agreed to provide continued support to all of its subsidiary undertakings, insofar as any liabilities are not covered by legislation.

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

	GROUP and SOCIETY 2015 £m	2014 £m
Irrevocable undrawn committed loan facilities	**112.6**	82.9

Payments under non-cancellable operating lease agreements

Total minimum lease payments:

	GROUP and SOCIETY 2015 £m	2014 £m
Within one year	**1.4**	1.5
In one to five years	**4.1**	4.4
Over five years	**2.6**	2.9
	8.1	8.8

27 Note to the Cash Flow Statements

Reconciliation of profit before taxation to net cash outflow from operating activities	GROUP 2015 £m	GROUP 2014 £m	SOCIETY 2015 £m	SOCIETY 2014 £m
Profit before taxation	**5.4**	4.0	**4.0**	2.9
Depreciation and amortisation	**2.1**	1.8	**1.5**	1.6
Interest on subordinated liabilities	**3.0**	3.6	**3.0**	3.6
Interest on subscribed capital	**3.5**	3.8	**3.5**	3.8
(Decrease) / increase in derivative financial instruments	**(2.1)**	96.3	**(2.1)**	96.3
Increase / (decrease) in other financial liabilities at fair value through profit or loss	**7.9**	(88.1)	**7.9**	(88.1)
Changes in retirement benefit obligations	**0.1**	3.7	**0.1**	3.7
Other non-cash movements	**(4.9)**	(9.0)	**(4.0)**	(9.6)
Net cash inflow before changes in operating assets and liabilities	**15.0**	16.1	**13.9**	14.2
Decrease in loans and advances to customers	**186.9**	47.3	**184.4**	44.7
Decrease / (increase) in CSA cash collateral pledged	**7.0**	(91.4)	**7.0**	(91.4)
Decrease in shares	**(294.9)**	(261.5)	**(294.9)**	(261.5)
Increase in amounts due to other customers and deposits from banks	**27.6**	144.4	**39.8**	144.4
Decrease in debt securities in issue	**-**	(6.5)	**-**	(6.5)
(Increase) / decrease in other assets, prepayments and accrued income	**(2.9)**	2.5	**(2.7)**	5.2
(Decrease) / increase in other liabilities	**(0.3)**	-	**0.6**	(0.9)
Net cash outflow from operating activities	**(61.6)**	(149.1)	**(51.9)**	(151.8)
Cash and cash equivalents				
Cash and balances with the Bank of England	**183.1**	310.6	**183.1**	310.6
Loans and advances to banks repayable on demand	**2.3**	3.1	**1.4**	3.0
Investment securities	**1.1**	1.4	**1.2**	1.5
At 31 December	**186.5**	315.1	**185.7**	315.1

Cash and cash equivalents comprise cash in hand, balances with the Bank of England, loans and advances to banks available on demand or with original maturities of three months or less and investment securities with a maturity period of three months or less i.e. highly liquid assets readily convertible into cash.

The Society does not include encumbered assets in its cash and cash equivalents. In the previous year's disclosures, derivative collateral of £199.2m was included in the note to the cashflow statement under 'investment securities' and included as a cash equivalent balance in the 31 December 2014 cash flow statement. The Directors therefore consider it appropriate to restate the comparative figures above to adjust for this amount. Collateral balances arising from outflows on derivative financial instruments will return to the Society as the fair value of derivative instruments improves over time. Volatility in global and national markets through 2015 lead to volatility in long term interest rates, a core driver of derivative financial instrument fair values. The Society does not consider the timing of derivative collateral inflows to be sufficiently reliably estimated to continue to include such collateral as a liquid asset for cash flow presentation.

The Society's monitoring of its liquidity position has distinguished between total liquidity (including derivative collateral balances) and liquidity excluding collateral balances for a number of years. Further details of encumbered assets including comparatives are included in Note 30.

28 Retirement benefit obligations

Group and Society Pension schemes

The Society operates a UK registered trust based pension scheme that provides defined benefits. The scheme was closed to new entrants in 2000 and closed to future accrual of benefits in 2010. Pension benefits are linked to the members' final pensionable salaries and service at their retirement date (or date of leaving if earlier). The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:

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

The defined benefit obligation is valued by projecting the best estimate of future benefit obligations (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The majority of benefits receive increases linked at least partly to inflation (subject to a cap of no more than 5% pa). The valuation method used is known as the Projected Unit Method. The approximate overall average duration of the Scheme's defined benefit obligation as at 31 December 2015 was 18 years.

28 Retirement benefit obligations Continued

Future funding obligation

The Trustees are required to carry out an actuarial valuation every 3 years. The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 30 June 2013. In respect of the deficit in the Scheme as at 30 June 2013, the Society agreed to pay £1.7m per annum for 6 years. In addition, the Society will pay £0.3m per annum to meet the costs of running the Scheme. The Society therefore expects to pay £2.0m to the Scheme during the accounting year beginning 1 January 2016.

Assumptions

The results of the actuarial valuation as at 30 June 2013 have been updated to 31 December 2015 by a qualified independent actuary. The assumptions used were as follows:

	2015	2014
Significant actuarial assumptions		
Discount rate	3.70%	3.60%
RPI inflation	3.10%	3.00%
CPI inflation	2.10%	2.00%
Mortality assumption		
Mortality (post-retirement) - tables used	S1PA CMI_2013_M/F [1.00%] (yob)	S1PA CMI_2013_M/F [1.00%] (yob)
Other actuarial assumptions		
RPI pension increases	3.00%	2.90%
Revaluation of deferred pensions in excess of GMP	2.10%	2.00%
Life expectancies (in years)		
For an individual aged 62		
Male	24.7 years	24.6 years
Female	27.0 years	26.9 years
At age 62 for an individual aged 42 in 2015		
Male	26.2 years	26.1 years
Female	28.6 years	28.5 years

Risks

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

- **Asset volatility:** the Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, however the Scheme invests significantly in equities and other growth funds. These assets are expected to outperform corporate bonds in the long term, but provide volatility and risk in the short term.
- **Changes in bond yields:** a decrease in corporate bond yields would increase the Scheme's obligations, however this would be partially offset by an increase in the value of the Scheme's bond holdings.
- **Inflation risk:** a significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the Scheme's assets are either unaffected by inflation, or only loosely correlated with inflation, therefore an increase in inflation would also increase the deficit. However, due to the caps in place the risk of high inflation is limited.
- **Life expectancy:** if Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's obligations.

The Trustees and Society manage risks in the Scheme through the following strategies:

- **Diversification:** investments are well diversified, such that the failure of any single investment would have no material impact on the overall level of assets.
- **Investment strategy:** the Trustees are required to review their investment strategy on a regular basis.
- **Pension increase exchange:** an option has been introduced to allow members to exchange their pension increases for a higher immediate pension. This has had the impact of reducing pension scheme liabilities in relation to retired members that have already taken up the option and based on the assumption of future take up by deferred members that retire in the future.

28 Retirement benefit obligations Continued

Sensitivity analysis Assumption	Change in assumption	Change in defined benefit obligation
Discount rate	+ 0.5% / – 0.5%	– 8% / + 9%
RPI and CPI inflation	+ 0.5% / – 0.5%	+ 5% / – 4%
Assumed life expectancy	+ 1 year	+ 3%

Limitations of the sensitivity analysis

These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

Assets

The assets of the Scheme were invested as follows:

Asset class at market value	2015 %	2014 %
Equities and growth	45.3	43.8
Bonds	19.4	19.5
Gilts	34.5	34.3
Cash	0.8	2.4
Total	100.0	100.0
Actual return on assets over year	1.7	10.0

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

Reconciliation to the Balance Sheets

	2015 £m	2014 £m
Market value of assets	92.0	91.8
Present value of defined benefit obligation	93.7	95.5
Funded status	(1.7)	(3.7)
Pension liability recognised in the Balance Sheets before allowance for deferred tax	(1.7)	(3.7)

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

	2015 £m	2014 £m
Value of defined benefit obligation at start of period	95.5	84.6
Interest cost	3.4	3.7
Past service credit	-	(2.6)
Benefits paid	(3.2)	(2.5)
Actuarial gains: experience differing from that assumed	(1.3)	-
Actuarial (gains) / losses: changes in financial assumptions	(0.7)	12.3
Value of defined benefit obligation at end of period	93.7	95.5

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

	2015 £m	2014 £m
Market value of assets at start of period	91.8	82.6
Interest income	3.3	3.7
Actual return on assets less interest	(1.6)	6.3
Employer contributions	2.0	2.0
Benefits paid	(3.2)	(2.5)
Administration costs	(0.3)	(0.3)
Market value of assets at end of year	92.0	91.8

28 Retirement benefit obligations Continued

Amount recognised in Income Statements

	2015 £m	2014 £m
Administration costs	0.3	0.3
Past service costs credit	-	(2.3)
Net interest	0.1	-
Amount charged / (credited) to Income Statements	0.4	(2.0)

Amounts recognised in Statements of Comprehensive Income

	2015 £m	2014 £m
Actuarial losses on defined benefit obligations	2.0	(12.3)
Actual return on assets less interest	(1.6)	6.3
Amounts recognised in Statements of Comprehensive Income	0.4	(6.0)

29 Related parties

The Group is controlled by Newcastle Building Society which is registered in England and Wales and operates in the United Kingdom. Further details of subsidiary undertakings are disclosed in Note 14 to these Accounts. The Directors are considered to be the only key management personnel as defined by IAS 24.

Transactions with Directors and their close family members

Directors and their close family members have entered into the following transactions with Newcastle Building Society in the normal course of business.

Loans outstanding to Directors and their close family members

	2015 £000	2014 £000
At 31 December	331	343

These loans were made on normal commercial terms and a register of them is available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

Deposits and investments held by Directors and their close family members

	2015 £000	2014 £000
At 31 December	280	467

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

On 1 July 2015 the Society completed an accounting and physical separation of its savings management business (Solutions) and its managed IT business. Consequently, Newcastle Systems Management Limited began offering managed IT and property services to members of the Newcastle Building Society Group and Newcastle Strategic Solutions Limited began offering business support service activities to the Society. The Society provides financial and administrative services to both Newcastle Systems Management Limited and Newcastle Strategic Solutions Limited.

During the year, the following transactions were carried out with related parties:

(a) Sales of financial and administrative services

	2015 £000	2014 £000
Newcastle Systems Management Limited	523	-
Newcastle Strategic Solutions Limited	1,637	-

Sales of services are negotiated with related parties on commercial terms.

Through 2014, Newcastle Systems Management Limited paid management charges to the Society totalling £562,000.

(b) Purchases of services:

	2015 £000	2014 £000
Managed IT and Property Services		
Newcastle Systems Management Limited	2,084	-
Business Support Services		
Newcastle Strategic Solutions Limited	5,859	-
Property Rental		
Newcastle Portland House Limited	66	66

29 Related parties Continued

Purchased services are negotiated with related parties on commercial terms.

On 1 July 2015 the Society sold to Newcastle Systems Management Limited IT software intangible assets, IT hardware fixed assets and pre-paid IT maintenance contracts as follows:

(c) Sale of software intangible and IT hardware fixed costs:

	1 July 2015 £000
Purchased from Newcastle Building Society:	
IT Software	665
IT Hardware	1,964
Pre-paid maintenance contracts	653

The above assets were purchased for their net book value. Further detail on the Society's fixed and intangible asset policies are given in the statement of accounting policies on page 45 of the Annual Report and Accounts. No amounts remain unpaid with respect to sales of intangible or fixed assets at 31 December 2015. On 1 July 2015 the Society also gave contractual ownership of internally generated intellectual property held at nil book value for nil consideration to Newcastle Systems Management Limited and Newcastle Strategic Solutions Limited.

At 31 December 2015 the following unsecured balances remained outstanding with related parties:

(d) Outstanding balances:

	Amounts owed to Society		Amounts owed by Society	
	2015 £000	2014 £000	2015 £000	2014 £000
Newcastle Systems Management Limited	735	37	341	-
Newcastle Strategic Solutions Limited	345	487	706	505
Newcastle Financial Services Limited	-	-	2,882	1,648
Newcastle Portland House Limited	19	14	2,921	2,933
Newcastle Mortgage Loans (Jersey) Limited	34	27	-	-
Kings Manor Properties Limited*	-	13	-	-

During 2014 Kings Manor Properties Limited repaid £4.3m to the Society, extinguishing balances due to the Society in advance of the company being wound up.

At 31 December 2015 the following borrowings and cash deposits remained outstanding with related parties:

(e) Borrowings/ cash deposits:

	Amounts borrowed from Society		Amounts deposited with Society	
	2015 £000	2014 £000	2015 £000	2014 £000
Newcastle Systems Management Limited	6,575	-	5,900	73
Newcastle Strategic Solutions Limited	3,676	-	6,387	-
Newcastle Mortgage Loans (Jersey) Limited	8,177	10,587	-	-

	Interest paid to Society		Interest paid by Society	
	2015 £000	2014 £000	2015 £000	2014 £000
Newcastle Systems Management Limited	225	-	9	-
Newcastle Strategic Solutions Limited	126	-	9	-
Newcastle Mortgage Loans (Jersey) Limited	582	778	-	-

(f) Lease relationships:

Newcastle Systems Management Limited and Newcastle Strategic Solutions Limited lease office space from the Society under 5 year operating leases. In the next financial year the Society expects to receive £174,000 and £128,000 from the subsidiaries, respectively. In over 1 year but not more than 5 years' time the Society expects to receive £609,000 and £449,000 in respect of currently agreed operating leases from the Newcastle Systems Management Limited and Newcastle Strategic Solutions Limited, respectively.

30 Financial instruments

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

Categories of financial instruments
The accounting policies note (Note 1 on page 44) describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by the class of financial instrument to which they are assigned and by the measurement basis.

Group as at 31 December 2015	Note	Amortised Cost £m	Available for sale £m	Fair value through income statements £m	Total £m
Financial assets					
Cash in hand and balances with Bank of England		183.1	-	-	183.1
Loans and advances to banks	9	195.7	-	-	195.7
Debt securities	10	-	347.2	-	347.2
Derivative financial instruments	30	-	-	7.3	7.3
Fair value adjustments for hedged risk	12	-	-	190.8	190.8
Loans and advances to customers	11	2,478.6	-	-	2,478.6
Assets pledged as collateral	13	-	-	-	-
Total financial assets		**2,857.4**	**347.2**	**198.1**	**3,402.7**
Financial liabilities					
Due to Members - shares	18	2,676.9	-	1.9	2,678.8
Fair value adjustments for hedged risk	12	-	-	5.3	5.3
Due to other customers	19	205.3	-	-	205.3
Deposits from banks	20	100.8	-	-	100.8
Debt securities in issue	21	1.0	-	-	1.0
Derivative financial instruments	30	-	-	190.4	190.4
Subordinated liabilities	24	50.0	-	-	50.0
Subscribed capital	25	30.0	-	-	30.0
Total financial liabilities		**3,064.0**	**-**	**197.6**	**3,261.6**

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

Loans and advances to banks
Cash lent to financial institutions to generate an interest income return and cash collateral placed with derivative counter parties to be repaid to the Society in future periods.

Debt securities
Assets comprising mainly covered bonds and residential mortgaged backed securities. Investments made to utilise liquid cash reserves to generate interest income.

Derivative financial instruments
Financial instruments whose value is derived from an underlying asset, index or reference rate it is linked to. The Group does not operate a derivative financial instruments trading book. Exposures in the treasury portfolio are held for liquidity purposes or in the case of fair value exposures on derivatives, for hedging purposes.

Fair value adjustments for hedged risk
Adjustments to reflect the fair value of financial instruments that are designated as hedged items as part of the Group's interest rate risk hedging activities.

Loans and advances to customers
Cash lent to individual Members of the Society, corporates and housing associations.

Assets pledged as collateral
Assets still owned by the Group but transferred to the secure safekeeping of the Group's counterparties under a repurchase agreement.

30 Financial instruments Continued

Group as at 31 December 2014	Note	Amortised Cost £m	Available for sale £m	Fair value through income statements £m	Total £m
Financial assets					
Cash in hand and balances with Bank of England		310.6	-	-	310.6
Loans and advances to banks	9	203.9	-	-	203.9
Debt securities	10	-	253.6	-	253.6
Derivative financial instruments	30	-	-	16.4	16.4
Fair value adjustments for hedged risk	12	-	-	201.8	201.8
Loans and advances to customers	11	2,660.1	-	-	2,660.1
Assets pledged as collateral	13	48.5	-	-	48.5
Total financial assets		**3,223.1**	**253.6**	**218.2**	**3,694.9**
Financial liabilities					
Due to Members - shares	18	2,966.1	-	7.6	2,973.7
Fair value adjustments for hedged risk	12	-	-	8.4	8.4
Due to other customers	19	164.9	-	-	164.9
Deposits from banks	20	113.6	-	-	113.6
Debt securities in issue	21	1.0	-	-	1.0
Derivative financial instruments	30	-	-	201.6	201.6
Subordinated liabilities	24	59.5	-	-	59.5
Subscribed capital	25	29.9	-	-	29.9
Total financial liabilities		**3,335.0**	**-**	**217.6**	**3,552.6**

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

Due to other customers
Cash deposits made by non-Members of the Society.

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

Debt securities in issue
Debt securities issued by the Society.

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

Subscribed capital
Permanent Interest Bearing Shares issued by the Society, with further details given in Note 25.

Note: The Society has issued a number of structured customer share products whose interest depends on movements in equity indices. In line with IAS39, the derivative equity component of the liability is split out and measured at a fair value reflecting observable market prices.

30 Financial instruments Continued

Fair values of financial assets and liabilities
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The Group has financial assets and liabilities for which there is a practical right to set off the recognised amounts, and which are settled net in practise. However, the netting arrangements do not result in an offset of balance sheet assets and liabilities for accounting purposes as the right to set off is not unconditional in all circumstances.

Under IAS 32: Financial Instruments: Presentation, there are no financial assets or liabilities which are offset with the net amount presented on the balance sheet.

Under IFRS 7, the Group must disclose the effect of its netting arrangements, including the effects of potential rights of set off associated with its recognised financial assets and liabilities.

Group as at 31 December 2015

	Gross fair value presented in the Balance Sheet	Offsetting financial collateral (received*)/ pledged not meeting the offsetting criteria of IAS 32	Net collateralised position	Net position under Master Netting Agreements not meeting the offsetting requirements of IAS 32 (pre-collateral)
Financial assets	£m	£m	£m	£m
Interest rate swaps	7.3	(2.4)	4.9	3.0
Financial liabilities				
Interest rate swaps	(190.4)	192.2	1.8	(182.4)

Group as at 31 December 2014

	Gross fair value presented in the Balance Sheet	Offsetting financial collateral (received*)/ pledged not meeting the offsetting criteria of IAS 32	Net collateralised position	Net position under Master Netting Agreements not meeting the offsetting requirements of IAS 32 (pre-collateral)
Financial assets	£m	£m	£m	£m
Interest rate swaps	16.4	(8.1)	8.3	7.9
Financial liabilities				
Interest rate swaps	(201.6)	199.2	(2.4)	(193.8)

*Offsetting collateral is pledged and received in line with underlying Credit Support Annexes (CSA) with the Group's financial counterparties. The Group posts and receives cash collateral on a daily basis to minimise its own and counterparty exposures to mark-to-market positions. Collateral posted is measured against counterparty mark-to-market values and may not reflect the Society's internal valuation of its financial instruments.

The Society has entered into International Swaps and Derivatives Association (ISDA) Master agreements with financial counterparties in line with standard industry practice. Netting agreements contained within are not considered sufficient alone to satisfy the offsetting criteria of IAS 32. The netting agreements are intended to protect the Society against fair value loss in the unlikely future event of counterparty default.

Where the Society holds multiple financial assets and liabilities with a single counterparty, and a Master netting agreement is in effect, the net fair value exposure for each counterparty is calculated. Net exposures placed with counterparties are consolidated into the financial assets disclosure above, net exposures received from counterparties are similarly consolidated into the financial liabilities.

Collateral
In the ordinary course of business, the Group may from time to time access market-wide facilities provided by central banks secured against non-cash collateral.

Cash collateral has been posted and received in line with Credit Support Annexes with the Group's financial counterparties, as detailed above. Cash collateral received is the legal property of the Group with no obligation to return. Similarly, cash collateral pledged is no longer under the legal ownership or control of the Group.

The fair value of collateral pledged and received is as set out below:

	GROUP and SOCIETY 2015 £m	2014 £m
Cash collateral received under CSA agreements	**2.4**	8.1
Other financial assets; collateral pledged under repurchase agreements	**145.9**	221.1
Cash collateral paid under CSA agreements	**192.2**	199.2

Cash collateral is held to mitigate exposures to counterparties with postings updated daily to reflect mark-to-market exposures across the Society's derivative transactions.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's or Society's balance sheets at their fair value. These assets and liabilities are held at values reflecting their intended use. This is deemed to also reflect their highest and best use. If the Society's intended use of an asset or liability changes the accounting adopted for the item is revisited for reclassification. The carrying values below reflect the Group's maximum exposure to counterparty credit risk at 31 December 2015.

30 Financial instruments Continued

GROUP

	Note	Level*	Carrying value 2015 £m	Carrying value 2014 £m	Fair value 2015 £m	Fair value 2014 £m
Financial assets						
Cash and balances with the Bank of England		1	**183.1**	310.6	**183.1**	310.6
Loans and advances to banks	9	1	**195.7**	203.9	**195.7**	203.9
Loans and advances to customers	11	3	**2,478.6**	2,660.1	**2,632.8**	2,813.3
Assets pledged as collateral	13	1	**-**	48.5	**-**	48.5
Financial liabilities						
Due to Members - shares	18	2	**2,678.8**	2,973.7	**2,704.9**	3,004.1
Due to other customers	19	2	**205.3**	164.9	**205.3**	164.9
Deposits due to other banks	20	2	**100.8**	113.6	**100.8**	113.6
Debt securities in issue	21	2	**1.0**	1.0	**1.5**	0.9
Subordinated liabilities	24	2	**50.0**	59.5	**55.3**	65.1
Subscribed capital	25	2	**30.0**	29.9	**49.0**	47.6

*Level defined below. The Group does not trade in financial instruments. Sale of financial assets to demonstrate their liquidity and divestment of financial assets that are not felt to meet the Group's risk profile and appetite have had an impact on the Group's financial result during 2015.

Loans and advances to banks
The fair value of floating rate and overnight deposits is their carrying amount. The fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers
Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

Deposits due to other banks
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

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

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

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

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

	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m	2015 Total £m	2014 Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total £m
Financial assets								
Debt securities - available for sale	**347.2**	**-**	**-**	**347.2**	235.6	-	-	235.6
Derivative financial instruments	**-**	**7.3**	**-**	**7.3**	-	16.4	-	16.4
Fair value adjustments for hedged risk on underlying instruments	**-**	**190.8**	**-**	**190.8**	-	201.8	-	201.8
Financial liabilities								
Derivative financial instruments	**-**	**190.4**	**-**	**190.4**	-	201.6	-	201.6
Fair value adjustments for hedged risk on underlying instruments	**-**	**7.2**	**-**	**7.2**	-	16.0	-	16.0

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as price) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

30 Financial instruments Continued

Derivatives held for hedging
Derivative financial instruments used by the Group have been described previously in the Risk Management Report and footnotes to the table on page 67 of Note 30. The derivative financial instruments are held primarily to mitigate interest rate risk across the Group's balance sheet. The Group actively monitors and manages interest rate risk using hedging as part of that strategy in line with IAS 39. Both fair value and cash flow hedge transactions have been undertaken with the fair values of the derivative instruments held at the Balance Sheet date set out below:

	2015 Notional Amount £m	2015 Fair Value Assets £m	2015 Fair Value Liabilities £m	2014 Notional Amount £m	2014 Fair Value Assets £m	2014 Fair Value Liabilities £m
At 31 December						
Interest rate swaps designated as fair value hedges	**1,402.3**	**7.3**	**(190.4)**	1,285.8	16.3	(201.6)
Interest rate swaps designated as cash flow hedges	**250.0**	**-**	**-**	200.0	0.1	-
Interest rate swaps	**10.4**	**-**	**-**	1.3	-	-
		7.3	**(190.4)**		16.4	(201.6)

The fair values disclosed above give the Group's exposure to derivative instrument credit risk at 31 December 2015 prior to any collateral adjustments as shown on page 69.

Hedge Ineffectiveness

	2015 £m	2014 £m
Gains / (losses) on hedging instruments	**2.1**	(96.1)
(Losses) / gains on hedged items attributable to the hedged risk	**(2.2)**	96.1
Net losses representing ineffective portions of the fair value hedges	**(0.1)**	-

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

For each material category of financial liability a maturity analysis is provided in Notes 18 to 22, which represents the contractual maturities. The table below analyses the Group's Financial Liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period at the Balance Sheet date to the contractual maturity date.

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

The Group's liquidity risk is managed by the Assets and Liabilities Committee (ALCO). ALCO review and approve the results of liquidity stress testing scenarios monitoring cashflow forecasts for the next 5 years under base case and stressed scenarios. Lead by the Group Balance Sheet Management and Product Development departments ALCO appraise long term funding plans and scenarios to ensure adequate liquid assets are in place to meet both regulatory and operational requirements. For further detail see the Risk Management Report on page 30.

GROUP

At 31 December 2015	**Repayable on demand**	**Up to 3 months**	**Between 3 and 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Due to Members - shares	**1,449.5**	**682.1**	**350.5**	**183.3**	**13.4**	**2,678.8**
Due to other customers	**4.2**	**87.2**	**78.9**	**35.0**	**-**	**205.3**
Deposits from banks	**0.2**	**69.6**	**31.0**	**-**	**-**	**100.8**
Debt securities in issue	**-**	**-**	**1.0**	**-**	**-**	**1.0**
Derivative financial instruments	**-**	**-**	**0.5**	**7.9**	**182.0**	**190.4**
Fair value adjustments for hedged risk	**-**	**-**	**1.2**	**3.6**	**0.5**	**5.3**

At 31 December 2014	Repayable on demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Due to Members - shares	1,579.9	697.3	485.2	197.5	13.8	2,973.7
Due to other customers	3.5	99.7	57.2	4.5	-	164.9
Deposits from banks	0.2	40.4	73.0	-	-	113.6
Debt securities in issue	-	-	1.0	-	-	1.0
Derivative financial instruments	-	-	1.0	10.3	190.3	201.6
Fair value adjustments for hedged risk	-	-	0.5	7.4	0.5	8.4

30 Financial instruments Continued

Credit risk

Credit risk is the risk that a customer or counterparty is unable to honour their repayment of obligations as they fall due. The Group Risk Committee, as detailed on page 30 of these Annual Report and Accounts, maintains oversight of the Retail and Commercial Credit Committees. The Committees are involved in the monitoring of the credit risk within the Group's assets.

Note 11 of the Annual Report and Accounts on page 52 contains details of total mortgage assets.

Once a mortgage has been written down as a result of an impairment loss, interest income is recognised in line with adjusted expected future cash flows on the mortgage.

The Group's lending is all secured with a first charge registered against the collateral property. The average loan to value of the Group's loan portfolios at 31 December 2015 is **60.6%** (2014: 62.1%) as detailed in the Strategic Report on page 12. Quarterly regional Halifax House Price Index data is used to monitor the value of residential collateral. Provisions are held against loan assets where the recovery of the asset is uncertain. Provisions of **£18.4m** (2014: £23.8m) are held against the Group's loans and advances to customers at 31 December 2015, as detailed in Note 11 to the Accounts on page 53. The Group's Commercial Credit and Provisioning Committees consider a range of factors in identifying a loan's impaired status. These include where a property has been taken into possession, where a loan is no longer being serviced or difficulty in future servicing is expected, and review of watch lists.

The credit quality of the Group's residential loans is considered to be excellent with the loans continuing to perform and arrears being below industry averages. At 31 December 2015 there were 19 loans in 12 months arrears or more with balances of **£0.9m** (2014: 30 loans totalling £9.3m). The Group's non-impaired commercial loan assets are also considered to be of a good credit quality.

Prime residential mortgage book

The Prime residential mortgage book consists of traditional residential loans. No sub-prime or self-certification lending has been undertaken.

Loan to value (indexed)	2015 £m	2015 %	2014 £m	2014 %
<70%	1,149.5	69.0	1,117.6	66.7
70% - <80%	289.1	17.4	262.9	15.7
80% - <90%	160.1	9.6	209.8	12.5
>90%	66.6	4.0	85.6	5.1
	1,665.3	100.0	1,675.9	100.0

The table below provides further information by payment due status:

	2015 £m	2015 %	2014 £m	2014 %
Neither past due nor impaired	1,648.5	99.0	1,656.8	98.8
Past due up to 3 months but not impaired	10.4	0.6	12.2	0.7
Impaired and past due 3 to 6 months	3.8	0.2	3.5	0.2
Impaired and past due over 6 months	2.3	0.1	3.2	0.2
In possession	0.3	0.1	0.2	0.1
	1,665.3	100.0	1,675.9	100.0

Against past due and possession cases, **£60.2m** (2014: £57.4m) of collateral is held.

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

Retail BTL Mortgage book

The Retail BTL mortgage book consists of buy-to-let to individuals <£1m.

Loan to value (indexed)	2015 £m	2015 %	2014 £m	2014 %
<70%	9.6	44.0	5.9	40.9
70% - <80%	9.3	43.1	3.5	24.4
80% - <90%	1.6	7.5	2.0	13.9
>90%	1.2	5.4	3.0	20.8
	21.7	100.0	14.4	100.0

30 Financial instruments Continued

The table below provides further information by payment due status:

	2015 £m	2015 %	2014 £m	2014 %
Neither past due nor impaired	21.1	97.4	12.4	86.1
Past due up to 3 months but not impaired	0.2	1.0	-	-
Impaired and past due over 6 months	0.3	1.1	0.2	1.4
LPA receivership	-	-	1.0	6.9
In possession	0.1	0.5	0.8	5.6
	21.7	100.0	14.4	100.0

Against past due and possession cases, **£0.8m** (2014: £1.1m) of collateral is held.

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

Specialist residential mortgage book

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

Loan to value (indexed)	2015 £m	2015 %	2014 £m	2014 %
<70%	60.7	84.4	42.3	48.7
70% - <80%	2.1	2.9	34.9	40.3
80% - <90%	-	-	-	-
>90%	9.1	12.7	9.5	11.0
	71.9	100.0	86.7	100.0

The table below provides further information by payment due status:

	2015 £m	2015 %	2014 £m	2014 %
Neither past due nor impaired	61.9	86.1	75.4	86.9
Past due up to 3 months but not impaired	8.3	11.5	8.6	9.9
LPA receivership	1.7	2.4	2.7	3.2
	71.9	100.0	86.7	100.0

Against past due, LPA receivership and possession cases, **£14.8m** (2014 £15.9m) collateral is held.

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

The average LTV of the specialist residential mortgage book is **62.5%** at 31 December 2015 (2014: 69.5%).

Commercial lending book

The commercial lending book comprises:

GROUP	2015 £m	2015 %	2014 £m	2014 %
Loans secured on commercial property	136.1	18.7	192.9	21.5
Loans secured on serviced apartments to retail customers	23.1	3.2	23.7	2.6
Loans to Housing Associations	570.4	78.1	679.5	75.9
	729.6	100.0	896.1	100.0

30 Financial instruments Continued

Loans secured on commercial property

Loan to value	2015 £m	2015 %	2014 £m	2014 %
<70%	46.4	34.1	39.2	20.3
70% - <80%	38.0	27.9	93.6	48.6
80% - <90%	6.5	4.8	14.9	7.7
>90%	45.2	33.2	45.2	23.4
	136.1	100.0	192.9	100.0

The table below provides further information by payment due status:

	2015 £m	2015 %	2014 £m	2014 %
Neither past due nor impaired	100.8	74.1	141.1	73.1
Not past due but impaired	24.5	18.0	36.4	18.9
Impaired and past due up to 3 months	3.3	2.4	2.3	1.2
Impaired and past due over 6 months	-	-	13.1	6.8
LPA receivership	7.5	5.5	-	-
	136.1	100.0	192.9	100.0

At 31 December 2015 the Society had one commercial investment loan in arrears of 3 months or more with a balance of £3.3m, this compared to three at the end of 2014 with balances of £13.1m. The total specific provision against this loan was **£2.4m** (2014: £6.5m). The Society had no commercial loans in possession at the end of 2015 (2014: none). At the end of 2015 the Society had two commercial investment exposures subject to LPA receivership (2014: none). The balance on these loans amounted to £7.5m with aggregate provisions of £3.8m. One of the loans has redeemed subsequent to the year end following sale of the security property. The approach of appointing an LPA receiver for impaired loans of this type has produced acceptable outcomes in the past few years and the Society expects to continue to adopt this approach should any further similar situations arise.

The Society grants forbearance to commercial borrowers in the form of extending the loan term on maturity, capitalising arrears as part of a wider exercise to get a borrower back on track with a revised debt repayment plan, and adjusting the interest rate to aid serviceability particularly where a fixed rate has expired. Generally the Society expects commercial investment loans to be repaid on maturity given the stated strategy of winding down the portfolio but will grant forbearance when this is also in the best interests of the Society e.g. providing the borrower with a little more time to sell the security property following a tenant renewal.

The Society extended the loan term on two loans maturing in 2015 with total balances of £0.3m, on original commercial terms and conditions. One of these loans, with a balance of £0.1m was subsequently fully repaid in 2015; the second of these loans has a balance of £0.2m secured against £0.6m of property. There has been no requirement identified to hold specific provisions against either of these loans, but the collective provision remains in place to cover any shortfall.

30 Financial instruments Continued

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

	2015 £m	2015 %	2014 £m	2014 %
Retail	88.7	65.2	119.1	61.7
Office	14.9	10.9	27.3	14.2
Industrial	21.4	15.7	29.0	15.0
Hotel / Leisure	10.6	7.8	17.3	9.0
Other	0.5	0.4	0.2	0.1
	136.1	100.0	192.9	100.0

Loans to Housing Associations	2015	2015	2014	2014
Loan to value (unindexed)	£m	%	£m	%
<70%	257.4	45.1	307.5	45.3
70% - <80%	99.1	17.4	126.4	18.6
80% - <90%	214.0	37.5	229.1	33.7
>90%	-	-	16.5	2.4
	570.5	100.0	679.5	100.0

Loans to Housing Associations are secured on residential property.
No Housing Association loans are past due or impaired.

Interest Rate Risk
Interest rate risk is the exposure of the Group's net interest income to movement in interest rates. This is managed using a combination of limits set by the Board and by use of derivative instruments. The sensitivity to interest rate movements is measured using dynamic stress tests for a series of parallel rate shifts over various time periods.

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

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

	+1% £m	+2% £m	-1% £m	-2% £m
At 31 December 2015				
Next 12 months	1.1	2.2	(1.1)	(2.2)
Next 2 years	2.0	4.0	(1.3)	(2.6)
Next 3 years	3.6	7.1	(1.3)	(2.6)
At 31 December 2014				
Next 12 months	1.9	3.9		
Next 2 years	2.6	5.2		
Next 3 years	4.4	8.8		

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

Due to the sustained 2015 low interest rate environment, the rate shocks for interest rate reductions communicated to ALCO have remained at -0.10% and -0.20% throughout 2015. An immediate 2% upward movement in interest rates would increase Members' interests by **£5.1m** (2014: £8.2m).

Interest rate risk in the pension schemes

A reduction of 0.1% in the discount rate would increase the pension deficit by approximately £1.7m. Sensitivity is disclosed in the pensions note.

Currency risk
The Group has no exposure to currency risk.

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

Annual Business Statement for the year ended 31 December 2015

1 Statutory percentages

	2015 %	Statutory %
Lending limit	**7.71**	25.00
Funding limit	**10.29**	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997. The lending limit is calculated excluding all IAS 39 adjustments for derivatives and fair values.

The lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Group, excluding fair value adjustments for hedged risk and derivative assets, plus allowances for losses on loans and advances less liquid assets and property, plant and equipment as shown in the Group balance sheet.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Building Societies Act 1986, as amended by the Building Societies Act 1997, and ensure that the principal purpose of a building society is that of making loans which are fully secured on residential property and are funded substantially by its Members.

2 Other percentages

As a percentage of shares and borrowings:	2015 %	2014 %
Gross capital	**8.34**	7.86
Free capital	**7.63**	7.15
Liquid assets	**24.31**	23.61
Result for the year as a percentage of mean total assets	**0.09**	0.08
Management expenses as a percentage of mean total assets	**1.06**	0.93

The above percentages have been prepared from the Annual Report and Accounts.

Gross capital represents the aggregate of the general reserve, available for sale reserve, subordinated liabilities and subscribed capital.

Free capital represents gross capital less property, plant and equipment.

Liquid assets are as shown in the Group Balance Sheets but exclude liquid assets pledged under repo agreements.

Shares and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Management expenses represent the aggregate of administrative expenses and depreciation.

Mean total assets is the average of the 2015 and 2014 total assets.

Directors at 31 December 2015

	Date of Birth	Date of Appointment	Business Occupation
RJ Bottomley OBE, FCA	22.05.53	22.09.14	Company Director
	Other Directorships: Newcastle Portland House Limited; Marsden Packaging Limited; MSL Energy Limited; MSL Property Care Services Limited; TL Dallas Group Limited; Skillsbridge Limited; Durham County Cricket Club Holdings Limited; Greggs 1978 Pension Scheme Trustee Limited; The Craven Family Trust.		
DJ Buffham	13.08.59	24.05.10	Company Director
	Other Directorships: Newcastle Systems Management Limited; Northern Homes and Estates Limited; William Leech (Investments) Limited; The William Leech Foundation Limited; Zytronic PLC.		
P Ferguson BSc, CA	06.03.69	19.02.14	Building Society Strategy, Planning and Risk Director
	Other Directorships: None.		
AS Haigh BSc	26.01.63	27.01.14	Building Society Chief Executive Officer
	Other Directorships: None.		
K Ingham	20.02.65	04.09.14	Customer Service Director
	Other Directorships: Newcastle Strategic Solutions Limited (appointed 1 January 2016); Customer Service Director (Virgin Media Limited); Virgin Media Pension Scheme (Trustee).		
RJ McCormick FCA, FCIIA	09.05.49	16.08.07	Business Consultant
	Other Directorships: Newcastle Strategic Solutions Limited; Grassington Hub Limited; Threshfield Quarry Development Trust Limited.		
PJ Moorhouse FCCA	18.01.53	31.10.11	Company Director
	Other Directorships: Newcastle Systems Management Limited; Newcastle Strategic Solutions Limited; Molins Public Limited Company; Transflex Vehicle Rental Limited.		
J Morris BA, FCA	13.09.56	31.10.11	Chartered Accountant
	Other Directorships: None.		
AM Russell BA, FCA, CPA	18.03.67	01.07.10	Building Society Deputy Chief Executive & Finance Director
	Other Directorships: Newcastle Financial Services Limited; Newcastle Mortgage Loans (Jersey) Limited; Newcastle Portland House Limited; Kings Manor Properties Limited (ceased 2 February 2016).		
CRR Vine-Lott MBA, FCISI, FCIM, ACIB (Retired 31 December 2015)	30.01.60	01.01.10	Director in Financial Services
	Other Directorships: Just Retirement Group PLC; Just Retirement Limited; Just Retirement Solutions Limited.		
IW Ward FCIB	04.05.49	09.07.13	Director
	Other Directorships: Newcastle Systems Management Limited; Charter Court Financial Services Group Limited; Charter Court Financial Services Limited; Exact Mortgage Experts Limited; Broadlands Finance Limited; Charter Mortgages Limited; Harrogate and District NHS Foundation Trust.		

Documents may be served on any of the above named Directors: "Newcastle Building Society" c/o Addleshaw Goddard LLP (Ref. GAB), at the following address: Milton Gate, 60 Chiswell Street, London EC1Y 4AG. The Executive Directors have service contracts which can be terminated at any time by the Society on six months notice. The Executive Directors' service contracts were entered into on the dates of their appointment, excepting A S Haigh who was appointed to the role of Chief Executive on 1 May 2015, having previously held the role of Chief Operating Officer. There are no contracts for Non-Executive Directors and no compensatory terms for loss of office

Country-by-Country Reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations.

Newcastle Building Society is the biggest building society in the North East and the eighth largest in the UK with assets in excess of £3.4 billion.

As a mutual organisation, the Society's primary focus is its Members and it aims to provide mortgage, savings and insurance products supported by excellent customer service. Additionally, the Society offers financial advice through Newcastle Financial Services Limited and provides outsourcing of financial services through the Newcastle Strategic Solutions division.

The consolidated financial statements of the Newcastle Building Society Group include the audited results of the Society and its subsidiary undertakings. The consolidated entities, their principal activities and countries of incorporation, are detailed in Note 14 to the Annual Report and Accounts. All of the consolidated entities were incorporated in the United Kingdom, with the exception of Newcastle Mortgage Loans (Jersey) Limited, which is incorporated and operates with no employees in Jersey. The Society also operates a branch in Gibraltar

For the year ended 31 December 2015:

- Group total operating income was **£50.1m** (2014:£47.4m), the proportion not arising from UK-based activity is not considered material for the purposes of this disclosure.
- The average number of Group full time equivalent employees was **790.4**, (2014: 767.6) of which **783.4** (2014: 761.0) were employed in the UK and **7.0** (2014: 6.6) in Gibraltar.
- Group profit before tax was **£5.4m** (2014: £4.0m) with tax a charge of **£2.1m** (2014: £1.1m). The profit before tax and the tax charge relates to UK-based activity and the UK tax jurisdiction.
- No public subsidies were received by the Group.

Auditors' Report on Country-by-Country Reporting

Independent auditors' report to the Directors of Newcastle Building Society

We have audited the accompanying schedule of Newcastle Building Society for the year ended 31 December 2015 (the schedule). The schedule has been prepared by the Directors based on the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Directors' Responsibility for the schedule

The Directors are responsible for the preparation of the schedule in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, for the appropriateness of the basis of preparation and the interpretation of the Regulations as they affect the preparation of the schedule, and for such internal control as the Directors determine is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

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

Opinion

In our opinion, the Country-by-Country information in the schedule as at 31 December 2015 is prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Basis of Preparation and Restriction on Distribution

Without modifying our opinion, we draw attention to the schedule, which describes the basis of preparation. The schedule is prepared to assist the Directors to meet the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. As a result, the schedule may not be suitable for another purpose.

Our report is intended solely for the benefit of the Directors of Newcastle Building Society. We do not accept or assume any responsibility or liability to any other party save where terms are agreed between us in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Newcastle upon Tyne
1 March 2016

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears - A customer is in arrears when they are behind in their mortgage payments. A customer is 3 months in arrears when they have missed the equivalent of 3 mortgage payments.

Administrative expenses - Expenses incurred in running the day to day activities of the Society including staff, property, marketing and technology costs.

Basel II - The second of the Basel Accords, issued by the Basel Committee on Banking supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA Handbook.

Basel III - The third of the Basel Accords, issued by the Basel Committee on Banking supervision, which are a long-term package of changes that will strengthen regulatory requirements for capital and liquidity.

Buy to Let (BTL) - A mortgage designed to support customers purchasing an investment property to let out.

Capital Requirements Directive (CRD IV) - The EU legislative package covering prudential rules for banks, building societies and investment firms. CRD IV is made up of the Capital Requirements Directive and Capital Requirements Regulation, it is designed to implement the Basel III agreement across the EU.

Commercial lending / mortgage - Loans secured on commercial property.

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

Contractual maturity - The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

Covered bonds - Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other on-balance sheet assets solely for the benefit of the holders of the covered bonds.

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

Debt securities - Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding central banks.

Derivative financial instruments - A derivative financial instrument is a type of financial instrument (or an agreement between two parties) that has a value based on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to interest rate risk.

Effective interest rate method (EIR) - The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period.

Fair value - Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Conduct Authority (FCA) - FCA regulates the conduct of financial firms providing services to consumers and maintains the integrity of the UK's financial markets.

Financial Services Compensation Scheme (FSCS) - The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the PRA is obliged to pay an annual levy, which goes towards running costs and compensation payments.

Forbearance - A term generally applied to arrangements which are provided to support mortgage customers experiencing financial difficulties. An example of this would be a temporary reduction in mortgage payments.

Free capital - Represents gross capital less property, plant and equipment and investment property.

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

Gilts - These are bonds issued by certain national governments. The Group only classifies debt securities issued by the Bank of England as Gilts.

Gross capital - The aggregate of general reserve, available-for-sale reserve, subscribed capital and subordinated liabilities.

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

Individual Capital Guidance (ICG) - Guidance from the PRA on the minimum level of capital that must be held.

Individual Liquidity Guidance (ILG) - Guidance from the PRA on the minimum quantity of a firm's liquidity resources and the firm's funding profile.

Individually / collectively assessed - Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be incurred.

Internal Capital Adequacy Assessment Process (ICAAP) - The Group's own assessment of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.

Internal Liquidity Adequacy Assessment Process (ILAAP) - The Group's internal assessment of the liquidity levels needed to meet its regulatory liquidity requirements.

Legacy mortgage portfolios - Mortgage loan books where the Group has ceased new lending and is winding down exposures.

Lending limit - Measures the proportion of business assets not in the form of loans fully secured on residential property.

Leverage ratio - A Basel III ratio which measures Tier 1 capital against total on and off balance sheet assets.

Liquid assets - The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Liquidity Coverage Ratio (LCR) - A Basel III measure of the amount of highly-liquid assets against cash outflows over a 30 day period.

Liquidity risk - The risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash inflows and outflows.

Loan-to-value ratio (LTV) - A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates UK residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis) to reflect changes in house prices.

Loans and advances to banks - Treasury investments purchased with banking institutions.

Management expenses - Management expenses represent administrative expense and depreciation. The management expense ratio is management expenses expressed as a percentage of mean total assets.

Market risk - The risk that movements in market risk factors, including re-pricing of assets and liabilities and the imperfect matching of interest rates between different asset and liability types, may adversely impact the Society.

Mean total assets - Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Member - A person who has a qualifying share investment or a mortgage loan with the Society.

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

Net interest income - The difference between interest received on assets and interest paid on liabilities.

Non-Executive Director - A member of the Society's Board who does not form part of the executive management team. He or she is not an employee of the Society.

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

Other lending - loans and advances secured on traded endowment policies.

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

Permanent Interest Bearing Shares (PIBS) - Unsecured, deferred shares that are a form of capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing Members of Newcastle Building Society.

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

Prudential Regulation Authority (PRA) - Part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Renegotiated loans - Loans are classed as renegotiated with the customer's consent, when their terms have changed during the year. Loans and advances are generally renegotiated either as part of an on-going customer relationship or in response to an adverse change in the circumstances of the borrower.

Repo - Short to medium-term funding agreements which allow a borrower to sell a financial asset, such as Government bonds, as security for cash. As part of the agreement the borrower agrees to repurchase the security at a later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

Residential mortgage backed securities (RMBS) - Asset backed securities that represent interests in residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).

Residential loans - Residential loans are secured against residential property.

Risk appetite - The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Society's Members whilst achieving business objectives.

Risk-weighted assets (RWA) - The value of assets, after adjustment under Basel II rules, to reflect the degree of risk they represent. The Society measures RWA using the standardised approach.

Shares - Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings - The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest.

Solutions - a subsidiary of the Society that offers business to business services through people, process and innovative application of technology. Services include complete systems for smaller societies and white-labelled savings management for a range of banks and building societies.

Solvency ratio - the ratio of total capital to total risk weighted assets.

Subordinated debt / liabilities - A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors, and investing Members (other than holders of PIBS).

Tier 1 capital - Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. Other regulatory adjustments may be made for the purposes of capital adequacy. Under the grandfathering rules of Basel III qualifying capital instruments such as PIBS can be included in other Tier 1 capital (i.e. not Common Equity Tier 1) transferring to Tier 2 over the grandfathering period.

Tier 2 capital - Comprises the Group's qualifying subordinated debt and collective impairment allowance (for exposures treated on a Basel II standardised basis).

Wholesale funding - The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue less.

Branch Directory

NEWCASTLE UPON TYNE

136 Northumberland Street, NE1 7DQ	Tel: (0191) 261 4940
Portland House, New Bridge Street, NE1 8AL	**Opening May 2016**
22 Denton Park Centre, NE5 2RA	Tel: (0191) 267 5038
105/107 High Street, Gosforth,NE3 1HA	Tel: (0191) 285 5965

NORTH EAST

ALNWICK - 28 Bondgate Within, NE66 1TD	Tel: (01665) 603 344
ASHINGTON - 10 Station Road, NE63 9UJ	Tel: (01670) 815 919
BERWICK UPON TWEED - 12 Hide Hill, TD15 1AB	Tel: (01289) 306 417
CHESTER-LE-STREET - 42 Front Street, DH3 3BG	Tel: (0191) 388 5266
CONSETT - 19/21 Middle Street, DH8 5QP	Tel: (01207) 502 636
CRAMLINGTON - 34/35 Craster Court, NE23 6UT	Tel: (01670) 735 813
DARLINGTON - 87/88 Skinnergate, DL3 7LX	Tel: (01325) 383 656
DURHAM - 25 Elvet Bridge, DH1 3AA	Tel: (0191) 384 3182
GATESHEAD - 12 Ellison Walk, Trinity Square, NE8 1BF	**Opening June 2016**
HARTLEPOOL - 133/135 York Road, TS26 9DR	Tel: (01429) 233 014
HEXHAM - 3 Beaumont Street, NE46 3LZ	Tel: (01434) 605 106
MIDDLESBROUGH - 38 Linthorpe Road, TS1 1RD	Tel: (01642) 243 617
MORPETH - 14 Market Place, NE61 1HG	Tel: (01670) 514 702
NORTH SHIELDS - 76 Bedford Street, NE29 0LD	Tel: (0191) 259 5286
PONTELAND - 23 Broadway, Darras Hall, NE20 9PW	Tel: (01661) 821 828
SOUTH SHIELDS - 67 Fowler Street, NE33 1NS	Tel: (0191) 454 0407
STOKESLEY - 19 High Street, TS9 5AD	Tel: (01642) 711 742
SUNDERLAND - 14 Waterloo Place, SR1 3HT	Tel: (0191) 565 0464
WHICKHAM - 28 Front Street, NE16 4DT	Tel: (0191) 488 1766
WHITLEY BAY - 78/84 Park View, NE26 2TH	Tel: (0191) 252 0642
YARM LIBRARY - 41 The High Street, TS15 9BH	**Opening Autumn 2016**

NORTH WEST

CARLISLE - 2/4 English Street, CA3 8HX	Tel: (01228) 524 518
PENRITH - 12 Market Square, CA11 7BX	Tel: (01768) 862 888

SCOTLAND

DUMFRIES - 2/6 Queensberry Square, DG1 1BL	Tel: (01387) 253 815

GIBRALTAR

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

AGENCY

Allen Sykes, 17 Galgate, Barnard Castle, DL12 8EQ

FINANCIAL ADVICE CENTRES

136 Northumberland Street, NE1 7DQ	Tel: (0191) 261 4940
Portland House, New Bridge Street, NE1 8AL	**Opening May 2016**