Cover photo:
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Newcastle Building Society

Newcastle Building Society Annual Report & Accounts 2020 Connecting our communities with a better financial future

Newcastle Building Society
Annual Report & Accounts 2020

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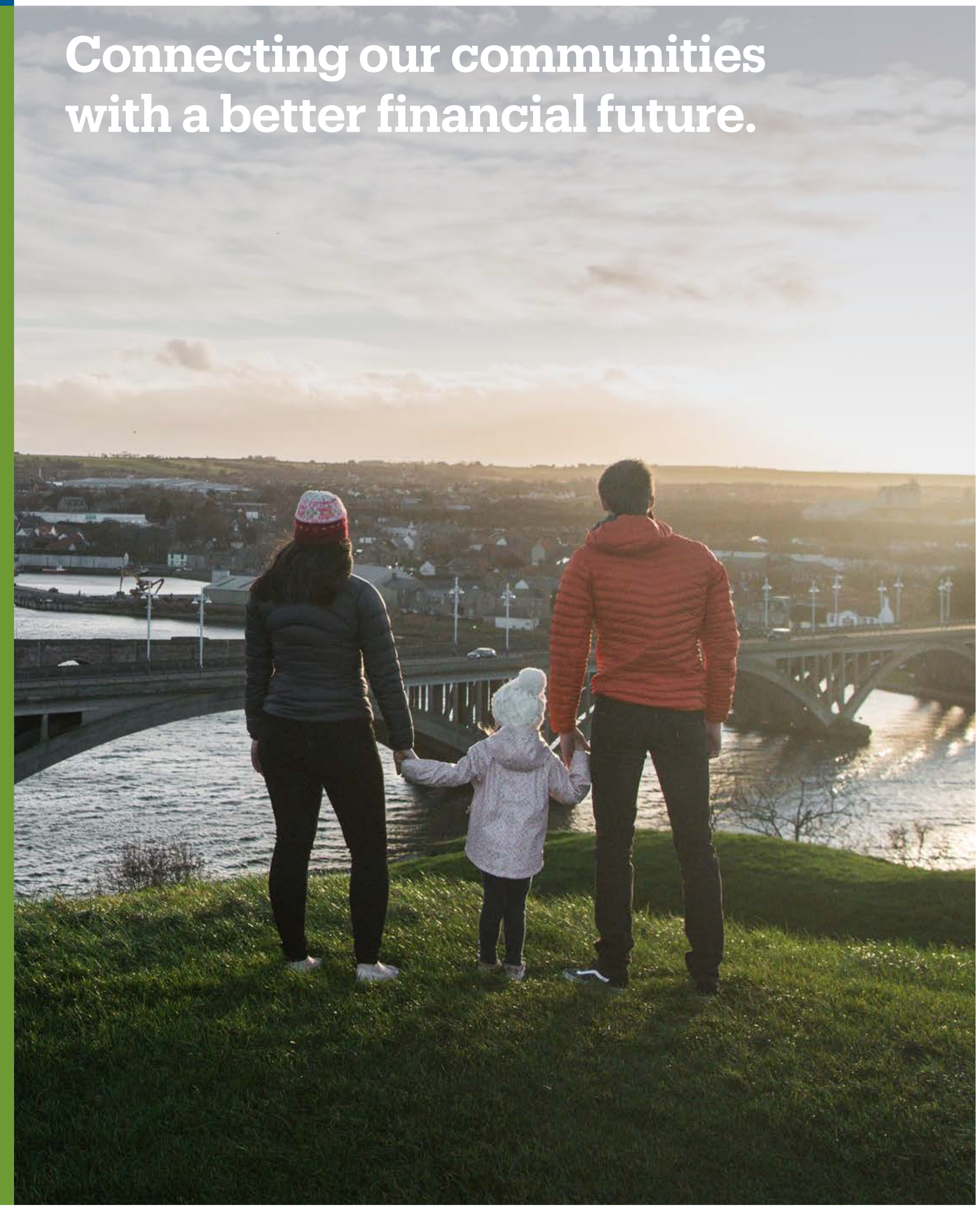
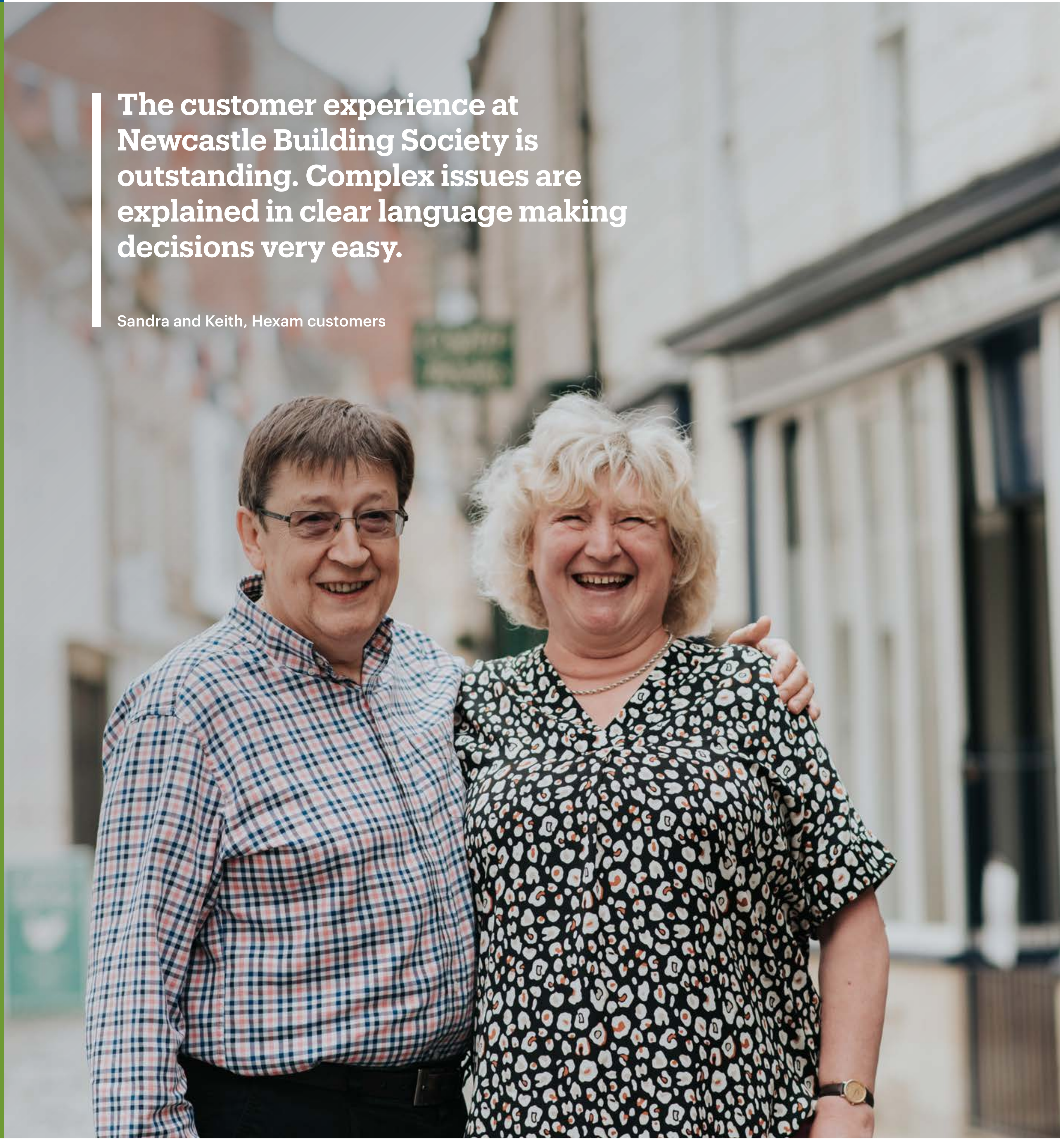
Connecting our communities with a better financial future.





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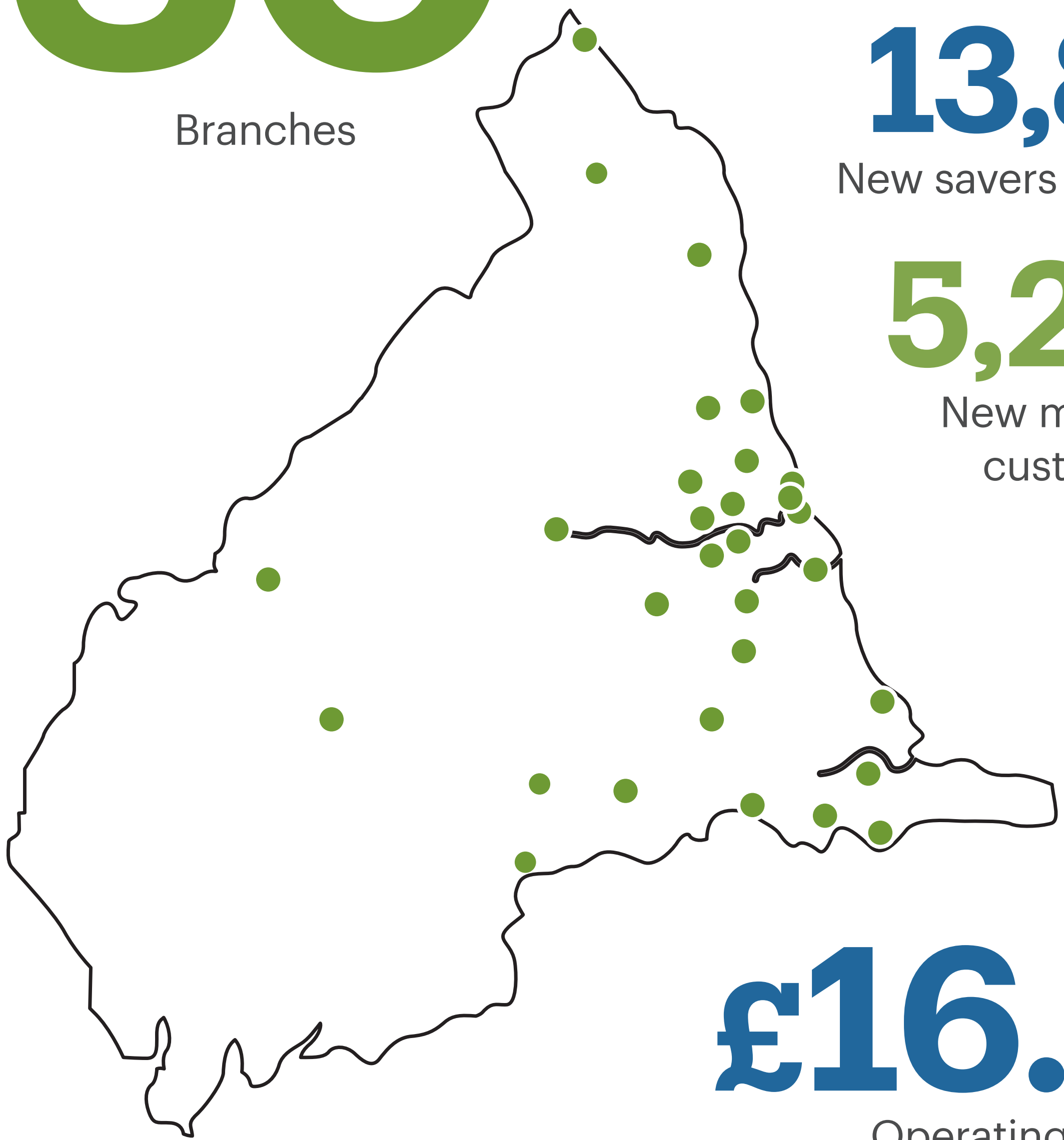

915
First-time buyers

13,887
New savers across the UK

5,206
New mortgage customers

£16.4m
Operating profit before impairments

550
Volunteering missions through onHand

1,200+
Colleagues

£376m
Growth in savings

+45
Colleague Engagement Score

95%
Overall customer satisfaction

Gross residential lending
£645m

25
Industry awards

14.1%
Common Equity Tier 1 Capital


Newcastle City Centre

2020 was a year that saw disruption in every aspect of our lives – at home, at work, in our families and in our communities, as we all faced into the many challenges brought about by the global Covid-19 pandemic.

Phil Moorhouse, Chairman

Introduction

Throughout this period, which has brought so much distress and uncertainty, your Society has needed to adapt to these difficult circumstances.

The pandemic prompted dramatic changes in how we live, work and interact; how we keep ourselves and others safe; and how we protect jobs and the economy when the activity we take for granted is locked down and the world looks anything but normal.

Your Society's first action in the face of a national lockdown early in 2020 was to transform its ways of working to achieve a safe environment for colleagues and the continued safe provision of services for Members visiting its branch network. At the start of the pandemic, the Society invested in remote working capacity for more than 800 colleagues.

As a designated essential service, the branch network has remained open whilst implementing new social distancing and comprehensive Covid safety measures. It has supported its heartland region of the North East, Cumbria and North Yorkshire with a variety of initiatives designed to help its communities cope with the crisis, we believe, strengthening the bonds and connections we have.

Our main priority has been to continue to serve our customers well in the hope that in some small way, we could play our part in supporting our customers and communities through this unique and difficult period.

Chairman's Statement
Continued

Economic summary

Significantly affected by the impact of the Covid-19 restrictions, ongoing lockdowns and the uncertainties of Brexit, the UK experienced a major economic downturn, with GDP for 2020 being 9.9% around 10% less than in 2019. The expectation is that the economy will not return to pre Covid-19 levels before the end of 2022 at the earliest, as the ongoing challenges of dealing with the pandemic, despite the roll out of a vaccine, will be compounded to some extent by the short-term effects of the UK leaving the EU.

The low rate of inflation for the year improved people's purchasing power, but along with the government response to the pandemic, this kept the bank base rate at historic lows – which ended the year at 0.1%.

The low bank base rate has had a knock on effect on savings rates, which have been similarly low, with the expectation that they will remain so for quite some time yet. Despite this, the household savings ratio reached a record high during the year as spending was curbed by lockdown.

We were concerned to see the housing market coming to a stand-still in the first period of lock-down. But subsequently the market experienced a mini boom, assisted in part by the Government's stamp duty cut, which currently runs until April 2021, although there is widespread lobbying from both industry and consumer quarters for it to be extended further.

While the market saw a lack of availability of high loan to value mortgages, typically first time buyer options, re-mortgaging with deposits of 20% plus led the move to more normal trading conditions.

There are undoubtedly ongoing concerns in the market that any reduction in house values will impact high loan to value borrowers, creating negative equity. While the Government's Coronavirus Job Retention Scheme has undoubtedly offset some of the worst impacts of the pandemic restrictions, unemployment increased during the year and this increase is anticipated to accelerate in 2021. The Society's cautious approach and sensible lending continued in light of this potential context.

Strategy and purpose

The aim of the Society to build a long term sustainable business, through delivery of a purpose-led strategy continues. The previous 12 months have been a test of both its strategy and its resilience.

Prior to the Covid-19 pandemic, the Society launched two new community branches in Hawes and Wooler, bringing local financial services to towns abandoned by the banks.

Throughout the pandemic, Covid secure practices were implemented across its branch network, with all but one of its branches remaining open to provide ongoing access for essential transactions for customers in both lockdowns. The Society also implemented video appointments for financial advice customers to ensure advice could continue through a tumultuous time.

The Society worked with mortgage customers to arrange payment holidays in instances of mortgage payment difficulty and ensured that savers could access their savings without penalty where they need to do so.

We have provided ongoing support to communities through the pandemic, as part of a £1.5m 2020 community commitment announced during the year

None of this would be possible without the commitment and support of our colleagues or the vibrant connection we have with our communities. One of the most important investments we can make is in our people – we were delighted therefore to be accredited with Platinum Investors in People (IIP), placing us among the top 3% of firms who are accredited with IIP. More can be found about our progress in 2020 in the Chief Executive's Review and the Strategic Report for the year.

In view of the many challenges that became very apparent early in 2020, it was agreed that there would be no participation in the Executive Bonus Scheme for this year. The Society also concluded at the end of the year not to pay a performance related bonus for colleagues across the Society either.

However, it was proposed that something should be done to recognise the outstanding response of colleagues to the pandemic right across the organisation. In light of this, it was agreed that all Newcastle Building Society Group colleagues below the level of Executive received a recognition payment equivalent to 3% of base salary with a minimum payment applicable to colleagues on lower salaries.

Performance

While maintaining its underlying financial strength, your Society has sought to anticipate the potentially negative outcomes that may play through due to an economic downturn and associated rise in unemployment as part of the economic impacts of the Covid-19 pandemic, making appropriate adjustments to lending policies and provisions.

The Society has maintained a strong underlying performance through 2020, with operating profit remaining consistent with 2019, despite the many challenges and costs associated with the unique circumstances the Society faced during the year as a result of the pandemic.

We maintained a cautious approach to new lending and have increased our provisions for bad debt against our existing mortgage loans and other legacy assets by £10.5m (2019: £1.5m). Following the decision by the Board that the Group's former head office was no longer fit for purpose and would not play a part in the Group's property strategy an impairment charge of £3.8m was also recognised in 2020. The net effect of these provisions was to reduce profit before tax to £2.0m from £14.7m in the previous year. This outcome is based on a revised view derived from the current circumstances and latest economic outlook and while it is disappointing that events have required these increases to be made, we believe it is appropriate to take a suitably prudent approach and encouraging that the adjustment could be absorbed within the operating profit for the year.

We remain confident that the underlying business remains strong. The Society has continued to maintain robust capital ratios with Common Equity Tier 1 ratio at 14.1%, well within Regulator guidelines alongside more than adequate levels of liquidity at 19.1%. We are pleased to report strong new lending for the year, with gross lending of £645m and positive net core lending of £228m.

It is also pleasing that we have continued to invest in the infrastructure of the Society – in building up our digital capabilities, including the launch of our mobile app; continuing investment in our resilience and digital security and in our commitment to high streets and communities.

Our Solutions business also had a positive year, facing entirely the same set of operational challenges while maintaining an effective and quality service on behalf of our clients and managing unprecedented growth in savings balances. The business also secured a number of contract renewals and commitments from new clients, giving a strong foundation for the year ahead.

Governance and regulation

The Society has regard for the Corporate Governance Code which emphasises the culture and purpose of an organisation and putting stakeholder organisational relationships at the core of a set of principles to promote long term sustainable growth.

We are comfortable this aligns well with our purpose-led strategy.

Countercyclical Capital Buffers (CCyB) are one of the tools that the Bank of England uses to adjust the resilience of the banking system against the potential of increasing risk by determining an additional amount of capital that institutions are required to hold. In my statement last year I noted that the Bank had announced that the CCyB would increase in December 2020 from 1% to 2%. Given the circumstances in the first quarter of 2020, that decision was updated and the Bank announced that CCyB were reduced to zero in March.

As we work through the economic impact and risks associated with the pandemic, it is reasonable to expect that the CCyB will increase again at an appropriate point and I can confirm that the potential for this increase in requirement remains within the Group's capital plans.

Board changes

As part of changes to our Board we said goodbye to John Morris who retired in November. We are very appreciative of John's extensive contribution to the Board and its sub-committees over the 9 years he has been a non-executive director with the Society.

We were pleased to welcome Stuart Lynn to the Board in April 2020 and who stands for his first election at this year's annual general meeting. Stuart brings a wealth of experience from his time at the NHS and software giant Sage, where he has held a number of leadership roles, including Executive Vice President and Chief Technology and Information Officer. Stuart is already familiar to the Group as he has been a Director of our subsidiary, Newcastle Strategic Solutions since 2019.

Summary

One thing is certain in the uncertain world we are all part of at the moment, challenging times will continue. 2021 will see the Society continue to invest for the success and growth of the business. The Society is confident in its future, in its financial strength and commitment to its purpose-led strategy to deliver long term sustainable growth. The desire and ambition to make Newcastle Building Society the best regional building society for its Members and for its region is undiminished.

It is impossible to overstate the impact Covid-19 has had on us all in 2020, so on behalf of the Board I would like to thank you, our Members and customers for your continued support, in very difficult circumstances. I would also like to thank the wider Executive team and all colleagues for their truly outstanding commitment to our values and the Society.

Phil Moorhouse
Chairman

4 March 2021

Newcastle City Centre

The UK went into lockdown on 23 March. At that point, although we knew that the situation was grave, we had no real appreciation of what the course of the pandemic would be, or the depth of its impact on us individually, on our families, our communities and our working lives. It has been a life-changing event and for many individuals and families, it has been both difficult and distressing.

Andrew Haigh, Chief Executive

A year like no other

For all of us, the pandemic continues to curtail our interactions within our wider communities: the communities of work, of our friends and families, and of our local towns and high streets. But the temporary loss of those things we might, at times, have taken for granted has only served to renew their significance. It has reminded us that as humans we need and value real life interaction with others to enrich the experience of our day-to-day life.

Our purpose, 'to connect our communities with a better financial future', has been a powerful guide through the pandemic, helping us maintain our focus on customers enabling effective decision making in these fast moving and challenging times.

Although Covid-19 has had a profound impact on the Society's operations during the year, our underlying business is still performing well, reflecting our resilient core. It is encouraging to be able to report that despite the property market having been effectively closed for a period and the need to absorb significant, non-recurring costs associated with Covid-19, the Group's operating profit before impairments and provisions for 2020 was £16.4m broadly in line with our performance in the previous year (2019: £16.3m). The knock on effects of the exceptional deterioration in the macro-economic environment has resulted in a significant increase in our credit provisions resulting in a pre-tax profit of £2.0m, compared to £14.7m for 2019. This result also included a write down in the value of our former head office building, Portland House, which we have chosen to exit as it no longer meets our needs as we evolve more flexible and efficient working practices. We remain strongly capitalised and continue to operate with appropriate levels of liquidity.

As a provider of an essential service, we have remained open for business throughout lockdown. We have supported our communities and strive to maintain this important focus as we also seek to play our part in enabling recovery in our region.

I'm pleased to report that the pandemic has not prevented our Society achieving many of the goals we had at the start of 2020. We have needed to be reactive to fast changing environments and to deliver differently, but we have done so with positive impact. I would like to extend heartfelt thanks to our colleagues for their incredible commitment, resilience and determination in facing into the challenges of 2020 and for what we have achieved together. Many of the team's achievements would have been excellent in any ordinary year, but given the circumstances, they were truly remarkable.

Key highlights include:

- Operating profit (before impairments) of £16.4m maintained at 2019 levels
- Due to increased impairments in the year, profit before tax was £2.0m
- New savings customers: 13,877
- New branch customers: 6,069
- New mortgage customers: 5,206
- New first time buyers helped in purchasing their own home: 915
- Record mortgage lending in the second half of the year, supported by strong savings balance growth through our branches
- We reduced our Standard Variable Rate (SVR) for residential mortgages to 3.96%
- Awarded Platinum Investors in People accreditation, progressing on from our previous Gold award
- Built and launched our popular mobile savings app
- Colleague engagement scores increased further to an employee Net Promoter Score of +45
- Awards:
  - North East Charity Awards (Outstanding Charity Support by Large Companies)
  - Mortgage Finance Gazette (Community Services)
  - North East Contact Centre (Business Continuity & Innovation)
  - What Mortgage (Best Regional Building Society) for the fourth consecutive year
- Supported multiple clients of our savings management outsourcing subsidiary Newcastle Strategic Solutions in winning no fewer than 21 industry awards
- £1.5m community commitment, which included two initial payments totalling £850,000 to Newcastle United Foundation, supporting the building of exciting new community facility, NUCASTLE, powered by Newcastle Building Society
- A higher percentage of our new lending was to people in the North East, Cumbria and North Yorkshire heartland from 14.5% to 16%
- Over £66m invested through our advice subsidiary, Newcastle Financial Advisers
- Supported 4,687 borrowers who requested mortgage payment holidays
- Launched deposit booster mortgage to help first time buyers
- Customer engagement scores increased further to a Net Promoter Score of +78.

Our region and purpose

We are the North East's largest building society with assets which have grown to £4.9bn (up from £4.4bn in 2019) and 30 branches across the North East, Cumbria and North Yorkshire. As an employer of more than 1,200 people and a purpose-led organisation we are committed to the people and places that make up our heartland.

Delivering our purpose, 'to connect our communities with a better financial future', is both a personal endeavour for colleagues and a shining example of what it really means to be a mutual, customer-owned organisation. It is also a sound foundation on which to build a sustainable, successful commercial enterprise which will benefit our Members and their communities in both the present and for the long term. Our consistently high levels of customer and colleague engagement ensure that we remain connected to our purpose and focused on delivering lasting, authentic relationships with our Members.

We continue to provide opportunities for local people to build meaningful careers, encouraging the diversity of those who join us from a variety of backgrounds and providing opportunity for all our colleagues to make a real and positive difference to the people and places that mean the most to them.

We continue to support and work with our communities to create positive change, through a variety of partnerships and the provision of ongoing, significant financial support, acting quickly in the pandemic to commit funding when our communities need help more than ever.

We remain committed to delivering face to face services on our high streets. We believe that digital and physical distribution need to co-exist if we are to serve all our customers well. For us, technology is best deployed to enhance the quality of our human interactions, not just to replace them. The pandemic has served to reinforce this, as we have all come to realise just how much we were taking human interactions for granted.

We continue to invest in our shared future: building our brand through our communities; and creating commercial success through our scale, experience, skills and specialisms – including our leading edge digital and IT capabilities that serve the Society and other clients of our Newcastle Strategic Solutions subsidiary.

Our performance

Despite the challenges in the year, the underlying business performance was strong, not just in our response to the pandemic and the overall operational, trading and financial performance of the business, but also in our commitment to maintaining progress.

We welcomed over 6,000 new branch customers, growing our savings book by £376m (11%). Helped by our market leading triple access saver and competitive bonds across the year, our strong retail savings balances provided a solid foundation for our mortgage lending. More than 5,000 new lending customers joined the Society. Our Gross mortgage lending for the year was £645m and net core residential lending £228m (£575m in 2019).

Operating profit before impairments and provisions was stable at £16.4m (£16.3m in 2019). As a result of the impact of Covid-19 the economic environment impairments and provisions were £14.4m (2019: £1.6m). Group profit before tax was £2.0m for the year ended 31 December 2020, compared to £14.7m for 2019.

Total operating income increased by 6% to £79.2m in 2020 (£74.4m in 2019). Offsetting income is overall management expenses, which include business administration and depreciation expenses. Management expenses increased to a cumulative £62.8m from £58.1m in 2019, reflecting increased non-recurring costs associated with the Group's response to the Covid-19 pandemic, further investment in colleagues, our technology infrastructure and the branch network during the year.

The Society's net interest margin reduced to 0.87% from 0.91% in 2019 reflecting the competitive nature of the mortgage market. Net interest income increased by £3.3m to £40.2m due to the reduction in the Bank of England base rate and the fall in mortgage yields in comparison to the fall in savings rates.

The Group's capital ratios remain robust with Common Equity Tier 1 ratio of 14.1% (2019: 13.9%) and Tier 1 ratio was 14.4% (2019: 14.3%). The Group complied with Individual Capital Guidance plus capital buffers, as notified by the Prudential Regulation Authority, throughout 2020.

The Society continued its focus on core residential lending while winding down legacy portfolios. The net increase in customer loans and advances was £183m overall in 2020 and included a £228m net increase in core residential, of which £57m was in buy to let and £45m was in respect of a reduction in our non-core legacy mortgage portfolio.

The percentage of mortgages in arrears by three months or more remain at low levels for 2020. Overall number of loans arrears have seen an increase of 3bp to 0.36%.

The Group's liquidity, excluding encumbered assets, ended the year at 19.1% compared to 15.8% in 2019. This is comfortably in excess of the Society's minimum operating level.

Building lasting, authentic relationships with our customers

In a year where service was interrupted significantly by so many external events and it was simply not possible to deliver our usual personal service, we were pleased to maintain very high customer satisfaction scores. In 2020 we achieved a satisfaction score of 95% per cent (2019: 95%).

Our net promotor score (NPS) measures the loyalty of our customer relationships and is driven by the quality and value our colleagues deliver to our customers. We enhanced our NPS tracking in 2020 to include all channels and were very pleased to record a score of 78. This compares very favourably on a like-for-like basis with the previous year's score of 76 and is at the higher end of the spectrum - NPS scores range from -100 to +100.

Our continuous online and mobile 'Customer Voice' survey provides valuable, real time feedback for us and we will be supplementing this in 2021 with the introduction of a dedicated customer panel.

Helping people save and plan their finances

We have remained open for business throughout lockdowns, providing uninterrupted access to the essential services we provide: on the high street, over the phone and through our digital channels. We have continued our sensible lending and the provision of mortgages, we have maintained convenient, local access to our savings service for our customers and continued to provide financial advice. Throughout, our priority has been to keep our customers and colleagues safe through the implementation of rigorous safety procedures and by extending our support for customers negatively impacted financially by the pandemic.

> **Although Covid-19 has had a profound impact on the Society's operations during the year, our underlying business is still performing well.**

Chief Executive's Review

Continued

Safety measures were implemented for colleagues and customers, whose essential needs necessitated a branch visit. These included a one in one out policy; social distancing; safety screens; face coverings and masks for colleagues; colleagues working in small bubble teams; and reduced branch opening hours. These actions protected customers' access to cash and other key services and were reinforced by a partnership with the Post Office to provide local cash access to vulnerable customers in the event of an unavoidable branch closure.

Our Newcastle Financial Advisers subsidiary, which provides financial advice across our branch locations, experienced a strong year for new investments. More than ever, customers have appreciated advice and guidance through these tumultuous times and while face-to-face advice sessions had to be reduced in response to Covid-19, the introduction of video and phone meetings ensured ongoing support for customers.

Our commitment to our high streets and the delivery of face to face services remains as strong as ever. We strive to make our branches even more welcoming, and human: a place where we aim to show that we are keen to listen and understand our customers' needs and where time is a commodity we are keen to share.

Prior to lockdown we formally opened our two new community partnership branches in Hawes in North Yorkshire, and Wooler in Northumberland - locations which had been left isolated on the closure of their 'last bank in town'. Both branches have been very positively received by local people, delighted to see financial services return to their high street, even through this troubled period. Embedded in the community, we have become part of the community, playing an integral role as part of a community hub at a fraction of the cost of a full scale branch.

Our branch network across the North East, Cumbria and North Yorkshire has maintained essential transactions and services for customers and the otherwise financially excluded. All but one of our branches have provided ongoing services throughout for essential transactions, with the exception of our Yarm Library branch, which was closed as part of a wider local council decision to close library locations.

As part of a strategic review of our core working locations we recently announced our intention to vacate our Portland House head office building in the centre of Newcastle. One of our two city-centre branches, our Portland House branch is integrally connected to the main Portland House head office building, and therefore closed in early 2021. Our Portland House branch customers were welcomed and will be served by our nearby Northumberland Street branch.

We have renewed our commitment to our ongoing, multi-million pound branch upgrade programme and where appropriate, to expanding our regional presence. We are currently working on an exciting new community branch in Tynemouth and we expect to announce progress on this second library partnership in 2021.

During the crisis the Bank of England reduced base rate to record low levels of just 0.1%. After much consideration, the Society made the decision to pass a corresponding rate reduction onto our variable rate savings customers. We continued to introduce new competitively priced fixed rate savings products through our branches.

Our average savings rate in 2020 was 0.49% higher than the market average for banks and building societies, based on CACI's independent financial benchmarking data.*

*CACI Current Account and Savings Database, Stock, including fixed and variable rates. CACI is an independent company that provides financial benchmarking data which covered 87% of the cash savings market in 2020. Data correct as at 8th February 2021.

Some of our savings products have financial penalties if they are closed ahead of the agreed term end. Where health issues or difficulties caused by Covid-19 made this necessary, we ensured customers could access their savings quickly and without penalty. This commitment was applied across all our savings products, with the exception of the Lifetime ISA which has a separately applied Government penalty.

Helping people own their own home

The housing market bounced back following the initial lockdown period, and has since experienced a high level of mortgage transactions, house sales and an overall increase in house prices, supported by continuing low interest rates.

The majority of our mortgage lending is done through UK-wide networks of mortgage brokers, and throughout 2020 we continued to build the depth of our relationships across this channel, increasing our intermediary distribution to 90% market coverage. Our service and response levels, along with the short time to offer we have maintained during the pandemic, have positively differentiated us from other providers.

The Society over performed against its plan, introducing more than 5,000 new mortgage customers to the Society, and helping over 900 first time buyers.

Following the announcement of the financial support package in response to Covid-19 by the Government and set out by the Financial Conduct Authority (FCA), the Society quickly responded to customer concerns, to requests for mortgage payment holidays, and for flexibility in repayments for those borrowers struggling to pay their mortgages as a result of Covid-19.

Where customers can afford to re-start their mortgage payments it is in their best interests to do so, but some may need additional support and for longer. The FCA extended the time to apply for a payment holiday initially to the end of October 2020 and then to 31 March 2021.

We have provided payment deferral support to our mortgage customers experiencing financial difficulty as a result of the pandemic and will be investing significantly in a mortgage processing transformation programme in 2021 to facilitate further efficiency and even better customer service levels.

We were also very pleased to announce a significant reduction in our mortgage standard variable rate (SVR) to 3.96% from 5.99%, effective from 1 December 2020. SVR is the interest rate normally charged once a fixed, discount or tracker rate mortgage deal comes to an end. The change will positively impact all our customers currently on our SVR and SVR-linked products.

During and post lockdown, our focus has been on remortgages and mid loan to value mortgage products as part of our sensible lending policy. We introduced additional options to our mortgage range which included a new Joint Mortgage Sole Proprietor five year fixed rate mortgage, which enables family members to help close relatives own their own home, increasing the borrowing power of the applicant by allowing them to apply for a mortgage using the supporting income of a family member. This was supported by competitively priced 80 per cent loan to value mortgages with rates as low as 1.89% and rate reductions on our five year Buy to Let mortgage proposition of up to 0.20%.

Investing to help our communities make positive changes

We've made it a priority to increase support for our region's local communities during these troubled times, and I'm proud that we made a £1.5m commitment to good causes this year focusing our impact where it's needed most, and aiding our region's recovery.

This support for communities included the launch of a £1.1m partnership in July with Newcastle United Foundation, to deliver the redevelopment of the Murray House Recreation Centre in the City Centre into a hub for sports, education and wellbeing. The new centre will be known as 'NUCASTLE, powered by Newcastle Building Society'. With planning approved and the project underway, £850,000 has already been committed to support the build. Our relationship with the Foundation will also see us support the NU:Futures employability outreach programme, targeting thousands of schoolchildren and hundreds of young people not in education, employment and training across North of Tyne.

We launched our community grants programme in 2016 working with the Community Foundation Tyne & Wear and Northumberland. At the end of 2020 we reached a major milestone and celebrated £1m awarded in grants to charities and community groups across the North East, Cumbria and North Yorkshire. In 2020 the ongoing programme of community grants, awarded £179,000 to groups in our region most affected by the pandemic, including food banks; hospices; and charities providing support for cancer, dementia and older or isolated adults. These grants are made from the Newcastle Building Society Community Fund at The Community Foundation

In addition, the Society donated £100,000 to launch the Community Foundation Tyne & Wear and Northumberland's Coronavirus Recovery and Response Fund, which has directed support to a wide range of groups and charities across the region.

We also continued to provide ongoing financial support to the incredible Sir Bobby Robson Foundation and to The Prince's Trust, a valued partner in helping us deliver greater inclusion and improving the prospects of young people in our region.

Our efforts to help our communities make positive changes saw us contribute in numerous additional small but creative ways, often building on ideas suggested by colleagues. We worked with North East specialist medical cream manufacturer, Nursem, in its quest to provide free hand cream to our local nurses at the frontline of clinical care who suffer the drying effects of frequent hand washing and sanitising. We also donated a vital supply of much needed, hand sanitiser to communities in the Yorkshire Dales, partnering with a local, Yorkshire Dales-based distillery.

The application of new technologies can be a powerful way to bring people closer together and we continue to explore new opportunities to incorporate these technologies into our services. Our partnership with the National Innovation Centre for Ageing and tech for good company, onHand, has successfully connected our amazing colleague volunteers with local people needing support with minor tasks via a mobile app.

This initiative has been particularly relevant during the pandemic, being able to operate within strict safety guidelines to keep all parties safely socially distanced.

Our commitment to our high streets and the delivery of face to face services remains as strong as ever.

Investing in our colleagues

We employ more than 1,200 people across our head office and branch locations. Measuring our employee net promoter score (eNPS) value tells us a great deal about how well our colleagues understand and are engaged with our purpose and their commitment to the Society and our customers. At the year end, we achieved a record high colleague eNPS of +45 which positioned us in the top 25 per cent of our survey provider's global finance sector benchmark.

We were delighted to receive the Platinum Investors in People accolade this year, progressing from our previous Gold award and putting us in the top three per cent of organisations nationwide assessed as part of the standard. This recognises the hard work of our human resources team, our leaders and our managers in establishing the policies and practices that support our colleagues be the best they can be. Being a Platinum-accredited organisation proves that right across the organisation, our people believe in the vital role they play in the success of the business.

The Society participated in the Government's Coronavirus Job Retention Scheme earlier in the year. This enabled us to keep all colleagues in their jobs and protect their livelihoods through a period of widespread and extreme uncertainty, when it was far from clear that all roles could otherwise be retained.

Chief Executive's Review
Continued

All colleagues who were furloughed were able to return to their roles as the year progressed. Having seen a much more stable operating environment and a strong recovery in the housing market since the early days of the pandemic, we decided that it would be appropriate to return the Job Retention Scheme funds we had claimed, in full, to the Government, to the sum of around £600,000.

As a result of the Covid-19 pandemic changes to working locations, the majority of the Society's head office workforce has been working from home this year, with only a small number of colleagues working in Portland House and Cobalt Park. We intend to vacate our City Centre Portland House building and to make our extensive 100,000 square foot office space at Cobalt Park our main home while we complete a strategic property review. This will include consideration of new and upcoming commercial property developments in Newcastle City Centre, along with new ways of working, informed by colleague preferences and work life balance aspirations.

As part of a continuous conversation with colleagues via our Colleague Voice survey tool, we have also introduced a Colleague Insight Forum which will help provide additional layers of feedback and will be used to guide and shape a range of decisions.

Our focus on mental and physical colleague wellbeing continues and we are pleased to see how many of our colleagues are engaging with the various programmes and initiatives underway designed to help us manage the challenges we may face.

Colleague wellbeing has been a consistent focus through the year. An additional day of holiday over the Christmas period and a 2021 special birthday day off were some of a number of wellbeing measures introduced across the Society.

Although the Society will not be paying any performance related colleague or Executive bonuses this year, in recognition of the challenges that 2020 has posed and the outstanding response of colleagues, we have made a three per cent colleague recognition payment as thanks. This payment does not apply to Executives.

A core part of our early talent programme is our apprenticeship programme. We continue to welcome apprentices into the Society across a range of functions and were thrilled to be rated in the top 20 of Rate My Apprentice Top 100 Employers (and to be rated first in financial services).

We've been working with Common purpose to support their Young Leader programmes by speaking at events and have had 21 of our own young people participate in the young leader programmes, which were delivered virtually this year.

Investing in technology, helping our clients succeed

Maintaining essential financial services during Covid-19, while keeping our colleagues safe, necessitated a significant change in working practices as all but around 200 colleagues moved to work remotely, from home. Revolutionising our working environments while maintaining great service for our customers and clients is a tribute to the hard work, flexibility, and personal commitment of colleagues, our operational resilience team and our Newcastle Strategic Solutions subsidiary IT teams.

Using the convenience and speed of modern digital technologies plays a vital role in enriching the face to face experiences and deepening the personal relationships that we build with our Society customers.

This was enhanced by the introduction in 2020 of a mobile savings app which allows customers to check their online savings accounts whilst on the go. The app features easy-to-access balance and transaction information and uses secure cloud and biometric technology to allow customers to access their account information quickly and safely.

The app has proved highly successful with Society savers, and a number of Solutions clients are in turn making it available to their own savings customers.

The Solutions subsidiary has continued to make a solid contribution to group profits, and helped its clients win recognition for savings service with 21 national awards this year, alongside welcoming two new SME-focused challengers as clients, Recognise Bank and B-North.

Through the Solutions subsidiary, the Society continues to invest significantly in cyber security, IT infrastructure, and to provide a regional focus and fertile technology skills hub providing career opportunity to grow the region's dominance of this area.

Summary and look ahead

2020 has been a year unlike any other but in many ways has served to underline the importance of our purpose, to connect our communities with a better financial future.

Our purpose has been an anchor point and a focus, both of which have helped us to steer through these uncertain times.

We aspire to exit this period of crisis and recovery in a stronger position than we might have expected to achieve without this experience – even closer to our customers and moving forward with purpose and momentum. We recognise that this will not be without challenge and will require a need for caution in a period of severe economic stress and facing the broader impact of the Covid-19 pandemic

We will be even more aligned to our purpose-led strategy, better serving our customers and communities. We will continue to invest in our technology and our people, who have inspired us in the past year with their dedication and resilience, in getting the job done to ensure the needs of our customers and clients are met.

Perhaps more than ever, through these most difficult days, we have come to recognise just how much we value interaction with other humans and just how powerful the concept of a mutual business can be. We will therefore, continue to strive in the years ahead to be not only technologically enabled, but be more, not less human; closer and more connected with our communities, our colleagues, our clients and most importantly of all, our customers.

Andrew Haigh
Chief Executive
4 March 2021

Strategic Report

The Directors present their Strategic Report on the Group for the year ended 31 December 2020.

Newcastle Building Society is the largest building society based in the North East of England with assets of £4.9 billion. 2020 has demonstrated the resilience of our core operating model and in a year that has seen Covid-19 affect so many businesses, the Society has performed exceptionally well. Despite the negative impact caused by Covid-19 to the economic environment we have; maintained operating profit before impairments and provisions in line with 2019, strong capital ratios, robust liquidity ratios and reflecting the profoundly negative yet unpredictable nature of Covid-19 on the economic environment we set aside additional provisions against our current mortgage book as well as on our legacy mortgaged portfolios.

Purpose

Our purpose "Connecting our communities with a better financial future" is underpinned by five pillars which define what we do.

OUR PURPOSE

Connecting our communities with a better financial future.

WHAT WE DO

- Helping people own their home, save and plan their finances
- Building lasting, authentic relationships with customers
- Being a great place to work, where people can realise their potential
- Helping our communities make positive changes
- Helping clients and partners succeed

Our business model and strategy

Our business model is derived from how we believe a modern, regional building society should operate. We attract savings balances by offering our customers fair and consistent rates over the long-term and we offer fairly priced mortgages on residential property to customers whom we believe will be well placed to repay their loan. As such, we meet our customers' needs to save and to own their own home. In addition, we offer financial planning in all our branches, which helps our customers to plan their finances for the long term, while strengthening the trust and bond between us.

We bring scale and a diversified income stream to the Group by taking one of our core skills, savings management, and offering that as a service to other banks and building societies.

As a regional building society, we are particularly focused on supporting the communities of our region, which we define as the North East of England, North Yorkshire and Cumbria. As a customer-owned business, we are clear how being truly led by our purpose of 'connecting our communities with a better financial future' means that we can deliver a unique and sustainable business to benefit both our region and our customers for the long-term.

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

Our strategy is built around four themes:

Being truly purpose-led in our approach to strategy and developing the business.

Building our brand through our communities, recognising that our success relies on the reputation we build with our customers and the difference we make for the communities we serve across our region.

Growing the scale and efficiency of the business, increasing our impact and the long-term sustainability of our operations.

Fostering mutual advocacy, whereby our customers genuinely value the services we provide and the contribution we make to their community and region; they actively participate in the Society and become our biggest advocates, encouraging others to become part of our Society.

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

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

Impact of Covid-19 on Strategy

Covid-19 created an environment where it was necessary to reflect on and challenge our strategy. Whilst the personal impact as well as the national and global impact of this virus has been unfathomable, our strategy and resilient business has withstood this unpredictable external force. Furthermore, we believe Covid-19 has strengthened our conviction and in some cases accelerated our strategic plans.

The financial impact of Covid-19 during 2020 on our operating profit as well as our profit before tax is outlined later; the final reported results reflect the core strength of our business model.

Group Structure

At our core, we remain a straightforward saving, lending and advice business putting Members at the heart of what we do. As well as providing mortgage and savings accounts to our Members, we also provide a number of other related services, including regulated financial advice for investments through our subsidiary Newcastle Financial Advisers Limited; an Appointed Representative of Openwork LLP. We also provide insurance products including home and contents insurance through our partner Legal & General Group PLC.

Newcastle Strategic Solutions

Newcastle Strategic Solutions, our savings management and IT subsidiary, has been managing savings accounts on behalf of some of the UK's leading savings providers since 2004. Newcastle Strategic Solutions purpose links directly to the overall Group's purpose and the pillar "we help our clients and partners succeed through our excellent products and services" and this plays a key role in the Society's financial model.

We support UK banks and building societies looking to launch and grow their savings operations, or transform the management of their existing portfolio. Our powerful systems are built to provide a secure online savings platform.

Supporting the full range of personal savings products, we continually invest in our technology to future-proof our solution so it will grow with the changing demands of UK savers. Our internet banking platform provides a fully automated account opening process, allowing accounts to be opened in minutes.

Our Solutions ambition will see us continuing to leverage the significant investment in core technology and the underlying quality of service through expansion of the number of clients and proposition offered to existing clients.

Newcastle Financial Advisers

Newcastle Financial Advisers, our financial advice subsidiary, provides Members with access to trusted financial advice, something we believe everyone deserves.

Newcastle Financial Advisers continues to affirm its position on the high street along with its reach in the community providing experienced advice in these challenging economic times. Continuing a strategy for growth and a desire to increase the local accessibility of financial advice, ahead of the virus lockdown Newcastle Financial Advisers acquired Carter James, a North Yorkshire financial advice firm. Due to the Covid-19 pandemic Newcastle Financial Advisers introduced a telephone and video financial advice service so that they could continue to provide financial advice in a Covid-19 secure setting.

Financial Performance

The Chief Executive's review details the Society's performance and success throughout 2020 and should be read in conjunction with this report. The Strategic Report outlines the financial performance of the Society over 2020.

Key Performance Indicators

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

Key Performance Indicators

Non Financial Measures	2020	2019
Customer satisfaction	95%	95%
Customer NPS	78	76
Colleague turnover	7.5%	10.1%
Colleague eNPS	45	26
Financial - Profitability		
Operating profit	£16.4m	£16.3m
Net interest margin	0.87%	0.91%
Cost to income ratio	79%	78%
Financial - Balance Sheet		
Common Equity Tier 1 ratio	14.1%	13.9%
Leverage ratio	4.4%	4.7%
Liquidity coverage ratio	226%	179%
Gross lending	£645m	£931m

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

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

Customers

A key part of our strategy is delivering outstanding levels of service and building authentic long lasting relationships with our Members. Our Voice of the Customer programme helps us to do this by providing daily, real-time feedback from our customers, helping us to continue to develop and improve the service we deliver. In 2020 we received almost 20,000 responses from our customers across all our channels including the branch network, mortgage operations, mortgage intermediaries and our financial advice subsidiary, Newcastle Financial Advisers Limited. The feedback has been particularly invaluable this year as it helped us to change and adapt our processes in response to the conditions imposed by the global pandemic.

In 2020, despite all the challenges we all encountered, our Net Promoter Score (which measures the loyalty of our customer relationships) grew from 76 in 2019 to 78 and we maintained our exceptionally high customer satisfaction score at 95%, something we are very proud of.

To ensure we continue to develop the service we provide we have commenced a number of new strategic projects. Examples are the transformation of our website and an end to end review of our mortgage journeys where we have invited our own customers to provide valuable input in to their recent experiences.

We are always looking for new ways to engage with our Members and involve them in the development of our products and services. In December we started the development of a new customer panel where customers will be able to have their say and participate in lively discussions and polls. We will be sharing more details on this and how to get involved during 2021.

Colleagues

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

Our people strategy focuses on providing an immediate, on-going and long-term framework for engaging, developing and managing our people, creating an inspiring place for people to work and be able to achieve their full potential whilst delivering the Society's ambitions with key objectives as follows:-

- Developing high quality leadership and management;
- Developing individual and collective performance;
- Attracting, recruiting and retaining talent; and
- Developing colleague communications and engagement.

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

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

Every month colleagues' collective feedback along with examples of the positive impact their feedback has is shared via our on-line Colleague Voice booklet, business area communications and team meetings.

eNPS is our strategic people metric and enables us to benchmark ourselves against the financial services sector and the very best employers across the industry. Our colleague eNPS score for 2020 was +45, well ahead of the financial services average of +16.

Our eNPS increased by +19 over the course of the year and our Colleague Voice survey played a critical role, enabling us to ask colleagues the right questions in order to understand their challenges, establish their needs and put the right support mechanisms in place during this unprecedented time.

We were also awarded platinum status through Investors In People this year- an accolade few employers reach and our assessor gave much positive praise about our approach to wellbeing and the shift we've seen over the last 3 years since our last assessment.

An annual pay review for all colleagues takes place on 1 April and the Group operates a discretionary Corporate Bonus Scheme for all colleagues based on performance as measured by the delivery of KPIs linked to the Group's strategic objectives.

The Corporate Bonus Scheme was withdrawn in 2020 due to the economic uncertainty created by the Covid-19 pandemic. The Scheme will be reintroduced for the performance year 2021. Whilst no corporate bonus payment was made to colleagues in respect of 2020 performance, a recognition payment was made to all colleagues to reward the commitment, resilience and contribution made by colleagues during what has been an extremely challenging year. The total recognition payment paid was less than bonuses would have been. Recognition awards were not made to Executive Directors and other Executives.

Unite has negotiating rights on behalf of all colleagues up to and including senior management level. The 2020 pay rise for all colleagues ranged from 0% to 12%, with an average 3% received by all colleagues.

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.

Our Diversity and Inclusion Committee was formed in 2019 and is made up of volunteers from a diverse cross section of colleagues from across the business. The Committee is responsible for:

- Challenging and validating the Society's Diversity & Inclusion;
- Providing diversity of thought and innovative ideas to help drive the Diversity & Inclusion strategy;
- Actively championing and role modelling the Diversity & Inclusion agenda and taking responsibility for fostering diversity, equality, inclusive practices and organisational and cultural change; and
- Providing stakeholder insight and appropriate challenge/governance to support decision making.

During 2020 the Diversity and Inclusion Committee have continued to raise awareness and education around key diversity and inclusion topics such as race, disability, gender and LGBTQ. We have established a 2021 diversity and inclusion calendar to broaden the topics we raise awareness on and celebrate dates that are meaningful to our colleagues and communities.

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

As part of our involvement, we have stated our commitment to achieve a 40% female representation across senior management (which includes our Board, Executive Committee and Executive direct reports) by 2023. Our current figure is 38%.

This is part of a package of measures we will implement designed to improve gender diversity across senior levels of our organisation. A number of initiatives have been underway across our Society since 2019 to deliver on gender diversity improvement, including our Women in Leadership Working Group work with the Employers' Network for Equality & Inclusion, and work supporting Women onto Boards.

We want everyone to experience that their potential is not in any way limited by their background, gender, age, race, disability, religion or sexual identity. Our focus is on ensuring this is the case for all our colleagues in our Society.

The Board also has an approved diversity policy. The gender diversity statistics for the Group at 31 December 2020 are as follows:

	Female		Male	
	2020	2019	2020	2019
Directors	17%	17%	83%	83%
Senior Managers	45%	49%	55%	51%
Managers	41%	41%	59%	59%
Colleagues	68%	67%	32%	33%
Overall	**61%**	**61%**	**39%**	**39%**

Colleague turnover is as an important reflection of the success of our colleague agenda. The Group colleague turnover rate improved to 7.5% in 2020 from 10.1% in 2019.

Colleague Turnover

The Group has a Health and Safety Committee which facilitates regular consultation with colleagues on specific health and safety matters. The purpose of the Committee is to provide a forum for representative colleagues to help ensure that the Group has taken all reasonable and practicable steps to maintain a safe and healthy working environment in line with statutory requirements.

The Committee reviews the overall operation of the Group's Health and Safety Policy, including the content of employee health and safety training and discusses health and safety performance, challenges and future priorities.

We recognised the importance of colleague wellbeing through 2020 and put significant effort into ensuring our colleagues could prioritise their wellbeing. Keeping colleague's safe, communicating regularly and emphasising the support available was our number one priority.

We held five wellbeing campaigns around physical, mental and financial wellbeing and also delivered an extra wellbeing campaign over and above what we had set out to do. We took steps to ensure we had Covid-19 secure practices so colleagues could work safely, completely revamped our wellbeing intranet pages, created wellbeing specific communications and included wellbeing focussed questions in our engagement survey.

Mental health has been a huge focus for us through 2020 and alongside our targeted campaigns we created internal and external training for all managers on mental health, recruited more Health and Wellbeing Advocates, recruited and trained more Mental Health First Aiders and increased the regular communications emphasising the importance of mental health and the support available.

While we have done much to support our colleagues and in particular, focus on our Covid-19 secure practices, we listened to feedback around how the current working environment has impacted on colleagues. In December 2020 we launched new Wellbeing Principles to ensure our colleagues were encouraged to promote a work/life balance, prioritising their wellbeing. We also created and launched our Action Plan to support Colleagues Health and Wellbeing to support regular wellbeing focussed conversations and we're looking to incorporate wellbeing coaching questions in our performance management framework which is built on the ethos of frequent, simple and meaningful conversation promoting honest and empowering conversations where people can seek support and own their performance and development.

Financial Profitability

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

Summary Group Income Statement	2020 £m	2019 £m
Net interest income	40.2	36.9
Other income and charges	39.0	37.5
Total operating income	**79.2**	**74.4**
Administrative Expenses	(57.9)	(53.9)
Depreciation	(4.9)	(4.2)
Operating profit before impairments and provisions	**16.4**	**16.3**
Impairment charges on loans and advances to customers	(10.5)	(1.5)
Impairment charges on property and equipment	(3.8)	-
Provision for liabilities and charges	(0.1)	(0.1)
Profit for the year before taxation	**2.0**	**14.7**

Profit for the year before taxation was £2.0m in 2020, a decrease of £12.7m in comparison to £14.7m in 2019, this reflects the significant increase to impairments and provisions in 2020 due to the uncertain economic environment. Operating profit before impairments and provisions remained stable at £16.4m in 2020, (2019: £16.3m), demonstrating the core strength of the Group's operating model. Total operating income increased by £4.8m or 6%, whilst due to the investment into the business, administration expenses also increased by £4.0m or 7%. Operating profit before impairments and provisions is considered an important reflection of the operating strength of the Group's business. It is difficult to quantify the full impact the Covid-19 pandemic has had on the Society. Operating costs include £1m of additional costs associated with reacting to the pandemic.

Segmental information is available in note 9 and details the Member business and Solutions business segments.

Net Interest Margin

Net interest income increased by £3.3m to £40.2m reflecting increased mortgage lending and the impact of rises in LIBOR coupled with the ongoing benefit of reduced funding. The lower margin is driven by a bigger fall in blended mortgage yields than the fall in savings rates, this reflects the competitive nature of the mortgage market over the past few years and the reductions in the Bank of England base rate as well as the strength of our savings franchise. Our net interest margin was 0.87% (2019: 0.91%). The high level of uncertainty in the next few years, as the longer term market impacts of Covid-19 become clearer, may mean that we see a degree of volatility in this measure due to spread compression.

Net Interest Margin

Net interest margin is a relative measure of the Group's net interest income (as disclosed in the Income Statements) – the difference between interest received on assets and interest paid on liabilities – divided by the Group's average total assets during the year.

Other Income and Charges

Other income and charges increased by £1.5m to £39.0m in 2020 from £37.5m in 2019. Income from Newcastle Strategic Solutions Limited includes income generated from balances under management of Solution clients. Income from Newcastle Financial Advisers Limited (NFAL) was up £0.1m compared to the period ended 2019.

Administrative Expenses and Depreciation

Administrative expenses increased by £4.0m or 7% from £53.9m to £57.9m in 2020, with depreciation expenses increasing from £4.2m to £4.9m. Overall management expenses (the sum of administrative expenditure and depreciation) increased to £62.8m from £58.1m reflecting the Group's response to the Covid-19 pandemic, investment in colleagues and our technology infrastructure.

The Group incurred £1.0m of additional administration costs in respect of unplanned Covid-19 related costs. These costs included ensuring all colleagues were provided with the necessary personal protection equipment, adapting our branches and office space to be Covid-19 secure for our colleagues and customers. We also provided extra payments to colleagues who remained in office during the first stages of the pandemic and gave all colleagues working from home a grant to enable them to purchase office furniture.

Information technology is a cornerstone of any business and investment ensures our core platforms are at a leading level to provide security of data and enhanced resilience.

The Board considers the cost to income ratio to be a simple measure of financial progress against internal targets and the return achieved on investment in the business. The cost to income ratio was 79% in 2020 (2019: 78%).

The cost to income ratio reflects costs deemed to be under the control of management (administrative expenses plus depreciation as disclosed in the Income Statements) divided by total operating income, as similarly presented. Management assess the ratio as a measure of operating efficiency and continue to look for ways to improve this metric.

Cost to Income Ratio

Impairment charges

Covid-19 has had a severe impact on the economic activity in the UK and worldwide, with the pandemic's full economic impact still difficult to forecast. The Covid-19 pandemic has the potential to affect our borrowers and the ability to make their mortgage payments.

The impairment charges for loans and advances to customers was £10.5m in 2020 (2019: £1.5m).

The majority of the increase in the provision reflects the economic uncertainty of the impact of Covid-19. £2.2m of the impairment charges relate to the core residential book and £8.3m relates to the legacy residential book.

Impairment charges on property and equipment was £3.8m in 2020 (2019: nil) and relates to the Group's former head office, Portland House.

Provisions for Liabilities and Charges

Provision for liabilities and charges was £0.1m in 2020 (2019: £0.1m) comparable with the prior year and reflects ongoing business restructures.

Taxation

The Group shows an effective corporation tax rate of 30% in 2020. The tax charge reflects both tax payable against 2020's profitable operations and a reduction in the deferred tax asset carried on the balance sheet. The effective rate paid in the current year is higher than the statutory rate of 19% due to differences in timing of when charges are recognised for accounting and tax purposes. In addition, there was a net £0.2m adjustment in respect of prior year items.

Balance Sheet

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

	2020 £m	2019 £m
Assets		
Liquid assets	1,109.7	862.5
Derivative financial instruments	-	0.1
Loans and advances to customers	3,477.9	3,295.1
Fair value adjustments for hedged risk	214.3	186.6
Intangible assets	5.7	2.5
Property, plant and equipment	34.8	46.2
Non-current assets available for sale	4.9	-
Other assets	17.0	19.1
Total Assets	**4,864.3**	**4,412.1**
Liabilities		
Shares	3,776.3	3,400.9
Deposits and debt securities	628.0	579.4
Derivative financial instruments	214.3	185.9
Other liabilities	18.2	20.1
Subscribed capital	20.0	20.0
Reserves	207.5	205.8
Total Liabilities	**4,864.3**	**4,412.1**

Liquid Assets

The Society has continued to maintain a level of high quality liquid assets throughout 2020. The Society's liquid assets comprise of assets held in cash or that can be easily convertible to cash through treasury markets (repo) or via the various Bank of England liquidity schemes. All of the liquid assets are placed with AAA rated UK Institutions with the exception of Gilts and deposits with the Bank of England which carry the UK Sovereign rating of AA+.

Asset Class	2020 %	2019 %
Cash in hand and balances with the Bank of England	55.4	33.6
Covered bonds	17.3	26.4
Residential mortgage backed securities	18.8	22.9
Other	3.8	9.2
Gilts	4.7	7.9
	100.0	**100.0**

As mentioned the Society has access to the Bank of England liquidity schemes and has pre-positioned mortgage collateral and asset backed securities that provide funding as part of business as usual and contingency funding plans. The statutory liquidity percentage (liquid assets as a percentage of Shares, Deposits and Liabilities) reported at 31 December 2020 was 25.2% compared to 21.7% in 2019.

Cash liquidity was 19.1% compared to 15.8% at the previous year end. This is in excess of the Society's minimum operating level. The Liquidity Coverage Ratio (LCR) measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30 day stress period. The LCR as at 31 December 2020 was 226% comfortably in excess of the minimum regulatory limit of 100%.

Loans and Advances to Customers

The Society's strategy to grow prime residential mortgage business whilst winding down legacy portfolios continued during 2020.

Loan Portfolios	2020	2019	Movement in year
	£m	£m	%
Core Lending			
Prime Residential	2,497	2,326	7
Retail BTL <£1m	352	295	19
Legacy Lending			
Equity Release	182	187	(3)
Specialist Residential	32	38	(2)
Housing Associations	381	397	(4)
Commercial	22	30	(27)
Other	28	27	(15)
	3,494	**3,300**	**6**
Provisions	(16)	(5)	
	3,478	**3,295**	
Average LTV%	65.3	65.2	

The net increase in loans and advances to customers after provisions was £183m overall in 2020, this includes a net £228m increase in our core lending of which £57m was on buy to let properties to individuals. Average LTV increased during the year to 65.3%, as an expected consequence of purposefully offering more products aimed at first time buyers and younger homeowners. The Society does not offer new lending to professional landlords or undertake buy-to-let lending to corporates.

The Group's lending is all secured with a first charge registered against the collateral property. Core and legacy residential loans are shown at indexed loan to value using the quarterly regional Halifax House Price Indices, all other loans are shown without indexing. Further information on security loan to value is provided in Note 43, credit quality.

Mortgage Credit Quality

Arrears

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

Arrears Performance

3 months or more arrears

	By number of loans		By balance	
	2020	2019	2020	2019
	%	%	%	%
Core lending	0.38	0.36	0.34	0.28
Legacy lending	0.14	0.04	-	0.74
Total	**0.36**	**0.33**	**0.28**	**0.38**

The percentage of mortgages in arrears by 3 months or more remains at low levels for 2020. Overall by number of loans arrears we have seen an increase of 3bp to 0.36%, and by balance we have seen an decrease of 10bp to 0.28%.

Significant support by the Government, regulators and the Bank of England as a response to Covid-19 have supported the economy and the mortgage market. These measures together with measures taken by banks and building societies, such as payment holidays, have resulted in increases in HPI, low levels of arrears and less severe increases in unemployment. The effect of unwinding these measures on default rates, HPI, unemployment, GDP and other relevant factors is yet unknown. The provisioning models assume that these measures will exhibit a significant level of stress in the medium term future. However, the risk remains that the effect may be more pronounced than anticipated.

Forbearance

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

The Government announced a financial support package in response to Covid-19 for people who were unable to pay their mortgage payment. The Society has supported 4,687 borrowers struggling to pay their mortgages with payment holidays. Most payment holidays had ended before the year end, with only 313 customers still on a payment holiday as at 31 December 2020.

Law of Property Act Receiverships and Possessions

The Society continued to experience a low level of possessions on residential loans and Law of Property Act receiver appointments. At the end of 2020 the Society had 2 possession properties in relation to owner occupied loans and there were 2 exposures in relation to legacy loans being managed by a Law of Property Act receiver.

Funding

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

Retail savings balances increased by £375m during 2020 to £3.8bn. Wholesale funding, including drawdown on Bank of England Funding Schemes, also increased during the year by £49m. This increase in retail balances has resulted in the ratio of shares and deposits to wholesale balances moving from 85%/15% in 2019 to 86%/14% in 2020.

Capital

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

Capital	2020	2019
	£m	£m
Tier 1 Capital		
Common Equity Tier 1 Capital	211.1	201.6
Additional Tier 1	4.0	6.0
	215.1	207.6
Tier 2 Capital		
Tier 2 Capital	16.0	14.0
Collective Impairment Allowance	0.2	0.4
	16.2	14.4
Total Capital	231.3	222.0
Risk Weighted Assets		
Liquid Assets	43.0	47.4
Loans and Advances to Customers	1,258.1	1,213.6
Other Assets	60.7	65.8
Off Balance Sheet	22.6	21.1
Operational Risk	109.7	98.9
	1,494.1	1,446.8
Capital Ratios	**%**	**%**
Common Equity Tier 1 Ratio	14.1	13.9
Tier 1 Ratio	14.4	14.3
Total Capital Ratio	15.5	15.3
Leverage Ratio	4.4	4.7

The Group complied with Individual Capital Guidance plus capital buffers, as notified by the Prudential Regulation Authority, throughout 2020. The total capital ratio was 15.5% (2019: 15.3%); Tier 1, and more importantly Common Equity Tier 1, which offers the greatest protection to Members' funds in the unlikely event of unforeseen financial stress; were 14.4% and 14.1%, respectively in 2020.

The leverage ratio is a simplified capital strength ratio measuring qualifying tier 1 capital against on and off balance sheet assets. The Board monitors the leverage ratio on a monthly basis and as at 31 December 2020 the figure was 4.4% (2019: 4.7%). This is, and has remained throughout 2020, well in excess of the regulatory target of 3%.

The Group holds capital, primarily though accumulated reserves, to protect itself against the risk inherent in the running of a building society: primarily credit risk inherent in mortgage lending, liquidity investment, operational risk and the ability to realise other balance sheet assets ultimately into cash.

The Group's total capital requirement/individual capital guidance is communicated annually by the Prudential Regulation Authority and consists of minimum regulatory capital requirements (Pillar 1) plus additional, Society specific capital requirements for credit, market, operational, counterparty, credit concentration, interest rate and pension obligation risk (Pillar 2A). The Group's total capital requirement at 31 December 2020 was £177.5m. Further details on the Group's capital position including the transitional impact of Basel III is given in the Pillar III disclosures available on the Society's website.

Principal Risks and Uncertainties

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

Outlook

The pandemic has profoundly shaped 2020 and continues to negatively impact the UK economy and housing market. Whilst the proposed path out of this economic suppression has recently been outlined by the UK government, the long term reshaping of consumer behaviours and preferences has yet to be determined.

Whilst there has rarely been more predictive economic uncertainty, we believe that through our business diversity and purposeful core, the Group is very well poised to continue to build on our strength and as such support our regional Members and UK wide customer base connect to a better financial future in 2021 and beyond.

D Samper

On behalf of the Board
David Samper
Chief Financial Officer
4 March 2021

Newcastle United Foundation

This year our strategic purpose and focus on our communities became more relevant and important than ever and in 2020 we committed more than £1.5m to our communities, targeting support at the people across our region who need it most.

Newcastle Building Society Community Fund at the Community Foundation

If you would like to nominate a cause local to you and to our branch network, visit your local branch for more information or go to our website newcastle.co.uk/community

Early in the Covid-19 crisis we moved quickly to provide a £100,000 donation to help launch the North East region's Coronavirus Response and Recovery Fund delivered through the Community Foundation Tyne & Wear and Northumberland. The fund grew to over £1m, and funding was distributed to more than 150 groups working with elderly, disabled people, people who are homeless, those in food poverty, and BAME communities across Tyne & Wear and Northumberland.

Working with the Community Foundation we also distributed a further £273,000 of grant support through the Newcastle Building Society Community Fund. During the national lockdown in spring we modified our normal grant nomination process to allow us to direct funds to charities in the region supporting people most impacted by the pandemic. This meant focusing on five key areas: cancer support services, hospice care, the elderly and/or isolated people, those vulnerably housed, and those experiencing food poverty.

Our longstanding partnerships with both The Prince's Trust and the Sir Bobby Robson Foundation continued in 2020 and we provided funding of £28,000 and £50,000 respectively through our Community Fund. 2020 also marked a grants milestone. Since we launched and made our first community grant donations in September 2016, we have delivered £1m in grants to charities and community groups across the North East, Cumbria and North Yorkshire.

But this financial support of regional charities is only one part of our story in 2020 as we responded to the pandemic and used our Purpose to deliver differently. We worked closely with our partners to deliver focused and practical support where it was most needed, including the start of an exciting new partnership with Newcastle United Foundation. Here you will find just a selection of the partnerships and grants we made in 2020 as we played our role in driving our region's recovery.

Supporting our communities

Continued

Newcastle United Foundation

We announced a six-year, £1.1m commitment to partner with Newcastle United Foundation. The Foundation work with 50,000 people in our region each year and we're proud to support the development of their new home: NUCASTLE powered by Newcastle Building Society is due to open in early 2022. During the autumn, we delivered a remote employability programme to 18 young people and welcomed participants with a special hamper.

Working with Nursem to help colleagues and the NHS

We worked with Newcastle-based manufacturer Nursem to supply their restorative hand cream to our branch and office-based colleagues suffering from the drying effects of continuous use of sanitiser. And as a way of showing our gratitude to the NHS, we partnered with Nursem to make a joint donation of a month's supply of hand cream to every nurse and clinician across the Northumberland NHS Healthcare Trust; benefitting 7,500 doctors and nurses locally.

Colleague volunteering through onHand

Colleague volunteering is fundamental to our support for local communities, but the pandemic means opportunities to deliver safely are limited. Working with tech for good company onHand, and the National Innovation Centre for Ageing, we're piloting the use of a mobile app for volunteering allowing colleagues to safely provide help to older or isolating adults. So far around 500 tasks have been completed by our colleague volunteers, helping with tasks such as shopping, gardening and companionship.

Helping cancer support charities

Fighting All Cancers Together (FACT) were one of six cancer support charities in the region who received grants of £3,000 to help them continue their essential work with cancer patients and their families. Faced with financial uncertainty caused by a fall in fundraising activity and opportunity, many cancer care charities have been investing in new technology and reimagining the way they provide services to meet their clients' particular social, mental, physical and emotional needs.

Support for hospices

Grants totalling £46,000 were made to ten hospices to help them manage the financial pressures brought on by the pandemic and help them continue to provide the services they deliver to thousands of people around the region every year. The charities, which include Marie Curie Hospice in Elswick and St Oswald's Hospice in Gosforth, received grants of between £3,000 and £5,000 to support their work with adults and children with life-limiting conditions.

Helping those facing housing poverty

Seven charities working with people experiencing housing poverty received a total of £25,000 in grant funding. Carlisle Key received two grants in 2020, totalling £6,537 in support of their work to assist young people in Cumbria facing homelessness. During the year, the charity have supported around 300 people who are homeless or at risk of homelessness by giving them the knowledge, support and confidence they need to go on and live independently.

Charities supporting elderly or isolated people

In November, £18,000 of grants were made to five charities supporting elderly or isolated people in our communities, who have needed to adapt their activities to connect with service users during the pandemic. This includes Stokesley & District Community Care Association who thanks to a network of 200 local volunteers offer a wide range of services to older people living in the villages within a 15 mile radius of the North Yorkshire town.

Addressing food poverty

£26,000 of grant funding was made to six charities tackling food poverty. This included Wansbeck Valley Food Bank, who provide food aid to people in need in the communities surrounding Ashington, Newbiggin, Pegswood, Lynemouth and Morpeth. In 2020 the charity had their busiest year ever, providing more than 28,000 food parcels and we provided them with two grants during the year worth a total of £7,000 to help cover the cost of buying and distributing food.

It is becoming more and more important for us as a Society to understand the impact our operations are having on the environment, so we can support the future generations of the communities we operate in. The Society is committed to incorporating environmental sustainability into its core business and community activities.

The progress that the Society has made over 2020 includes:

The Society's Chief Risk Officer has been assigned responsibility by the Executive Committee as the Executive responsible for the Group's response to the impact of climate change and the integration of environmental and sustainability principles and practices across the Group.

We established an Environmental and Sustainability Committee to promote and coordinate the development and implementation of environmental and sustainability initiatives across the Group.

The responsibilities of the committee are:

- Discussing and reviewing the further development and impact of environmental sustainability on all aspects of the Group including community, colleagues, partners, suppliers and consultants, operations, facilities and commercial activities;
- Assessing the carbon footprint of the Group;
- Developing a road map, incorporating key work streams including the impact of environmental sustainability on the Group and assessing the Group's carbon footprint;
- To stand up and supervise an environmental and sustainability working group;
- Developing and coordinating communication strategies to effectively promote and engage the Newcastle Building Society community around sustainability, including via social media and the Newcastle Building Society web-site;
- Advising on the development and implementation of cultural change programmes to embed sustainability consistently into the activities of Newcastle Building Society; and
- To engage and communicate with key stakeholders to understand strategic goals and how sustainability issues will impact and become part of our decision making process.

The Committee has direct accountability to the Group's Executive Committee.

The Group's environmental impact

The Directors recognise the impact climate change is expected to have on the world, affecting our future generations and in particular on the communities we serve. The Group therefore aims to minimise pollution and greenhouse gas emissions.

The table provides details of the Group's energy consumption and CO2 emissions.

	Consumption kWh	CO_2 emission tCO_{2e}
Natural gas and oil	1,576,579	289.886
Electricity	3,405,973	794.069
Transportation	169,221	39.769
Total	**5,151,773**	**1123.724**

The total CO_2 emission equated to 5.2kg per square foot.

Consumption and emission data has been calculated in line with the 2019 UK governmental reporting guidance, using the Emission Factor Database 2020. Estimations undertaken to cover missing billing periods were calculated on a kWh/day pro-rata basis at meter level.

The annual quantity of global emissions, in tonnes of carbon dioxide equivalent, from activities for which the Group is responsible, including the combustion of fuel and the operation of any facility (direct scope 1 emissions).

Business risks arising from Climate Change

The Group also assesses regularly the risks resulting from environmental and climate changes on its business. These are further discussed in the Risk Report.

On behalf of the Board
David Samper
Chief Financial Officer
4 March 2021

Key Responsibilities of the committee

Discussing and reviewing the further development and impact of environmental sustainability on all aspects of the Group including community, colleagues, partners, suppliers and consultants, operations, facilities and commercial activities;

Developing and coordinating communication strategies to effectively promote and engage the Newcastle Building Society community around sustainability, including via social media and the Newcastle Building Society web-site;

Assessing the carbon footprint of the Group;

Advising on the development and implementation of cultural change programmes to embed sustainability consistently into the activities of Newcastle Building Society; and

Developing a road map, incorporating key work streams including the impact of environmental sustainability on the Group and assessing the Group's carbon footprint;

To engage and communicate with key stakeholders to understand strategic goals and how sustainability issues will impact and become part of our decision making process.

To stand up and supervise an environmental and sustainability working group;

Our Directors

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, and has more than 30 years' business experience, including over 20 years in the mutual sector. He has held financial services leadership roles as both an Executive and a Non-Executive Director, bringing a depth of consumer understanding developed from a variety of sectors including the financial, motor and airline industries.

A proven Chief Executive, Andrew has particular strength in building effective leadership teams and organisations with healthy cultures. His sound experience and customer focus has seen him guide the long term growth and innovation of brands through clearly defined, purpose led strategies.

Andrew is a strong advocate for the role of mutuals in the financial services sector and appreciates the balance between delivering profitability and meaningful Member value.

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 is a Board member of the Community Foundation serving Tyne & Wear and Northumberland, a Director of the North East England Chamber of Commerce and a Vice President of the Chamber Council, and Chairman of the Northern Association of Building Societies.

David Samper
Chief Financial Officer

David joined the Society in 2018 as Chief Financial Officer.

An accomplished strategic leader with over 20 years' experience as a Chartered Accountant, David has a fundamental knowledge of the issues impacting the long term commercial sustainability of our business model, balance sheet and profitability.

He understands the financial services sector exceptionally well and has valuable experience in managing financial performance across both large and medium sized financial organisations in the UK and abroad. He brings a different perspective to his team and the Board, gained from his international business experience. David's career has also encompassed multiple system migrations, complementing the knowledge and expertise of our growing Solutions business.

David has held senior roles across a number of organisations, including RBS, Ulster Bank, and at Sainsbury's Bank as its interim Chief Financial Officer. He has led complex acquisitions and driven transformational change, whilst consistently delivering core commercial outperformance.

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

Stuart Miller
Customer Director

Stuart became Customer Director for the Society in 2018. He is an Associate of the Chartered Institute of Bankers and holds the Customer Experience Professionals Association qualification for senior business leaders. Stuart is a Director of Newcastle Financial Advisers Limited and sits on the board of the national High Streets Task Force.

Stuart brings extensive experience of regulated sales across mortgages, savings and financial advice. This ensures the Society delivers a great experience and outcomes for customers and the right conduct and culture amongst colleagues.

Amongst his areas of expertise are developing customer experience strategies and Voice of Customer programmes, which are critical to acquiring, retaining and growing the Society's customer base.

His broad experience in managing and inspiring large teams of colleagues is critical to the Society's work to connect its people to its strategy and purpose and contribute to making the Society a great place to work.

Stuart has more than three decades' customer service experience in the financial services sector, including with Virgin Money, RBS International, and NatWest. He is responsible for ensuring Newcastle Building Society Members receive a stand out experience, whether across its branch network, via telephone or online.

Phil Moorhouse
Chairman

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

He is the Chairman of Newcastle Strategic Solutions Limited. Phil also chairs the Society's Nominations Committee and is a member of the Society's Group Risk Committee.

Phil brings important skills to our Board as a qualified and highly experienced accountant and business operator, providing a knowledgeable overview in balancing risk, capital, liquidity and profitability.

Having been Managing Director of a highly successful and fast growing plc, he understands how to ensure an entity grows safely and sustainably. His NHS experience brings additional insight from a highly regulated, non-financial services sector organisation.

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. In addition to being Vice Chairman of Cumbria Partnership NHS Foundation Trust for four years, Phil was a Non-Executive Director at MPAC plc for seven years, and a Non-Executive Director at North P&I Group. He brings many years of business experience to the Society's Board. In recognition of his skills and expertise he was awarded 'North East Non-Executive of the Year 2015' at the North East Business Executive of the Year Awards.

Mick Thompson
Deputy Chairman and Non-Executive Director

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

Mick has worked with companies and organisations across a broad range of industry sectors, including housebuilding, social housing, education, engineering, charities and financial services.

He spent 21 years as a Partner and nine years as Office Senior Partner at KPMG Newcastle, where he was responsible for driving growth and expansion.

Mick is a Non-Executive Director of The Clinkard Group Limited, Atlas Cloud Limited and North of England Protecting & Indemnity Association.

He is also a Trustee of Greggs Foundation Charity; Trustee of NUFC Foundation Charity; Trustee of Tyne and Wear Building Preservation Trust; Regional Treasurer of The Lord's Taverners Charity and a member of the International Advisory Board of the Newcastle University Business School.

Appointed Deputy Chairman in July 2020, Mick chairs the Society's Audit Committee, as well as being a member of both the Nominations Committee and Remuneration Committee. In December 2020 Mick was appointed as Chairman of the Newcastle Building Society Pension & Assurance Scheme.

Mick joined the Board in January 2019, and his extensive network in the region helps bring excellent connections to support the development of the Society's brand and strategy. His wide ranging board portfolio, particularly in the charity sector, is well aligned to our community focus and helps us better understand the issues affecting this sector.

Karen Ingham
Non-Executive Director

Karen has an extensive customer services background gained in highly competitive consumer sectors and is extremely people and customer focused.

In her current role as Global VP for Small Hotel Partners at Expedia and as part of a digital business, Karen brings a valuable level of experience to the Board across culture, diversity and the development of customer benefits using digital technologies.

As an ex-HR Director she also understands employment law and is able to bring this perspective to Board discussions.

Her contribution to delivering great customer experiences linked to profitable growth aligns to the Society's strategy in building impact and long term success.

Karen's external 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 member of the Chief Customer Officer Forum. She is also a Director of Newcastle Strategic Solutions Limited and a member of the Society's Group Risk Committee.

Our Directors

Continued

Adam Bennett
Non-Executive Director

Adam joined the Board in April 2019 and is a member of the Society's Group Risk Committee, the Audit Committee and the Group Technology Governance Committee. He is also a Director of the Society's subsidiary Newcastle Portland House Limited.

Adam spent 36 years at law firm, Addleshaw Goddard, where he specialised in advising building societies. He has a deep knowledge of the building society sector and its associated corporate governance and regulatory requirements.

Adam's fantastic professional network is a great benefit to the Society. He has advised building societies across a diverse range of issues. He brings formidable legal insight and experience of different business models and structures, important given the Group structure, which includes two key subsidiaries, Newcastle Strategic Solutions Ltd and Newcastle Financial Advisers Ltd.

During his professional career, Adam has advised on Rules of Building Societies, on corporate governance, including compliance with the UK Corporate Governance Code, and on the powers and statutory and fiduciary duties of directors.

Bryce Glover
Non-Executive Director

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

Bryce adds a genuine breadth of commercial and retail banking expertise, along with a strong credit and risk management background, which is particularly valuable in his role as Chair of the Society's Group Risk Committee.

He has a deep understanding of the mutual sector, having spent nine years working for the UK's largest building society, the last three as Corporate Affairs Director.

His extensive industry knowledge and business acumen assist the development of the business.

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

Bryce is Chair of the Society's Group Risk Committee and a member of the Remuneration Committee.

Ian Ward
Non-Executive Director

Ian has extensive experience in financial services and was Chief Executive of Leeds Building Society for 16 years.

He was previously vice-chairman and senior independent director of the Charter Court Financial Services Group PLC and its subsidiaries from 2015 until 2019, and following its acquisition by OneSavings Bank, a director of that company until May 2020. Ian was also Senior Independent Director of Harrogate & District NHS Foundation Trust and a member of its Audit & Finance Committees for six years until September 2018.

He has been a Non-Executive Director of Newcastle Building Society since 2013 and was appointed Senior Independent Director in July 2020. Ian is chairman of Newcastle Financial Advisers Limited and is a member of the Society's Group Risk Committee.

As a Board Director he provides ongoing and valuable strategic input and knowledge to the business, while his previous experience within the NHS has proved helpful in bringing non financial services thinking to the Board.

Anne Shiels
Non-Executive Director

Anne is an experienced Director with extensive board-level experience both in the UK and internationally. Working with FTSE 100 and independently-owned companies in both regulated and non-regulated businesses, Anne's experience spans a broad range of sectors including financial services, retail, telecommunications, manufacturing and consumer. She combines strategic leadership and deep people, culture and organisational transformation expertise with a solid understanding of governance, control and risk.

She has held Executive roles at Hallmark Cards, Lloyds Banking Group/HBOS, Safeway and Thus Plc. Anne is a trusted executive coach and adviser to boards and directors in diverse businesses in the UK and the US.

Her track record of leading large people functions and facilitating transformative organisational change, coupled with her widespread sector experience helps us to develop a broader view on matters affecting the Society and assists in developing people strategies including our approach to culture, talent, succession and reward.

Anne chairs the Remuneration Committee and is a member of both the Society's Audit Committee and Nominations Committee. She is also a Director of Newcastle Financial Advisers Limited.

Stuart Lynn
Non-Executive Director

Stuart is a prominent technology business leader with a wealth of experience drawn from his time at the National Health Service and software giant Sage, where he held a number of leadership roles, including Executive Vice President and Chief Technology and Information Officer.

His deep understanding of the potential for digital transformation within businesses to drive better customer experiences and commercial growth will help guide the digital transformation across the Society and the Solutions business. Developing an approach to technology that can support the provision and delivery of excellent service that is unequivocally human and personal, is a key component of the Group's strategy.

Prior to joining the Group Board in April 2020, Stuart was a Non-Executive Director of the Society's Solutions business where he developed considerable understanding of the Solutions' business model and is uniquely placed to contribute to the Group's wider ambitions.

He is an active member of the North-East's thriving digital and tech community, founder of TechNorthEast and Chair of the North East Local Enterprise Partnerships 'Digital for Growth' steering group.

Great friendly helpful service.

Paul and Kelly, Berwick customers

Directors' Report

The Directors present their Annual Report and Accounts and Annual Business Statement for the year ended 31 December 2020, which they consider to be fair, balanced and understandable, providing Members with the information necessary to assess the Group's position and performance, business model and strategy.

Objectives and Activities

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

Business Review and Future Developments

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

The Annual Business Statement and the Credit Risk notes, 36 to 43 contain respectively the ratios and arrears disclosures required by the Building Societies Act 1986.

The Board has assessed the viability of the Group by reviewing medium and long term plans over a detailed 3 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.

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 their liabilities as they fall due 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 sets out the principal risks and uncertainties faced by the Group together with the risk management framework and risk governance structure. The Risk Management Report also details how the Group mitigates the specific key risks to which it is exposed, which are credit risk (residential credit, commercial, investment), liquidity risk, market risk (interest rate, macro-economic), pension fund obligation risk, capital risk, conduct risk and climate change risks. In addition, the Credit Risk notes, 36 to 43 sets out the metrics associated with the key risks including sensitivity analysis and exposure level.

Mortgage arrears

As at 31 December 2020 there were 30 cases (2019: 18) where payments were 12 months or more in arrears. The capital balances of these loans were £5.7m (2019: £1.4m). The total amount of arrears on these loans was £1.2m (2019: £0.2m). The Society granted payment holidays to 4,687 borrowers as a result of the Government's support package in response to Covid-19. At the 31 December 2020, 313 borrowers still had a payment holiday in place.

Political and charitable gifts

The Society is pleased to be able to give back to its heartland communities, through charitable donations, colleague fundraising and volunteering. A total of £250k was donated to the Newcastle Building Society Community Fund in 2020 through our Community linked saving accounts, colleague fund raising and the Reclaim Fund Alternative Scheme. In addition to this the Society became the founding partner in the Community Foundation Coronavirus Response and Recovery Fund with a £100k donation. In 2020 we announced our partnership with Newcastle United Foundation and committed £850k in donations.

Despite the challenges of 2020 our colleagues maintained a real commitment to our communities. A variety of fundraising activities (delivered remotely) secured a colleague fundraising contribution in excess of £12,000 in aid of the Newcastle Building Society Community Fund, Children in Need and McMillan Cancer Support.

Our partnership with the volunteering app, onHand, and The National Innovation Centre for Ageing has enabled our colleagues to continue to volunteer in our communities in line with Covid safety guidelines. onHand is a volunteering app that matches volunteers to people in their local area who need help with small tasks, like shop drops, medicine collection/drop-off, urgent errands, or valuable human contact from a friendly telephone call.

Since introducing onHand in lockdown, together we have completed more than 550 missions.

The Group has not made any political donations during 2020 (2019: nil).

Supplier Payment Policy

The Group follows an internal policy that payment to suppliers will be made within 30 days from receipt of an invoice and endeavours to meet individual supplier payment terms which may be set at shorter timescales. At 31 December 2020, the number of creditor days was 27 (2019: 22 days).

Directors

As at 31 December 2020, the members of the Board, who have served at any time during the year and continue to act as Directors, are as follows:

Adam Bennett, Bryce Glover, Andrew Haigh*, Karen Ingham, Anne Laverack (business name: Anne Shiels), Stuart Lynn (joined the Board on 22 April 2020), Phil Moorhouse, Stuart Miller*, David Samper*, Mick Thompson and Ian Ward.

John Morris retired from the Board on 3 November 2020.

At the Annual General Meeting (AGM), to be held on 28 April 2021, all of the current Directors will offer themselves up for either election or re-election.

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

*Executive Directors

All Directors are Members of the Society. Please see the Remuneration Committee Report for further information.

Independent Auditors

Following a tender process, in line with mandatory firm rotation rules, Deloitte LLP have been selected as the Group's external auditor. A resolution to appoint Deloitte 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 have 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.

Corporate Governance

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

Statement of Directors' Responsibilities

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

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

The Building Societies Act 1986 (the Act) requires the Directors to prepare Accounts for each financial year. Under that law, the Directors have prepared the Group and Society Accounts in accordance with International Financial Reporting Standards (IFRSs).

Under the Act, directors must not approve the Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Society and of the profit or loss of the Group and Society for that period. In preparing the Accounts, the Directors are required to:

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Society's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Society and enable them to ensure that the Accounts comply with the Act, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

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

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

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

- so far as the Director is aware, there is no relevant audit information of which the Group's and Society's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Society's auditors are aware of that information.

On behalf of the Board
Phil Moorhouse

4 March 2021

Report of the Directors on Corporate Governance

Introduction

In discharging its responsibilities, to be accountable to the Society's Members for the operation of the Society, the Board regards good corporate governance as extremely important. A revised UK Corporate Governance Code (the Code), issued by the Financial Reporting Council (FRC) in July 2018, is addressed to companies with a premium listing, although the Society's Board considers it to be best practice to have regard to the Code when establishing and reviewing corporate governance arrangements.

This Code is designed to place emphasis on the culture and purpose of an organisation: putting the relationship between organisations and their stakeholders at the heart of a set of principles designed to promote long-term sustainable growth in the UK economy. The Code includes the responsibility for a board to have appropriate workforce policies and practices, which re-inforce a healthy culture, and to address this point the Society is in the process of setting up a "Colleague Forum", Chaired by a member of the Executive team. This formally recognised group will consist of colleagues who represent areas across the full organisation and will support leaders in the delivery of key organisational/people matters that are focused on creating a great colleague experience. Another change relates to culture in that boards are asked to create a culture which aligns corporate values with strategy and to assess how they preserve value over the long-term. The Society has already gone a long way to ensure the compliance of this last point by, for example, putting in place a set of values and behaviours that all colleagues are expected to embrace. In addition, a third party agency has been used to organise surveys and capture, in confidence, comments made by colleagues, which are then acted upon by senior management. It has also been agreed that culture should be formally reviewed by the Board at regular intervals.

A working party operates to ensure that on an ongoing basis the corporate governance procedures and processes within the Society are appropriately aligned with the Code, 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 2018 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 in the Our Directors section. In carrying out its role, the Board aims to ensure that excellent service is delivered to its Members and customers. The Board has responsibilities for contributing to and supporting the values of the Group set by management and believes that the interests of all stakeholders can be best served by remaining a strong and forward looking mutual building society.

There is a clear division of responsibilities between the running of the Board and the Executive responsibility for the running of the Society's business. No one individual has unfettered powers of decision and the roles of 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 within the Nominations Committee section of this report.

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 in April 2013, Mick Thompson was appointed Deputy Chairman in July 2020, and Ian Ward was appointed Senior Independent Director in July 2020. The positions of Deputy Chairman and Senior Independent Director provide a sounding board for the Chairman and where necessary they serve as intermediaries for the other Directors.

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

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

Matters Reserved to the Board

The Board's Terms of Reference are reviewed on a regular basis and were last agreed by the Board in January 2020. A schedule is maintained of matters reserved to the Board which includes the following:-

- **Strategy and Management –** determining the overall strategy of the Group including approval of the Strategic Plan, with the responsibility for its implementation delegated to the Executive team; monitoring operational and financial performance in pursuit of the strategy; overseeing and approving the Society's recovery plans, playbook, and resolution pack on an annual basis; monitoring the indicators and overseeing any proposed actions in accordance with the playbook; approving budgets, forecasts and major capital expenditure or major disposal; approving any extension of the Society's activities into new business or geographical areas; and approving any decision to cease all, or a material part, of the Society's business.
- **Culture –** overseeing and setting the tone for the culture, values and behaviours of the Group.
- **Structure, Capital and Liquidity –** approval of the Society's Internal Liquidity Adequacy Assessment Process (ILAAP); approval of the Society's Internal Capital Adequacy Assessment Process (ICAAP); approval of changes to the Group's corporate structure; approval of any programme for the issuance or buy back of long-term debt or capital; and approval of any utilisation of Bank of England emergency liquidity support.
- **Financial Reporting and Internal Controls –** approval of Stock Exchange announcements, half year and final annual results; approval of the Annual Report and Accounts including the Strategic Report, Risk Management Report, Report of the Directors on Corporate Governance, and the Remuneration Committee Report; approval of the Pillar 3 disclosures; ratification of the Going Concern and Business Viability review following review and approval by the Audit Committee; approval of any significant changes in accounting policies or practice based on the recommendations of the Audit Committee; and ensuring an adequate internal control environment is in existence. The Board delegates oversight of internal controls to the Audit Committee.
- **Risk Management and Regulatory –** ensuring an adequate risk management framework is in place. This includes approval of risk appetite, oversight of risk governance, reviewing the top risks, ensuring the strategy and risk appetite are consistent, and approving the ICAAP. The Board delegates oversight of risk management to the Group Risk Committee, as well as oversight of compliance with regulations (including by the Prudential Regulation Authority and the Financial Conduct Authority).

Report of the Directors on Corporate Governance
Continued

- **Senior Managers and Certification Regime –** ensuring that the Society meets its obligations under the Senior Managers Regime (SMR), including: reviewing at least annually the SMR Policy; and maintaining a responsibilities map for all prescribed responsibilities and ensuring all prescribed responsibilities have been allocated.
- **Board Membership and Senior Management Issues –** approval of changes to the structure, size and composition of the Board, following recommendations from the Nominations Committee; ensuring that adequate succession planning for the Board and senior management is in place following recommendations from the Nominations Committee; and approving and overseeing appointments to the boards of Subsidiary Companies.
- **Appointment and/or re-appointment or removal of the external auditor –** to be put to Members for approval, following a recommendation from the Audit Committee.
- **Remuneration –** agreeing the remuneration policy for the Directors and other Senior Executives, following recommendations from the Remuneration Committee.
- **Delegation of Authority –** approval of the responsibilities of the Chairman, the Chief Executive and the Senior Independent Director; approval of the delegation of authorities to the Chief Executive; ratifying the terms of reference for Board Committees and Subsidiary Companies; and receiving minutes and/or reports from the chairs of the Board Committees and Subsidiary Companies.
- **Corporate Governance Matters –** ensuring that a formal evaluation of the effectiveness of the Board is undertaken on an annual basis and to keep an external assessment, using outside consultants, under consideration and to facilitate one at an opportune time; determining the independence of Directors; reviewing the Group's overall corporate governance arrangements; agreeing the Directors' Conflicts of Interest Policy and other relevant policies; approval of the Notice of any General Meeting of the Society including all resolutions to be put forward to Members; and insurance: approval of overall levels of insurance for the Group, including Directors and Officers liability insurance.
- **The Society's Defined Benefit Pension Scheme –** consent to the Pension Scheme Trustees to amend the Pension Scheme's Trust Deed and Rules; and approval of the appointment/removal of Society nominated Trustees.

The Board's Terms of Reference are included on the Society's website (www.newcastle.co.uk).

Board Changes and Elections/Re-elections

It is recognised that changes need to be made to the Board from time to time. In 2020, Stuart Lynn was appointed to the Board as a Non-Executive Director and John Morris resigned from the Board during the year.

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

All of the Society's Directors are standing for either election or re-election at the AGM. The biographies of all of the Directors are detailed in the Our Directors section.

Management Information

The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. Board members receive meeting packs on a regular basis, although the Board does not normally meet at the end of August or December. Management Information is provided to Directors throughout the year. A rolling Board agenda is tabled at each Board meeting to ensure that all key areas are covered appropriately during the year and sufficient time is set aside at each meeting to ensure that constructive discussion and challenge can take place.

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

Board Effectiveness

The Board conducts an internal review of its effectiveness on an annual basis, with the last review undertaken in December 2020, based on feedback from Directors and the Principles at the heart of the UK Corporate Governance Code. The Board concluded it was effective.

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 and further details are provided below. The Chair of each Committee reports to the Board at a subsequent meeting on matters discussed at each Committee meeting.

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

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

Audit Committee

Details of the Audit Committee are contained in the Audit Committee Report. Through the work of the Audit Committee and the Internal Audit Services department during 2020, 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.

Group Risk Committee

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

Group Technology Governance Committee

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

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 main objectives of NomCo are summarised as follows:-

- To oversee the structure of the Board, Board Committees and Subsidiary Company Boards;
- 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 Chair), Anne Shiels and Mick Thompson. NomCo operates to a rolling agenda to ensure it discharges its full responsibilities and in 2020 it met on five occasions.

NomCo is supported by the Chief Executive and the Human Resources Director 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 2020, the Society utilised the services of independent recruitment specialists, Warren Partners and Hitchenor Wakefield in the appointment of new Directors.

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

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

Diversity of the Board

The Board recognises and embraces the benefits of having a diverse Board which utilises a range of factors including skills, industry experience, background, race, gender and the other characteristics, experience and qualities of its Directors. Giving specific regard to gender ratios, there were two female Directors on the Board last year, Karen Ingham and Anne Shiels.

It is important to note that all Board appointments are made on the basis of individual competence, skills and expertise measured against identified objective criteria. Appointment is therefore based on merit.

Election or re-election to the Board

All Directors are required to seek election or re-election at the forthcoming Annual General Meeting (AGM), to be held on 28th April 2021.

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

Independence of Directors

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

NomCo carries out an annual review of the independence of Non-Executive Directors, against the circumstances 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 be independent on appointment, when assessed against the circumstances set out in the Code). The last review of the independence of Non-Executive Directors was carried out by NomCo in January 2021, where it was confirmed they considered them to be independent; this was subsequently agreed by the Board, also in January 2021.

During part of the year, one of the Non-Executive Directors, Ian Ward, was a director of OneSavings Bank PLC and a number of companies within the Charter Court Financial Services Group PLC, although he resigned all of those directorships on 7th May 2020. He had previously advised the Board of the existence of the relationship under the Policy for dealing with Conflicts of Interest and procedures had been in place within the Society to manage the position.

The Society recognises that it is good corporate governance to have a Senior Independent Director, a role currently carried out by Ian Ward.

During 2020, the Chairman met separately with the Non-Executive Directors, by means of video conferencing, without the Executive Directors present.

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 Senior Independent Director 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 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.

Report of the Directors on Corporate Governance

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Newcastle Strategic Solutions Limited (NSSL)

NSSL Board Members are:

Phil Moorhouse (NSSL Chairman), Karen Ingham, Ron McCormick, Stuart Lynn, Phil Grand (Managing Director NSSL) and Andrew Ward (Finance Director NSSL).

In 2019, NSSL acquired substantially all of the business and assets of Newcastle Systems Management Limited (NSML) and in doing so, brought together our technology subsidiary and our savings management outsourcing business. As a result, our corporate structure was simplified whilst the services provided continued unchanged.

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

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

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

Newcastle Systems Management Limited (NSML)

NSML Board Members are:

Ian Ward (NSML Chairman), Phil Moorhouse, Stuart Lynn and Andrew Ward.

Newcastle Financial Advisers Limited (NFAL)

NFAL Board Members are:

Ian Ward (NFAL Chairman), Anne Shiels (Non-Executive Director), Stuart Dodson (Managing Director NFAL) and Stuart Miller (the Society's Customer Director).

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

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

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

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 Members are encouraged, as owners of the business, to use their vote to register their views. We try to make this process as easy as possible, providing the convenience of voting online or by post, and providing an additional incentive through a small charity contribution for every vote cast.

As part of our usual activity we normally run a number of Member engagement events every year in locations across the North East where Members can share their feedback with the Chief Executive, ExCo Members and Non-Executive Directors. These have been curtailed due to Covid-19. We have a daily online Customer Satisfaction Survey which is reviewed every morning by the Chief Executive, ExCo and senior managers. Our social media channels are also used by customers to provide feedback / request additional information. As part of our branch refurbishment and expansion programme we invite local customers along to branch re-launch events taking opportunity to gain their feedback and understand their perspectives. In addition, we have a range of marketing communications designed to inform Members about our progress, products, community activities, and the numerous ways we can help them.

Through our community and charity support activities we are able to engage with both our Members and the communities we serve. Following the launch of the Newcastle Building Society Community Fund at the Community Foundation, we have provided a growing volume of financial grants to North East community projects, some of which are nominated by our Members. Through our branch network we have been sharing volunteering and regional assistance opportunities with Members, facilitated by our participation in and support of the onHand volunteering app. We intend this financial support for our heartland communities will continue to grow in scope and scale. We work hard to make a difference and help our communities make positive changes.

Further details regarding our Member and Community Engagement are given in Supporting our Communities pages.

Report of the Directors on Corporate Governance

Continued

Board and Board Committee Membership Attendance Record

The table below sets out the number of meetings attended by Directors during 2020 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	Group Technology Governance Committee	NSSL	NSML	NFAL
Adam Bennett	11 (11)	4 (4)	7 (7)	-	-	1 (1)	-	-	-
Bryce Glover	11 (11)	-	7 (7)	6 (6)	-	-	-	-	-
Andrew Haigh	10 (11)	-	-	-	-	1 (1)	-	-	-
Karen Ingham	11 (11)	-	5 (5)	3 (3)	-	-	7 (7)	-	-
Stuart Lynn	7 (7)	-	-	-	-	1 (1)	6 (6)	1 (1)	-
Stuart Miller	11 (11)	-	-	-	-	-	-	-	4 (5)
Phil Moorhouse	11 (11)	-	5 (5)	-	5 (5)	-	7 (7)	1 (1)	-
John Morris	10 (10)	4 (4)	-	5 (5)	5 (5)	-	-	-	-
David Samper	11 (11)	-	-	-	-	-	-	-	-
Anne Shiels	11 (11)	5 (5)	-	6 (6)	5 (5)	-	-	-	4 (4)
Mick Thompson	11 (11)	5 (5)	-	3 (3)	5 (5)	-	-	-	-
Ian Ward	11 (11)	-	7 (7)	-	-	-	-	1 (1)	5 (5)

Annual General Meeting (AGM)

The AGM normally 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. However, due to the situation with Covid-19, we have taken the decision to hold this year's AGM without external Members in attendance (with colleagues and Directors who are Members forming the required minimum number for the meeting to take place). Decisions like this have to be made several months before the actual meeting. In making this decision the safety of Members, colleagues and Directors has been our priority.

The AGM will be held on 28th April 2021 at our Head Office. We are instructing Members not to attend in person, but if this changes (which we do not expect) details will be shown on the Society's website at **www.newcastle.co.uk/agm2021**. We will however be arranging a number of online forums in early April where Members will be able to ask questions.

All Members who are eligible to vote at the Annual General Meeting are encouraged to participate this year, either online or by post. The use of the online voting system is encouraged and for each vote placed online, the Society will be donating 30p to The Newcastle Building Society Community Fund at the Community Foundation.

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

On behalf of the Board
Phil Moorhouse
4 March 2021

Audit Committee Report

Audit Committee

Members of Audit Committee at 31 December 2020 were:

Mick Thompson (Committee Chair), Adam Bennett (appointed to the committee on 1 June 2020) and Anne Shiels.

The committee express their thanks to John Morris for his contribution to the Audit Committee prior to his retirement from the Board on 3 November 2020.

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

Directors' remuneration, including for members of the Audit Committee, is detailed within the Remuneration Committee Report. The Report of the Directors on Corporate Governance also sets out the process for review of effectiveness of Board sub-committees including the Audit Committee. The Committee concluded that it was operating effectively as part of its 2020 review on 30 November 2020.

Committee meetings:

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

The Committee formally invites the External Auditor after each meeting, and the Internal Auditors at least once a year, to meet the Committee without senior management present. These meetings cover matters relating to the Audit Committee's terms of reference and any issues arising from audits, including matters required to be discussed by relevant law or regulations. The Chair and Head of Internal Audit Services also meet outside of the Committee on a regular basis.

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 the following areas:

Financial reporting:

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

This responsibility is discharged though:

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

The main areas of financial reporting significance considered by the Audit Committee in 2020 were as follows:

- **IFRS 9 provisioning:** The Audit Committee maintain oversight of the key model inputs driving the Group's IFRS 9 provisioning models for the residential and commercial books, with particular focus paid towards the Group's forward looking macroeconomic forecast inputs. The Group's Model Risk Committee makes non-binding recommendations on the Group's IFRS 9 scenarios, scenario inputs and scenario weightings. The Audit Committee's attention focused in 2020 towards the current economic environment and consideration of the impact of the Covid-19 pandemic on the Group's existing IFRS 9 scenarios (base, upside, downside and stress).
- **Equity release accounting and valuation:** The Audit Committee consider the Society's valuation of the insurance liability and disclosure related to the equity release portfolio.The Committee reviews and challenges management's core model inputs and ensures appropriate third party actuarial advice around sensitive model inputs, including mortality tables and surrenders is factored into the Group's calculations. As IFRS 4 will be replaced by IFRS 17 on 1 January 2023, the Audit Committee receives and discusses regular updates on management's transition plans.

Audit Committee Report
Continued

- **Effective interest rate:** Loans and advances to customers are held at amortised cost, using the effective interest rate method (EIR). That implies that one-off charges and receipts, such as property valuations the Society pays for, arrangement fees and early repayment fees, are included as interest income and spread over the life of the product, rather than recognised separately. Assumptions and estimates relating to behaviour were reviewed based on recent experience with the Audit Committee being satisfied with the EIR modelling and the 2020 year end asset.
- **Intangible Assets:** The Audit Committee consider the Group's application of IAS 38 – Intangible Assets in the treatment of internally developed intangible assets. The Group's IT department develops a number of intangible assets, such as a banking app for savings customers and the infrastructure required by the Group's subsidiary Newcastle Strategic Solutions Limited to serve SME customers. The Group capitalised these assets in accordance with IAS 38 – Intangible Assets, which allows for internal development costs to be capitalised when certain criteria are met. The Audit Committee concluded at the beginning of the year that the criteria had been met and that development costs henceforth qualify for capitalisation.
- **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 Chief Financial Officer. The Audit Committee concluded that the adoption of the Going Concern basis to prepare the accounts is appropriate.
- **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 Group adopted amendments to IFRS 9, IAS 39 and IFRS 7 which allow hedge accounting to continue for hedge relationships impacted by the transition. The amendments also require additional disclosures relating to affected instruments and the transition. The Committee has concluded satisfactorily in this area.
- **Taxation:** 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.
- The Committee considers matters raised by the External Auditor and Audit 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 2020 financial year, the Audit Committee recommended to the Board that approval be given to the audited Annual Report and Accounts and Summary Financial Statement as at 31 December 2020.

Internal Control and Risk Management:

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

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

The Audit Committee is responsible for:

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

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

During the year, the Audit Committee, through Internal Audit Services and from other management reports, reviewed the scope and effectiveness of the Group's internal controls. The coverage of the reviews in 2020 included reviewing the controls in operation for; lending, savings, information technology and cyber security, treasury, finance, risk management, operational resilience, regulatory compliance and reporting, and key projects, and took into account the Group's response to operating safely and compliantly through the changes required as a result of the Covid-19 pandemic. Internal Audit Services utilised the services of BDO during 2020 where for co-sourced internal audits to provide specialist expert input and promote knowledge transfer to Internal Audit Services.

Internal Audit Services 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 Chief Risk Officer, Internal Audit Services, the External Auditor and senior management provide input on key risks, uncertainties and controls directly to the Audit Committee.

Internal Audit Services:

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

A formal internal review of the qualification and effectiveness of Internal Audit Services is undertaken by the Committee annually and most recently in November 2020 and concluded positively, confirming that Internal Audit Services effectively met its responsibilities.

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

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

External Audit:

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

- Appointment, reappointment, removal and assessment of independence, objectivity and effectiveness of the External Auditor;
- Approval of terms and remuneration in respect of audit services provided;
- Annual approval of the Group's policy on the use of the External Auditor for non-audit work; 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 Auditor, seeking reassurance that the auditor and their staff have no family, financial, employment, investment or business relationship with the Group that is considered to impact their independence. The External Auditor communicate their formal independence annually and appraise the Audit Committee of policies, processes and monitoring in place for maintaining their independence. The Audit Committee seek annual feedback from internal stakeholders to facilitate a robust assessment of the effectiveness of the External Auditor.

Prior to an External Audit engagement, the Audit Committee discuss the nature and scope of the audit. They review findings of the auditor's work and assess the effectiveness of the audit process. This assessment reviews whether the auditor has met the agreed audit plan, considers the robustness and perceptiveness of the auditor in responding to questions from the Audit Committee 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 Auditor will not adversely impact the independence and objectivity of the audit firm in performing their duties. A formal policy on use of the External Auditor for non-audit work is reviewed annually.

During 2020, the External Auditor were engaged to provide non-audit services related to the Bank of England loan pool. They also reviewed the Group's interim financial statements. These engagements were in accordance with our policy for the engagement of the external auditor for non-audit services. Where necessary to maintain independence, non-audit work is carried out by PwC partners and staff that have no connection to the external audit team. The fees paid to the External Audit firm for audit and non-audit services are set out in Note 6 to the Accounts.

PwC have acted as External Auditor to the Group since 1994. Due to limits on the length of tenure for external auditors' in the UK, they are not be able to continue in the role as External Auditor for the 2021 financial year audit. A formal external audit tender process was undertaken in 2020, with the Audit Committee overseeing the process and appointing an audit selection panel comprising the Chair of Audit Committee, the Society's Chairman, the Chief Executive, the Chief Financial Officer, the Head of Group Finance, and the other members of the Audit Committee. The tender followed a rigorous assessment of written tender documents supported by presentations and interviews with the tendering audit firms. A recommendation was made to Audit Committee and the Board to appoint Deloitte LLP as external auditor for the year ended 31 December 2021, subject to Member approval at the 2021 AGM.

Whistle Blowing:

The Audit Committee reviews the Group's procedures for detecting fraud and whistle blowing and ensures that arrangements are in place by which colleagues may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters, and to ensure that arrangements are in place for independent investigation and appropriate follow up action. The outcome of the review is reported to the Board.

M.R. Thompson.

On behalf of the Board
Mick Tompson
Chair of the Audit Committee
4 March 2021

Remuneration Committee Report

Introduction

This report details the Group's approach to pay for the period 1 January to 31 December 2020. It sets out the remuneration policy and remuneration details for the Group's Executive and Non-Executive Directors 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).

Statement by the Chair of the Remuneration Committee

The Remuneration Committee's purpose is to consider, agree and recommend to the Board an overall remuneration policy and approach that promotes achievement of the Group's long-term business strategy and business objectives and is aligned with the long term interests of the Society's Members, other stakeholders and risk appetite.

The Committee's responsibilities

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

The Committee's main objectives are:

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

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

The Remuneration Committee operates within the Terms of Reference (TOR) agreed by the Board. The TOR are reviewed annually and were last reviewed in December 2020. The effectiveness of the Committee is also reviewed on an annual basis and was last reviewed, and found effective, on 1 December 2020.

Composition of the Committee

The Committee comprises solely of Non-Executive Directors who have no personal financial interest in the recommendations. The Chair of the Committee is Anne Shiels, the other members are Bryce Glover and Mick Thompson. The Chairman, Chief Executive and HR Director (except for items relating to their remuneration) also attend meetings but are not members of the Committee. The Head of HR acts as Secretary to the Committee.

During the year, the Committee met 5 times, and activities included:

- Overseeing compliance of the Group's approach to remuneration against the requirements of the Regulators' Remuneration Code;
- Considering and agreeing pay and benefits for Executive Directors, Senior Managers and the Chairman;
- Overseeing remuneration matters across the Society and its subsidiaries;
- Reviewing the performance for the full year and approving the level of Executive and Corporate Bonus to be paid based on achievement of various financial and non-financial key performance measures;
- Reviewing and benchmarking the level of pay for both colleagues and Executives. This review will lead to a new strategic approach and significant improvements in the Group's reward framework, ensuring the Group can attract and retain colleagues and Executives with the required skills and reward them fairly for performance and achievements – see the section entitled "Key changes to the Director's Remuneration Policy for 2020" for further details; and
- Considering the disclosure requirements for the Remuneration Report including Pillar 3 disclosures.

Report on Directors' remuneration

The total remuneration received by Executive Directors is shown opposite. The information has been audited and shows remuneration for the years ended 31 December 2019 and 31 December 2020 as required under the Building Society (Accounts and Related Provisions) Regulations 1998. There is a requirement under Rule 14 of the Society's Rules to have deposits to the value of not less than £1,000 in a Society share account in order to qualify as a Director. This means all Directors are Members of the Society. There are no requirements for a Director to own shares in the Society's subsidiary companies.

Details of other non-Society Board positions held by the Group's Directors are shown in the Annual Business Statement in the Annual Report and Accounts. None of the current Executive Directors retained any remuneration as a result of their non-Society positions.

Directors' Emoluments (Audited)

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

	Year	Salary or fees	Taxable benefits	Annual bonus (Note 1)	Pension contributions to defined contribution scheme (Notes 2,3,4)	Total contractual benefits
Executive Directors		£000	£000	£000	£000	£000
AS Haigh	**2020**	**323**	**43**	**-**	**-**	**366**
	2019	314	41	108	-	463
D Samper	**2020**	**221**	**32**	**-**	**1**	**254**
	2019	215	21	61	11	308
S Miller	**2020**	**162**	**26**	**-**	**-**	**188**
	2019	157	24	63	-	244
P Ferguson - Note 5 (Redundancy 21 June 2019)	**2020**	**-**	**-**	**-**	**-**	**-**
	2019	74	5	-	7	86
Total for Executive Directors	**2020**	**706**	**101**	**-**	**1**	**808**
	2019	760	91	232	18	1,101
Non-Executive Directors						
PJ Moorhouse	**2020**	**82**	**-**	**-**	**-**	**82**
	2019	77	-	-	-	77
DJ Buffham (Resigned 24 June 2019)	**2020**	**-**	**-**	**-**	**-**	**-**
	2019	27	-	-	-	27
J Morris (Retired 3 November 2020)	**2020**	**45**	**-**	**-**	**-**	**45**
	2019	58	-	-	-	58
IW Ward	**2020**	**53**	**-**	**-**	**-**	**53**
	2019	53	-	-	-	53
BP Glover	**2020**	**45**	**-**	**-**	**-**	**45**
	2019	43	-	-	-	43
A Laverack (Business name: Anne Shiels)	**2020**	**50**	**-**	**-**	**-**	**50**
	2019	42	-	-	-	42
K Ingham	**2020**	**45**	**-**	**-**	**-**	**45**
	2019	41	-	-	-	41
MR Thompson (Appointed 29 January 2019)	**2020**	**50**	**-**	**-**	**-**	**50**
	2019	40	-	-	-	40
GA Bennett (Appointed 24 April 2019)	**2020**	**42**	**-**	**-**	**-**	**42**
	2019	26	-	-	-	26
S Lynn (Joined Board after AGM 2020)	**2020**	**26**	**-**	**-**	**-**	**26**
	2019	-	-	-	-	-
Total for Non-Executive Directors	**2020**	**438**	**-**	**-**	**-**	**438**
	2019	407	-	-	-	407
Total for all Directors	**2020**	**1,144**	**101**	**-**	**1**	**1,246**
	2019	1,167	91	232	18	1,508

Notes

1. During 2019 the Society's Executive Directors participated in the Group's annual Executive Bonus Scheme. A proportion of the Executive bonus payment is deferred and is payable in future years as shown in the Executive Bonus Payment table overleaf. During 2020 no Executive received a bonus or recognition payment.
2. Mr AS Haigh has elected to take his pension contribution amounting to £29,104 (2019: £28,297) as a cash payment. He is liable for his own tax and national insurance contributions on this payment.
3. From 1 February 2020 Mr D Samper has elected to take his pension contribution amounting to £18,254 (2019: £nil) as a cash payment. He is liable for his own tax and national insurance contributions on this payment.
4. Mr S Miller has elected to take part of his pension contribution amounting to £14,552 (2019: £14,149) as a cash payment. He is liable for his own tax and national insurance contributions on this payment.
5. No Directors received termination payments in 2020. In 2019, upon Mr P Ferguson ceasing to be a Director and leaving the Group, a redundancy payment of £176,845 was made to him. This was calculated by reference to the agreed terms of his employment contract and reflects nine years of service. The payment is in addition to the amounts disclosed in the table.

Remuneration Committee Report
Continued

Chief Executive Remuneration

The Chief Executive is the Group's most highly paid colleague and no colleague earns more than any Executive Director. The 2020 pay rise for all colleagues ranged from 0% to 12%, with an average 3% received by all colleagues. Mr A Haigh received a 3% pay rise on base salary in April 2020.

Annual Executive Bonus

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

In light of the economic uncertainty brought about by the pandemic. In early 2020 it was agreed that there would be no participation in the Executive Bonus Scheme for the year.

As a result, no bonus payments have been awarded in respect of 2020 performance. However, a proportion of the 2019 Executive bonus payments has been deferred and is payable in the following two years as shown in the table below. Deferred awards payable in 2021 have subsequently been approved by the Remuneration Committee for payment.

Executive Director Bonus Table

Executive Director	Bonus deferred from	Bonus payable in 2021	Bonus payable in 2022	Total bonus deferred
		£000	£000	£000
Andrew Haigh	2019	36	36	72
David Samper	2019	20	21	41
Stuart Miller	2019	21	21	42
Total		**77**	**78**	**155**

Directors' Remuneration Policy

Policy Aims and Principles

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

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

In designing the Remuneration Policy, the following key principles are to be observed:

- The Policy is clearly linked to the Group's purpose, Strategic Plan, objectives and values;
- Policy, process and practice are consistent with and promote effective risk management in line with the Group's Risk Appetite Statement and detailed policies;
- Basic pay and total remuneration are set at a 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.

Key changes to the Directors' Remuneration Policy for 2020

The approach to Directors' remuneration did not change during 2020.

Significant work has been carried out over the past two years to introduce a robust and fair performance and reward framework for all colleagues across the Society.

During 2020 the Society began a similar exercise for Directors and other members of the Executive team by commissioning Willis Towers Watson to conduct an external review of Director and Executive level remuneration, benchmarking against the external market. The review was undertaken as one of a number of inputs that will inform the development of a reward strategy and will set out the approach and roadmap for Director and Executive remuneration for the following 3 years. The outcome of this review will begin to be implemented during 2021 with individual Executive pay adjustments ranging between 4% and 23%. Fair and competitive pay practices are crucial in ensuring that the Society can attract and retain the talented individuals required to ensure the organisation's success and sustainability.

Directors' service agreements and notice periods

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

Non-Executive Directors do not have service agreements. Non-Executive Directors are appointed for an initial three-year term. They will generally be expected to serve more than one three-year term, but not longer than 9 years in total, unless in exceptional circumstances and after approval by the Remuneration Committee.

Documents may be served on any of the Society's current Directors c/o Addleshaws Goddard LLP, One St Peter's Square, Manchester, M2 3DE.

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

Policy on termination pay

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

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

Consideration of remuneration for colleagues who are not Directors

Code Staff and Executives who are not Directors

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

The Group's Colleagues

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

The Corporate Bonus Scheme was withdrawn in 2020 due to the economic uncertainty created by the Covid-19 pandemic. However it was proposed that something should be done to recognise the outstanding response of colleagues to the pandemic right across the organisation. In light of this, it was agreed that all Newcastle Building Society Group colleagues below the level of Executive received a Recognition Payment equivalent to 3% of base salary with a minimum payment applicable to colleagues on lower salaries. The Corporate Bonus Scheme has been reintroduced for the performance year 2021.

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. For a number of years, the Committee has invited Members to vote on the annual remuneration report, and Members have always voted in favour.

The Group's Remuneration Report and Policy was last voted on in April 2020. Member approval was given to the 31 December 2020 Directors' Remuneration Report (90.37% approval with 13,913 votes for, 1,483 against and 396 withheld).

Remuneration for Executive Directors

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

How elements support our strategy	Operation	Maximum potential value	Performance conditions and assessment
Basic Salary Supports the 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 as determined by the Group Job Evaluation Policy. 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, as well as affordability and the performance of the Group.
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 - Supports attraction and retention of Executive Directors; and - Provides a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including cash or car allowance, private medical insurance, life insurance, relocation allowance and permanent health insurance. The Committee reviews benefits offered and may make changes, for example to reflect market practice or the needs of the business. The Society plans to offer all colleagues the option to participate in a salary sacrifice scheme in order to make use of current incentives and encourage use of electric vehicles.	The Society bears the cost of providing benefits which may vary from year to year.	None applicable.
Executive Bonus 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.	- Based on a number of performance measures and targets linked to the delivery of corporate strategy; - Measures include financial, customer, people and personal objectives; - Targets are set annually and payments are made at the discretion of the Remuneration Committee; and - Payments are made in cash in equal instalments over a three year period.	The maximum potential bonus opportunity is 50% of base salary. On target bonus opportunity is 30% of base salary.	The measures will be assessed by the Remuneration Committee on an annual basis and will be subject to discretion. Performance measures are weighted as follows: - 40% financial - 30% non-financial - 30% personal objectives A financial gateway exists in the operation of the scheme. Bonuses levels also take affordability into account.

Notes to the table

*As noted above, the Committee has complete discretion to make payment under the Executive Bonus Scheme and also has discretion to amend or remove that Scheme where necessary to ensure the arrangements continue to meet the Committee's overriding remuneration principles. Due to the uncertain economic situation caused by the Covid-19 pandemic, in early 2020, it was agreed that there would be no participation in the Executive Bonus Scheme for the year.

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. The review takes into account fees paid by comparable financial services organisations. The basic fee currently paid is £33,054
Additional Fees	Additional fees are payable for additional responsibilities, such as Committee chairmanship or membership. Committee Chairmanship fees range from £8,103 to £10,417 and Committee Membership fees range from £2,315 to £5,787, depending on time commitments required.
Other items	Non-Executive Directors are not eligible to participate in any form of performance pay and do not receive pensions or other benefits in kind.

The Remuneration Committee also determines the Chairman's fee.

Summary of the Remuneration of Code Staff

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

Category	Typical Functions	Year	Number	Salary or Fees £000	Other taxable benefits £000	Variable Remuneration (Note 1) £000	Total Remuneration £000
Executive Directors	Chief Executive Officer, Chief Financial Officer, Customer Director, Strategy, Planning & Risk Director	**2020**	**3**	**706**	**102**	**-**	**808**
		2019	4	760	109	232	1,101
Other Executives	HR Director, Chief Information Officer, MD NSSL, Change Director, Chief Risk Officer, MD NSML	**2020**	**6**	**528**	**88**	**-**	**616**
		2019	3	333	54	102	489
Control Functions	Compliance, Underwriting, Internal Audit, Customer Outcomes, Treasury, Product Development, Balance Sheet Management	**2020**	**7**	**528**	**95**	**18**	**641**
		2019	8	469	80	36	585
Total		**2020**	**16**	**1,762**	**285**	**18**	**2,065**
		2019	15	1,562	243	370	2,175

Notes:
Note 1: Variable remuneration reflects participation in the Group's Executive Bonus Scheme for Executive Directors and other members of the Executive Committee and the Group's annual Corporate Bonus Scheme for all other code staff. No Corporate Bonus payment was made to colleagues in respect of 2020 performance, instead a Recognition Payment was made to all colleagues. Recognition payments were not made to Executive Directors and Other Executives.

External advice received

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

The fee for the advice was £13,192. Willis Towers Watson have not provided any other services to the Group during 2020.

A Shiels

Anne Shiels
Chair of the Remuneration Committee
4 March 2021

Risk Management Report

Overview

The Society's risk management framework is designed to pro-actively identify and manage risk, while supporting senior management in the delivery of the strategy, managing costs, ensuring operational resilience and making decisions that are more effective.

The framework compromises the monitoring and controlling of significant risks to which the Society is exposed while ensuring the security and resilience of the Group. The Society's ability to identify, measure, monitor, report and control risks is key to the continued delivery of sustainable and resilient business performance, including fair outcomes for Members and customers.

The Society's Chief Risk Officer has ultimate accountability for the maintenance and enhancement of the organisation's risk management framework.

Risk Framework

The Society continues to adopt the traditional 'Three Lines of Defence' approach to risk management. The first line of defence compromises of core business units, which ultimately hold the responsibility of identifying and managing risk while adhering to corporate risk appetite, policies and standards. The first line also hold the responsibility for implementing and maintaining regulatory compliance.

The second line risk function facilitates and monitors the implementation of effective risk management, and overseeing the implementation and adherence, while developing and maintaining risk management policies and methodologies. The second line reports (through the Chief Risk Officer) to the Chief Executive and ultimately to the Board Group Risk Committee.

The third line of defence is the Society's Internal Audit team. The third line of defence provides independent assurance to the Board and senior management on the adequacy of the design and operational effectiveness of internal control systems and measures across the business.

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

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

Risk Governance

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

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

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

Group Risk Committee

The GRC oversees the Society's risk management and governance framework, and the Society's overall risk profile. The Committee meets at least quarterly and more frequently when required. Throughout 2020 the GRC has met more frequently in response to the ongoing pandemic situation.

During 2020, the members of the GRC, all of whom are Non-Executive Directors, included Bryce Glover (Committee Chair), Adam Bennett and Ian Ward. Phil Moorhouse and Karen Ingham joined the GRC in May 2020. John Morris was also a member of the GRC until his retirement from the Board in October 2020

The duties of GRC include:

- Oversight of overall risk appetite, risk management strategy and framework, including oversight of both prudential and conduct risk appetites, and the Society's Operational Resilience approach and preparedness;
- Oversight of compliance with risk policies;
- 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 risk management of new initiatives and projects, and in particular 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 2020 the Committee met on seven occasions and in particular considered the following matters:

- Ongoing review of the Group's response to the Covid-19 pandemic, and adherence to the government imposed restrictions and requirements, including the management of risks associated with our colleagues' working arrangements (be they office, branch or remote based);
- Review of the risk appetites for prudential, and conduct risk;
- Review of the Group's Risk Management Strategy and performance;
- Oversight of the annual stress testing report including low likelihood high impact risks;
- Review and ratification of key risk policies covering lending, treasury, and operational risk;
- Review of the Group Operational Resilience plans and approach;
- Review and approval of the Society's compliance plan; and
- Review of compliance with Building Society Sourcebook limits.

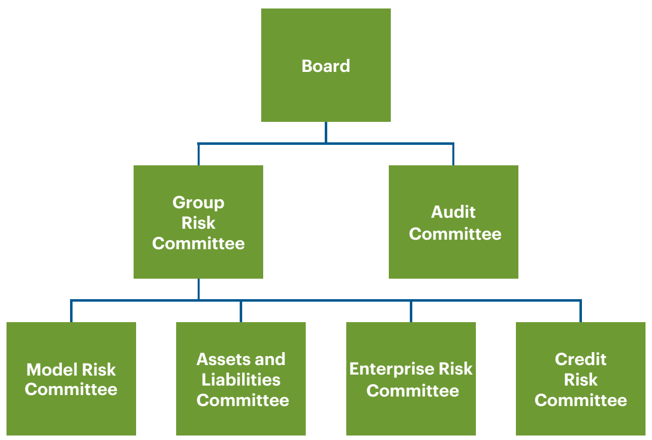
The Credit Risk Committee (CRC) is responsible for the oversight of the retail and commercial credit risk framework. This Committee acts under the authority of the GRC and has delegated authority to make decisions and recommendations in accordance with the agreed terms of reference. The CRC ensures the use of regular stress testing and scenario modelling that are reflective of the nature of the associated risk. The CRC met twelve times during 2020.

The Enterprise Risk Committee (ERC) has responsibility for overseeing the risk framework for Operational Risk, Conduct Risk, IT Risk and Operational Resilience. This Committee ensures that risk event trends are monitored appropriately with robust action plan management. The ERC also has the responsibility for key group-wide policies to ensure they are appropriate for the business before they are submitted to the GRC for final ratification. All relevant operational risk management information is reported to the ERC on a monthly basis to assess compliance with overall limits and corporate risk appetites. The ERC met eleven times during 2020.

The Model Risk Committee (MRC) ensures compliance with SS3/18 'Model Risk Management'. The MRC acts under the authority of the GRC in an advisory capacity and makes non-binding recommendations concerning the Group's adherence to the Model Risk policy. Recommendations are made to the GRC on suitable macro-economic scenarios, model risk appetite, model performance (monitoring) and model limitations. Approval of the Group's macro-economic scenarios remain the responsibility of the Board. The MRC met five times during 2020.

The Assets and Liabilities Committee (ALCO) is charged by the GRC with setting the risk framework for the Society's balance sheet, including liquidity risk, funding risk, interest rate risk and basis risk. The tools available to ALCO include risk limits and guidelines, return on capital employed benchmarks and funds transfer pricing for all aspects of treasury risk management, including liquidity risk, interest rate risk, counterparty credit risk, and balance sheet management. ALCO met twelve times during 2020.

Risk Governance Structure



Risk and Impact	Mitigation	Change in Risk Profile	Commentary
Credit Risk The primary credit risks relate to the Society's residential, commercial and investment portfolios (see below).			
Residential Credit Risk Retail borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to unemployment rates, house prices, interest rates and the application of underlying assumptions and data within our credit loss modelling. For example, if a borrowing customer loses their job they may be unable to meet their repayments. If the Society takes possession of the property, it may not realise enough on subsequent sale to repay the loan balance. In a recession when unemployment rises and house prices can fall, the risk increases.	Loans are underwritten individually based on affordability, credit score and history, acceptable collateral (including loan to value), and the Society's lending criteria. The Society does not undertake sub-prime or self-certification lending. The Society's lending policy has been actively reviewed and enhanced through 2020 to ensure we respond appropriately to the macro economic impacts likely to emerge through the pandemic period and beyond. The residential book is subject to monthly reporting to CRC in relation to its credit risk characteristics (including loan to value, loan to income, arrears, credit score profile, early delinquencies, and arrears arising from cohorts of lending). The Society's risk appetite is expressed in terms of losses arising in a stressed scenario, and stress testing is used to ensure that the portfolio is within the Society's risk appetite.		The Society has maintained a cautious and prudent approach to lending during 2020. Additionally, the Society has enhanced predictive modelling and scenario analysis to inform our lending approach and controls in 2020 and into 2021. Whereas the use of payment holidays and furlough has resulted in a stable performance on arrears to date, management recognise that the macroeconomic risk into 2021 may materially change the arrears and recovery profile post the cessation of any government interventions. In addition whilst housing prices have increased (HPI), some customers have capitalised the interest accrued during payment holidays, increasing the total balance against the borrower's security position. Loans that are 3 months or more in arrears remain within the Society's risk appetite and the overall retail book remains within the Society's risk appetite. Actual losses on the residential mortgages remain very low.
Commercial Credit Risk Commercial borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to economic conditions that can impact the viability of tenants and commercial real estate values. For example, if a commercial borrower loses the property's tenant, they may be unable to meet repayments. If the Society takes possession of the property it may not realise enough on subsequent sale to repay the loan balance. In a recession, when more tenants may fail and commercial property values can fall, the risk increases.	The commercial loan book is being actively managed down. Commercial loans over £500k are subject to annual reviews reporting to CRC. Higher risk loans are subject to quarterly reviews. In the event of a covenant breach, a report is provided to the CRC. Borrower and tenant watchlists are maintained by the credit risk team, and are reviewed monthly. Watchlists for borrowers and tenants are updated on a real time basis. Enhanced Stress testing has been used through 2020 to determine the changes in risk due to the pandemic.		The Society withdrew from new Commercial lending in 2008. Lending balances on commercial property continue to reduce. The Society recognizes that some borrowers within the commercial portfolio have a greater risk of default as a result of the current economic conditions and have increased provisions as a result. 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 with no history of default within the portfolio.
Investment Credit Risk Wholesale counterparties the Society lends to default, or the value of the investment falls and the Society is obliged to crystallise that fall in value. This risk arises in relation to the treasury investments made by the Group in order to meet liquidity requirements. The risk is sensitive to market volatility and credit spreads (both general credit spreads and name specific credit spreads). For example, if the Society invests in Residential Mortgage Backed Securities, and subsequently the market value of the assets falls, the Society may have to sell the assets at a loss. The risk increases with increased market volatility.	Investments are subject to a GRC approved policy, which sets out what instruments, countries, and counterparties investments can be made in, and sets limits on exposures to instruments, countries and counterparties. Investments are monitored and reported daily to management, and monthly to ALCO, including compliance with the policy. The credit default swap rates for the Society's counterparties are monitored, and alerts raised if certain criteria are met in relation to those spreads. The mark to market value of the Society's investments in gilts, residential mortgage backed securities, and covered bonds are monitored daily and reported to ALCO monthly.		There has been no change in our overall risk exposure compared to the previous year. Whilst market volatility increased briefly during the onset of the pandemic, central banks have acted swiftly to reduce it.

Risk and Impact	Mitigation	Change in Risk Profile	Commentary
Liquidity Risk Liquidity risk is the risk of loss or failure caused by the Group being unable to meet its liabilities or commitments as they fall due, or to be able to do so only at excessive cost. For example, if there are exceptionally high withdrawals at a time when there is illiquidity in financial markets preventing the Society from selling its liquid assets, then it may have to sell assets at a discount to obtain cash.	Liquidity is subject to a GRC approved Policy, which sets out limits in relation to liquidity. Liquidity is monitored and reported to management daily, and reported to ALCO on a monthly basis, including compliance with the policy. Cashflow forecasts are used to forecast liquidity, and ensure compliance with the limits in the future. Wherever appropriate, the Group ensures it takes any necessary steps to ensure it has access to Bank of England schemes designed to support financial institutions. Stress tests are used to ensure that liquidity risk is within the risk appetite.		The Society has increased its internal liquidity in response to potential market volatility, for example as a consequence of Brexit, and continuing market speculation regarding an EU trade deal by the end of 2020. In addition, liquidity was managed prudently through the pandemic period to ensure the Group remained able to respond to any unexpected market challenges, including retail funding behaviours. Liquidity risk overall remains within our risk appetite.
Market Risk Market risk is the risk that the Group's business is negatively impacted by external market prices or factors.			
Interest Rate Risk Interest rate risk is the risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates. Basis risk is the risk that net interest income falls because of a change in the relationship between two market rates. For example, the Society has assets which earn interest based on an interbank indices rate, and liabilities where the rate is set by the Society. If interbank indices fall at a time when base rate and savings rate do not, then the Society's assets realise lower income, but the costs remain unchanged.	Interest rate risk is subject to a GRC approved policy. Interest rate risk and basis risk are subject to policy limits. They are monitored and reported to ALCO monthly, including compliance with policy. The Society uses interest rate swaps to manage interest rate risk. Derivatives are only used, in accordance with the Building Societies Act 1986, to mitigate risks arising from interest rates or indices. Forecasts are used to assess future compliance with limits and determine the need for management action. Stress tests are used to assess the Society's exposure to interest rate and basis risk. In addition, as common benchmark rates such as LIBOR are being phase out, a separate working group involving specialists from all affected areas was established to manage the Society's transition.		The overall interest rate risk to which the Society is exposed is broadly unchanged. Note 37 gives details of the derivative financial instruments held at 31 December 2020. Note 40 provides details about the Society's remaining exposure to LIBOR.
Macro-Economic Risk Macro-economic risk is that risk that a deterioration of the general economic environment in the UK could negatively impact the Group's operations and performance or increase other risks, such as credit risk. The most significant factors for the UK's economic environment are Brexit and Covid-19. Whilst the transition period to leave the EU ended on 31 December 2020 and an agreement outlining future trade relationships has been made, the longer term impact of the changes in the UK's trade relationships with the EU and other countries remains uncertain. Similarly, it is still uncertain how quickly and to what extent the UK's economy will recover from the impact of Covid-19. The overall macroeconomic risk gives rise to uncertainty and reduces the predictability of outcomes.	The Group has actively monitored and responded to the changes and preparedness requirements for the ending of the Brexit Transition Period, and the ongoing options for trade with the EU. For example, the Society has confirmed the end of its relationships with savings customers domiciled in the EU, including customers of the Society's former Gibraltar branch, The Group continues to monitor and engage in wider industry economic forecasting to ensure management understand the range of possible outcomes post Covid-19. This includes the continued use of outcomes based scenario modelling, to inform the Group's strategic decisions and risk profiles.		We continue to respond to the changes required as a result of new rules relating to the UK's trade relationship with the EU, including the cessation of customer relationships where we were previously able to continue these under EU regulation.

Risk Management Report

Continued

Risk and Impact	Mitigation	Change in Risk Profile	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. For example, if yields on gilts or corporate bonds fall, then the value of liabilities rises, resulting in a larger deficit. If the value of shares falls then the value of the pensions fund assets fall and the deficit rises.	The pension fund is overseen by the Trustees of the Scheme, within an agreed Investment Strategy. Reports prepared by the Scheme's independent actuary are reviewed by the Trustees quarterly and, if appropriate, management action is taken. The Group performs stress testing on the pension scheme liabilities and assets at least annually.		The pension fund remains in surplus on an IAS 19 basis. The Scheme is still exposed to market volatility, particularly in long term gilt and corporate bond rates. For accounting purposes, the IAS 19 asset has not been recognised on balance sheet as the Group expects that surpluses will be used to reduce risk and volatility within the Scheme with the long term objective of eliminating the pension obligation risk.
Capital Risk Capital risk is the risk that the Society is or becomes inadequately capitalised to address the risks to which it is exposed.	As a deposit taking institution, the Society's capital is highly regulated and the Group submits regular capital returns to regulators. The Group's capital position is forecast monthly and its adequacy monitored by the Board and senior management. The Group uses stress testing at least annually to assess whether its capital buffers and limits are sufficient to withstand even very severe economic and idiosyncratic conditions. The Group also maintains a recovery plan with detailed measures that could be used to rebuild the Group's capital if this was necessary. The Group maintains its capital at a level in excess of its regulatory Individual Capital Guidance and internal limits. The Group publishes further information about risk exposures in its Pillar 3 disclosures, available on the Society's website (www.newcastle.co.uk).		The Society's Common Equity Tier 1 ratio has increased from 13.9% to 14.0%.
Operational Risk Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. For the Group this definition includes legal risk, strategic risk and reputational risk. Operational risk covers examples such as a fire or accident, fraud or theft, or a failure of IT systems resulting in customers or staff being unable to log in.	Operational risk is subject to a GRC approved policy, which covers the framework for operational risk, including the measurement and management of risk, operational risk appetite, operational resilience, the use of scenario testing for operational risk, tracking of risk events and operational losses, timescales for implementation of action plans and escalation procedures for more serious risk events that require immediate action to mitigate loss. Key risks and controls are identified for all areas of the business. Risk assessments remain the responsibility of the relevant departmental managers and 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 has invested significantly in a programme of Operational Resilience which is predicated on reducing the impact of operational events within the business. The value of savings balances managed by the Solutions business and the level of income increased during 2020 (see segment information Note). During 2020 the operational risk exposure has been actively managed through the necessary operating changes brought about by the pandemic. This has included the deployment of significant remote working capability throughout the business, including remote call handling and colleague welfare. We have continued to ensure that we have remain within our overall operational risk appetite
Conduct Risk Conduct risk is the risk of customer detriment arising from the Society's activities. It is an operational risk particularly significant to the Society. Examples include products that do not perform as customers expected them to, or products being sold to customers for whom they are not suitable. Conduct risk and operational risk are closely aligned where the operational risk results in customer detriment (e.g. a failure to protect customer data is an operational risk which may result in customer detriment). For example, if the Society provides a mortgage product to a customer where the information the customer needed to make an informed decision was absent, and the product does not meet the customer's needs.	The Society maintains a risk appetite statement relating to customer outcomes and measures performance against this monthly, reporting to the ERC with oversight from the GRC. All new products are approved by a Mortgage and Savings Committee, which includes consideration of an assessment of risks to customer outcomes. The Society maintains a Customer Outcomes dashboard, which looks at evidence supporting good customer outcomes (or suggesting poor outcomes) and this is reviewed monthly and reported to ERC. The Society maintains an annual Compliance Plan, which is risk based, reporting to ERC with oversight from the GRC. In addition throughout 2020 the Society has supported customers experiencing challenges through the pandemic. Additional oversight ensured the Society's alignment with the regulatory requirements, for example in respect of payment holidays		The Society has a simple product range covering mortgages, savings, insurance, and financial advice via Newcastle Financial Advisers Limited (an Appointed Representative of Openwork).
Climate Change Risk Climate change risk recognises the risk associated with adverse climate change and the impact on the Group's operation, the impact on borrowers and the decrease in the value of security in support of Mortgage lending. Climate risk is similarly relevant to Solutions clients, and the Group may be impacted by their exposure.	The Group has robust operational resilience processes and responses to manage the impact of any transient localised climate change events. The Society has developed climate change scenarios to be used in operational and capital stress testing. The Group actively engages with the industry as a whole to consider the potential impacts and longer term scenarios of climate changes and resulting risks.		Scenario planning and modelling of climate change impacts is an evolving industry wide activity. The Group has an active programme in support of its overall climate change strategy. In 2020, we undertook an Executive and Board scenario exercise to simulate a climate change event that impacted the Group's operational stability, customers and regulatory capital. The scenario was successfully concluded.

Bryce Glover
Chair of the Group Risk Committee
4 March 2021

Independent Auditors' Report

to the Members of Newcastle Building Society

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2020 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Society balance sheets as at 31 December 2020; the Group and Society income statements and statements of comprehensive income, the Group and Society cash flow statements, and the Group and Society statements of movements in members' interests for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applied in the European Union

As explained in Note 1 to the annual accounts, the Group in addition to applying international accounting standards in conformity with the requirements of the Building Societies Act 1986, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the Group in the period from 1 January 2020 to 31 December 2020.

Our audit approach

Materiality:

- £1,137k (2019: £1,128k) - Group financial statements
- Based on 0.5% of Group net assets
- £1,123k (2019: £1,119k) - Society financial statements
- Based on 0.5% of Society net assets

Scoping:

- We conducted all of our audit work over the Group and its components using one audit team, using information obtained remotely from the Groups' staff and records based in Newcastle.
- 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.
- The Group consists of the Society and five subsidiaries. Full scope audit procedures were performed over the two significant Group components being the Society and Newcastle Strategic Solutions Limited. Specified audit procedures were also performed over certain financial information in two other subsidiaries. Our audit procedures provide coverage over 100% of the interest income of the Group and 100% of the other income balance.

Key audit matters

- Risk of material misstatement in the valuation of the equity release portfolio as a result of use of inappropriate assumptions including discount rate, early redemption rate, average dilapidation discount, mortality and HPI growth rate (Group and Society).
- Risk of inappropriate judgements and estimates relating to staging, future economic assumptions, property valuations or post model adjustments applied to the expected credit loss (ECL) allowance on loans and advances to customers (Residential, Commercial and other legacy books) (Group and Society).
- Impact of Covid-19 (Group and Society)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. 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.

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the Group/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations including, but not limited to, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations, Pension legislation and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to reduce expenditure and increase income and inappropriate management bias in accounting estimates. Audit procedures performed included:

- Review of the financial statement disclosures to underlying supporting documentation;
- Review of correspondence with and reports to the regulators;
- Testing significant accounting estimates (see key audit matters below);
- Testing of journal entries which contained unusual account combinations back to corroborating evidence;
- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud; and
- Specific audit procedures over non-interest revenue streams significant to the Group accounts.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

The impact of Covid-19 is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

Risk of material misstatement in the valuation of the equity release portfolio as a result of use of inappropriate assumptions including discount rate, early redemption rate, average dilapidation discount, mortality and HPI growth rate (Group and Society)

See note 1 to the financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 13 for detailed disclosures.

The Society has legacy equity release loans with a gross value of £182.5m (2019: £187.2m) with an insurance liability provision of £2.4m (2019: £1.5m). The Society has 'standard' equity release products, where the return to the Society is unknown, as it is based on the future loan value at the point of redemption which is not a fixed point in time given that redemption occurs on the death of the borrower or on entering long-term care.

In addition, there are fixed reversion products, where the repayment amount to the Society is fixed, but there is significant judgement around the timing of the redemption.

These loans are accounted for as insurance contracts under IFRS 4 due to the insurance risk introduced by the 'no negative equity guarantee' inherent in these products. As such, a liability adequacy test is performed to measure the expected shortfall in property value at the estimated redemption date against the value of the loan (including accrued interest) at that date. Key assumptions used in the liability adequacy model include:

- The value of the underlying security, including the long term HPI growth assumption;
- Mortality rates;
- Early redemption rates;
- The average dilapidation discount suffered on sale of the property; and
- The discount rate applied.

How our audit addressed the key audit matter

- We have reviewed the reasonableness of the HPI assumptions used to update historic property valuations and recalculated this for a sample of properties.
- For properties that have been revalued during the year , we have agreed the property valuations used in management's liability adequacy test are in line with external third party valuations obtained in the year.
- Where the directors have relied on HPI growth rates to forecast expected property values, we have assessed the appropriateness of the rates used, including the haircuts taken to property values to account for future dilapidations. We have considered whether the HPI growth rates used are comparable to the rates assumed in the IFRS 9 modelling and are applied correctly in the model. We tested the sales discount applied against actual sales discounts experienced by the Society to date. We note that combined, these are the most sensitive estimates used within the liability calculation and have considered the sufficiency of management's disclosures of sensitivities for this.
- We assessed the average dilapidation discount by testing a sample of property sales, comparing selling price to the indexed valuation at the date of sale.
- We checked that the average dilapidation discount rate was appropriately selected based on the outstanding term of the loans.
- We evaluated management's application of the relevant accounting standards for this portfolio and the subsequent treatment in the accounts.
- We have challenged management on the appropriateness of other key assumptions such as the mortality rates and early redemption rates through comparison to external indices and historic experience of the Society.

Based on the above procedures, we did not identify any material matters to be drawn to the attention of the Audit Committee.

Key audit matter

Risk of inappropriate judgements and estimates relating to staging, future economic assumptions property valuations or post model adjustments applied to the expected credit loss (ECL) allowance on loans and advances to customers (Residential, Commercial and other legacy books) (Group and Society)

See notes 12 and 41 to the financial statements for the directors' IFRS 9 impairment disclosures.

We focussed our audit work on the areas of the accounting methodology and assumptions that we identified as most judgmental. Given the impact of Covid-19 in the current year, there is increased uncertainty as to the future economic variables, particular UK house prices and unemployment, which increases the estimation uncertainty in the ECL.

For the residential book ECL, these were:

- The appropriateness of the 'staging' thresholds selected by management to determine whether a significant increase in credit risk has arisen. This determines whether a 12 month or a lifetime expected loss provision is recorded against each loan;
- The probability of default (PD) and the probability of possession given default (PPD);
- The key economic assumptions used in the model, particularly the severity and likelihood of the base and downturn economic scenarios that form part of the forward looking modelling of default rates and house price values and their impact on ECL;
- The post model adjustments made to account for areas of credit risk not captured within the base modelling solution, including those introduced as a result of Covid-19 and the government support schemes affecting borrowers.

For commercial and other legacy books' ECL, these were:

- The valuation of the collateral held as security;
- The sector specific discounts applied; and
- The different economic scenarios considered and the weightings applied to these base and downside scenarios.

How our audit addressed the key audit matter

We performed the following procedures for residential ECL:

- Tested whether the staging criteria set by management in assessing whether a significant increase in credit risk has taken place are capturing unlikeliness to pay characteristics and other indicators of customer delinquency ahead of a default event taking place.
- Tested management's monitoring controls performed throughout the year and independently re-performed monitoring tests to ensure that changes to customer behaviour are reflected in the ECL calculation.
- Assessed the PD and PPD based on historical data.
- Compared the forward-looking economic assumptions to independent forecasters when testing their reasonableness. The severity and magnitude of the scenarios were compared to external forecasts and data from historical economic downturns, and the sensitivities of the scenarios on the ECL were considered. Tests were performed to consider whether the economic scenarios applied were appropriately severe so as to capture nonlinear effects in credit losses which may arise in economic downturns and weighted appropriately given the current economic environment under Covid-19.
- Tested the appropriateness of the post model adjustments made by management, including testing of underlying assumptions within these models and consideration of completeness of adjustments made through review of ECL coverage and comparison with wider industry levels.

We have performed the following procedures for the commercial and other legacy books' ECL:

- Tested the valuations of collateral held as a security by agreeing to third party valuations (where available), which considered market data and recent sales.
- Engaged PwC property valuation experts to assess the methodology and approach used in a sample of the valuation reports across different valuers.
- Tested the appropriateness of the sector specific discounts made by management considering historical and industry data.
- Considered the based and downside economic scenarios and whether the scenarios applied were weighted appropriately.

Based on the above procedures, we did not identify any material matters to be drawn to the attention of the Audit Committee.

Key audit matter

Impact of Covid-19 (Group and Society)

The Covid-19 pandemic has disrupted financial markets and normal patterns of human behaviour during the year. This is translating into adverse impacts on the UK economy and uncertainty in the UK housing market. In response, the UK Government and the financial services regulators have announced measures to support borrowers and firms alike.

We considered the impact of Covid-19 to be an area of greater risk due to the potential for it to have pervasive implications on the Group and Society.

The directors' disclosures explaining how the pandemic gives rise to a principal risk for the Society is given in the Strategic report . Disclosures relating to the appropriateness of the use of the going concern basis of preparation and the considerations made by the directors when drawing this conclusion are given in note 1.

The directors have specifically considered the impact on the financial statements as it gives rise to greater levels of uncertainty in the following areas;

- The going concern assessment of the Society, and the Group and Society's longer-term financial sustainability; and
- The allowance for impairment of loans and advances to customers and the valuation of the insurance liability relating to the equity release portfolio (considered within the key audit matters above).

How our audit addressed the key audit matter

In assessing the Directors' consideration of the impact of COVID-19 on the financial statements, we have undertaken the following audit procedures:

We discussed the impact of Covid-19 on the Society's financial statements and operations with the Audit Committee during the year.

We critically assessed the directors' conclusions on their going concern assessment and their consideration of the impact of Covid-19 on the financial statements. We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts.

We challenged the year end value of impairment recognised on the Group's loans and advances to customers given the potential impact of the pandemic on customer behaviour, and audited the appropriateness of the assumptions used within their forecasting, as explained by the above key audit matters.

We considered the appropriateness of the disclosures made by the directors as it relates to the potential impact of Covid-19 on the Group.

As a result of these procedures, we concluded that the impact of COVID-19 as it relates to the going concern assumption and the allowance for impairment of loans and advances to customers (including the equity release portfolio) has been appropriately evaluated and reflected in the preparation of the financial statements.

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 financial statements as a whole, taking into account the structure of the Group and the Society, the accounting processes and controls, and the industry in which they operate.

Substantially all of the Group's activities are in the United Kingdom and it reports its operating results along two business lines, being the Society's Member business and Newcastle Strategic Solutions Limited's business (see note 9 of the financial statements).

We performed an audit of all material account balances and other financial information for the Society and Newcastle Strategic Solutions Limited, together with the assessment of management's going concern assumption.

We determined it necessary to perform specific audit procedures over account balances and other financial information in certain other subsidiary undertakings where such entities significantly contributed to the amount recorded in the Group financial statements. As a result, we performed audit procedures on fee and commission income in Newcastle Financial Advisers Limited, and leasehold land and buildings in Newcastle Portland House Limited.

All audit work over the Group and its components was performed by a single audit team.

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 financial statements as a whole.

Independent Auditors' Report

to the Members of Newcastle Building Society (continued)

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 in aggregate on the financial statements as a whole.

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

Group Financial Statements	
Overall materiality	£1,137k (2019: £1,128k).
How we determined it	0.5% of net assets
Society Financial Statements	
Overall materiality	£1,123k (2019: £1,119k).
How we determined it	0.5% of net assets
Rationale for benchmark applied	We believe that the subscribed capital and reserves ("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 proxy to regulatory capital, as our benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £83k and £1,123k.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £853k for the Group financial statements and £842k for the Society materiality.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £57k (Group) and £56k (Society) (2019: £56k and £56k respectively) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Review and challenge of key assumptions used by the directors in their determination of the going concern of the Group and Society;
- Review of key regulatory returns in relation to liquidity and capital and consideration of the stress testing performed;
- Consideration as to whether our audit work had identified events or conditions which may give rise to uncertainty as to the Group's future ability to trade;
- Review of legal and regulatory correspondence to ensure that no compliance issues which may impact the going concern of the Group had been identified; and
- Considered the impact of Covid-19 on the business, including key subsidiaries, and whether any further risks to going concern have arisen as a result.

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and Society's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Building Societies Act 1986 – Opinion on Annual Business Statement and Directors' Report

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

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 December 2020 is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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.

Other required reporting

Building Societies Act 1986 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 25 April 1994 to audit the financial statements for the year ended 31 December 1994 and subsequent financial periods. The period of total uninterrupted engagement is 27 years, covering the years ended 31 December 1994 to 31 December 2020.

Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
4 March 2021

Staff at Morpeth were very helpful with my queries and completed my transaction with confidence.

Robert, Morpeth customer.

Income Statements for the year ended 31 December 2020

	Note(s)	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Interest receivable and similar income					
Interest income calculated using effective interest rate	2	**91.6**	90.8	**93.1**	92.3
Interest recognised in respect of interest contracts	2	**12.7**	13.6	**12.7**	13.6
Net expense on derivatives hedging mortgage assets	2	**(21.4)**	(18.8)	**(21.4)**	(18.8)
Total interest receivable and similar income	2	**82.9**	85.6	**84.4**	87.1
Interest payable and similar charges	3	**(42.7)**	(48.7)	**(42.7)**	(48.7)
Net interest income		**40.2**	36.9	**41.7**	38.4
Other income	4	**40.0**	37.4	**11.5**	11.7
Other charges	4	**(0.3)**	(0.4)	**(0.3)**	(0.4)
Gains less losses on financial instruments and hedge accounting		**(0.7)**	0.5	**(0.7)**	0.5
Income from shares in subsidiary undertakings (dividends)	4	**-**	-	**1.9**	1.3
Total operating income		**79.2**	74.4	**54.1**	51.5
Administrative expenses	6	**(57.9)**	(53.9)	**(36.6)**	(36.0)
Depreciation and amortisation	16,18,19	**(4.9)**	(4.2)	**(2.7)**	(2.3)
Operating profit before impairments and provisions		**16.4**	16.3	**14.8**	13.2
Impairment charges on loans and advances to customers	12	**(10.5)**	(1.5)	**(10.5)**	(1.5)
Impairment charges on property and equipment	17,22	**(3.8)**	-	**(3.8)**	-
Impairment of intercompany investment	15	**-**	-	**(2.3)**	-
Provisions for liabilities and charges	27	**(0.1)**	(0.1)	**-**	(0.1)
Profit/(loss) for the year before taxation		**2.0**	14.7	**(1.8)**	11.6
Taxation expense	8	**(0.6)**	(3.3)	**-**	(2.5)
Profit/(loss) after taxation for the financial year		**1.4**	11.4	**(1.8)**	9.1

The notes on pages 76 to 133 form part of these Accounts.

Statements of Comprehensive Income for the year ended 31 December 2020

	Note	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Profit/(loss) for the financial year		**1.4**	11.4	**(1.8)**	9.1
Other comprehensive income					
Items that may be reclassified to income statement					
Movement on fair value through other comprehensive income		**0.6**	0.9	**0.6**	0.9
Income tax on items that may be reclassified to income statement	20	**(0.2)**	(0.1)	**(0.1)**	(0.2)
Total items that may be reclassified to income statement		**0.4**	0.8	**0.5**	0.7
Items that will not be reclassified to income statement					
Post-retirement defined benefit remeasurements	21	**(0.2)**	(0.8)	**(0.2)**	(0.8)
Other non classified items		**0.1**	-	**-**	-
Total items that will not be reclassified to income statement		**(0.1)**	(0.8)	**(0.2)**	(0.8)
Total comprehensive income/(loss) for the financial year		**1.7**	11.4	**(1.5)**	9.0

The notes on pages 76 to 133 form part of these Accounts.

	Note(s)	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Assets					
Cash and balances with the Bank of England		**474.6**	215.7	**474.6**	215.7
Loans and advances to banks	10	**266.4**	230.5	**250.7**	219.8
Debt securities	11	**368.7**	416.3	**368.7**	416.3
Derivative financial instruments	32	**-**	0.1	**-**	0.1
Loans and advances to customers	12	**3,477.9**	3,295.1	**3,475.8**	3,292.8
Fair value adjustments for hedged risk	14	**214.3**	186.6	**214.3**	186.6
Non-current assets held for sale	17	**4.9**	-	**-**	-
Investment in subsidiary undertakings	15	**-**	-	**41.6**	43.2
Intangible assets	16	**5.7**	2.5	**0.6**	0.5
Property, plant and equipment	18,19	**34.8**	46.5	**16.6**	20.6
Deferred tax assets	20	**0.8**	1.0	**1.0**	1.1
Current tax asset		**0.7**	-	**1.0**	-
Other assets	22	**15.5**	17.8	**15.7**	15.1
Total Assets		**4,864.3**	4,412.1	**4,860.6**	4,411.8

The notes on pages 76 to 133 form part of these Accounts.

	Note	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Liabilities					
Due to Members	23	**3,776.3**	3,400.9	**3,776.3**	3,400.9
Due to other customers	24	**121.0**	189.8	**121.0**	189.8
Deposits from banks	25	**507.0**	389.6	**507.0**	389.6
Derivative financial instruments	32	**214.3**	185.9	**214.3**	185.9
Current tax liabilities		**-**	1.2	**-**	0.6
Other liabilities	26,27	**18.2**	18.9	**19.6**	21.1
Subscribed capital	28	**20.0**	20.0	**20.0**	20.0
Reserves		**207.5**	205.8	**202.4**	203.9
Total Liabilities		**4,864.3**	4,412.1	**4,860.6**	4,411.8

These Accounts were approved by the Board of Directors on 4 March 2021 and signed on its behalf by:

Phil Moorhouse, Chairman of the Board

Andrew Haigh, Chief Executive

Mick Thompson, Chair of Audit Committee

The notes on pages 76 to 133 form part of these Accounts.

Statements of Movements in Members' Interests for the year ended 31 December 2020

Group

	General Reserve £m	Fair Value Through Other Comprehensive Income £m	Total £m
At 1 January 2020	204.4	1.4	205.8
Movement in the year	1.3	0.4	1.7
At 31 December 2020	**205.7**	**1.8**	**207.5**

	General Reserve £m	Fair Value Through Other Comprehensive Income £m	Total £m
At 1 January 2019	193.8	0.6	194.4
Movement in the year	10.6	0.8	11.4
At 31 December 2019	**204.4**	**1.4**	**205.8**

Society

	General Reserve £m	Fair Value Through Other Comprehensive Income £m	Total £m
At 1 January 2020	202.6	1.3	203.9
Movement in the year	(2.0)	0.5	(1.5)
At 31 December 2020	**200.6**	**1.8**	**202.4**

	General Reserve £m	Fair Value Through Other Comprehensive Income £m	Total £m
At 1 January 2019	194.3	0.6	194.9
Movement in the year	8.3	0.7	9.0
At 31 December 2019	**202.6**	**1.3**	**203.9**

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

The notes on pages 76 to 133 form part of these Accounts.

Cash Flow Statements for the year ended 31 December 2020

	Note	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Net cash inflows from operating activities	30	**227.3**	189.0	**216.7**	185.8
Corporation tax paid		**(2.2)**	(1.3)	**(2.2)**	(1.3)
Payment into defined benefit pension scheme		**(0.2)**	(0.8)	**(0.2)**	(0.8)
Cash inflows from operating activities		**224.9**	186.9	**214.3**	183.7
Cash (outflows) / inflows from investing activities					
Purchase of property, plant and equipment		**(5.6)**	(8.6)	**(1.0)**	(4.7)
Sale of property, plant and equipment		**-**	0.4	**-**	0.4
Increase in loans to subsidiary undertakings		**-**	-	**1.0**	(1.4)
Purchase of investment securities		**(110.7)**	(213.5)	**(110.7)**	(213.5)
Sale and maturity of investment securities		**158.8**	127.2	**158.8**	127.2
Net cash inflows / (outflows) from investing activities		**42.5**	(94.5)	**48.1**	(92.0)
Cash outflows from financing activities					
Interest paid on subordinated liabilities		**-**	(0.8)	**-**	(0.8)
Interest paid on subscribed capital		**(2.3)**	(2.3)	**(2.3)**	(2.3)
Repayment of subordinated liabilities		**-**	(25.0)	**-**	(25.0)
Payment for finance lease arrangements		**(1.2)**	(0.9)	**(1.2)**	(0.9)
Net cash outflows from financing activities		**(3.5)**	(29.0)	**(3.5)**	(29.0)
Net increase in cash		**263.9**	63.4	**258.9**	62.7
Cash and cash equivalents at start of year		**226.4**	163.0	**215.7**	153.0
Cash and cash equivalents at end of year	30	**490.3**	226.4	**474.6**	215.7

The notes on pages 76 to 133 form part of these Accounts.

1 Significant Accounting Policies

Basis of Preparation

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

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

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

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

The comparative financial statement amounts have been presented consistently with the 2019 financial statements other than reclassification of amounts within interest receivable and similar income. There has been no impact on profit after tax or balance sheet. See note 2 to the accounts for further information.

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 financial and operating policies so as to obtain benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Upon consolidation, inter-company transactions, balances and unrealised gains on transactions are eliminated. The accounting policies of subsidiaries are consistent with Group accounting policies.

Income Recognition

Interest Income and Expense

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

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

Fees and Commissions Income and Charges

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

Other Income

Other income relates to property income recognised under IFRS 16 and income from contract with customers recognised under IFRS 15. Please see note 5 for details on income from contracts with customers.

Financial Assets

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

Financial Assets held at Amortised cost

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

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

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

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

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

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

Insurance Contracts

The Group's equity release mortgage assets are accounted for under IFRS 4 Insurance Contracts, as they contain no-negative equity guarantees that meet the IFRS 4 criteria for classification as insurance contracts. Equity release mortgages assets are held at amortised cost less insurance liability, and interest is recognised in accordance with the EIRM, based on contractual interest rates.

Included in equity release mortgage balances is a fixed reversion book. For this book, the repayment amount is determined at completion, but the timing of redemption is uncertain. Interest on fixed reversion loans is recognised based on the implicit interest rate in the contract. To reflect actual experience, the interest recognised is adjusted on a regular basis using an actuarial model.

The Group recognises all insurance obligations arising from no-negative equity guarantees. As such, the Group is not required, and has not elected to 'unbundle' the insurance and deposit components of its equity release mortgages, with the mortgages therefore accounted in full under IFRS 4. 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. See note 13 to the accounts for further information.

1 Significant Accounting Policies (continued)

Financial Assets held at Fair Value through Other Comprehensive Income

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

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

Financial Assets held at Fair Value through Profit and Loss

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

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

Impairment of Financial Assets

The Group provides for expected credit losses across applicable financial assets based on whether there has been a significant increase in credit risk since the asset's origination.

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

Internal provisioning models are used to determine expected credit losses for each individual asset, based on four different economic scenarios (base, upside, downside, stressed downside). The four scenarios are assigned a probability weighting to determine the loss allowance recognised.

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

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

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

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

1 Significant Accounting Policies (continued)

Financial Liabilities

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

Property, Equipment and Intangible Assets

Intangible Assets

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

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

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

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

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

Freehold Property and Equipment

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

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

Freehold buildings:

Freehold buildings	- 2% per annum, straight line

Equipment, fixtures and fittings:

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

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

Leasehold Property

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

Leasehold buildings are depreciated on the following basis:

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

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

1 Significant Accounting Policies (continued)

Non-Current Assets Held for Sale

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

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

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

Investment Property

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

Taxation

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

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

Under 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 Group does not recognise IAS 19 pensions surpluses on its Balance Sheet. IAS 19 pensions deficits are recognised immediately with relevant actuarial remeasurements recognised in the Statement of Comprehensive Income. IAS 19 service costs are recognised in the Income Statements.

Provisions

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. Contingent liabilities have not been recognised.

Segment Information

The operating segments disclosed (Member business and Solutions business) are those used in the Group's management and internal reporting structures (for the Chief Operating Decision Maker) 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.

Critical Accounting Estimates and Judgements in applying Accounting Policies

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

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 21 to the Annual Accounts.

Impairment of Financial Assets

Implementation of high quality impairment models requires significant management experience and judgement, both in assessing historic performance trends and factors and in projecting these into uncertain future economic environments. External professional modelling assistance has been coupled with the Society's extensive internal expertise to facilitate a robust implementation compliant with accounting standards.

Key estimates used in the models include:

- Predictions about future Bank of England base rates, UK unemployment rates, UKs nominal Gross Domestic Product, UK Household Income and future residential and sector specific commercial property prices.
- The predictive capacity of the following key indicators with respect to whether a borrower will ultimately default on their mortgage obligations: forbearance, mortgage fraud, borrower insolvency, bankruptcy, voluntary repossession and falling into 1 month and 3 months arrears.
- The average time taken to sell defaulted property and the average sale adjustments suffered when selling.
- The weightings of different economic scenarios.

These judgements include whether the insurance liability booked in respect to equity release mortgages is sufficient to meet the liability adequacy test required under IFRS 4. Further details are given in notes 41 and 42.

1 Significant Accounting Policies (continued)

Fair Value of Derivatives and Financial Assets

Fair values are determined by the three tier valuation hierarchy as defined within IFRS 7, Financial Instruments and judgement is applied in determining the asset's level in the valuation hierarchy. 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 notes 34 and 37.

Accounting Developments

At the date of approval of these financial statements the following amendments to International Financial Reporting Standards relevant to these accounts are mandatory for the first time for the financial year beginning 1 January 2020.

Following the financial crisis, regulators have taken action to replace interest rate benchmarks, such as LIBOR, with the transition period ending on 31 December 2021. Amendments have been made to IFRS 9, IAS 39 and IFRS 7 to accommodate direct effects of the interest rate benchmark reform. The amendments are implemented in two phases. Only phase 1 is mandatory for financial years beginning 1 January 2020, with phase 2 being mandatory for accounting periods starting 1 January 2021. However, the Group has decided to early adopt phase 2 of the amendments, which the amendments permit.

The amendments provide reliefs where, as a direct effect of the interest rate reform, hedge accounting could not be applied, hedging relationships would have to be discontinued or financial instruments would have to be de-recognised. See Note 40 for details.

Developments not effective at 31 December 2020

There are a number of new or amended standards which become effective in 2021, and beyond. Early adoption is permitted, but the Society does not intend to adopt the standards before their mandatory date.

Amendments to IAS 1, Presentation of financial statements' on classification of liabilities are effective from 1 January 2022.

IFRS 17, Insurance Contracts, is expected to replace IFRS 4, Insurance Contracts on 1 January 2023. On transition, the Society will have a policy choice to transition to either IFRS 17 or IFRS 9.

2 Interest receivable and similar income

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
On loans and advances to customers	**87.2**	82.3	**88.7**	83.9
On debt securities				
- interest and other income	**3.3**	4.7	**3.3**	4.6
- profits net of losses on realisation	**0.2**	0.4	**0.2**	0.4
On other liquid assets				
- interest and other income	**0.9**	3.4	**0.9**	3.4
Interest recognised in respect of insurance contracts	**12.7**	13.6	**12.7**	13.6
Net expense on derivatives hedging assets	**(21.4)**	(18.8)	**(21.4)**	(18.8)
	82.9	85.6	**84.4**	87.1

Interest receivable and other income includes **£3.5m** (2019: £4.6m) from fixed income securities.

In line with IFRIC guidance (from March 2018) and IFRS 9, the Group presents interest income recognised under IFRS 4 separately in the income statement as Interest recognised in respect of insurance contracts. In the 2019 financial statements, this was included in Interest income calculated using effective interest rate. To ensure the prior year balances are comparable, a balance of £13.6m was reclassified in respect to 2019.

In addition, certain costs and income recognised using the effective interest rate method are included in Interest income calculated using effective interest rate in line with IFRS 9, but in 2019 had been included elsewhere in the Income Statement. To ensure the prior year balance is comparable, the following reclassifications have been made to the 2019 financial statements. Other income decreased by £2.7m, other charges decreased by £3.9m and administration expenses decreased by £0.5m, resulting in a net decrease in interest income of £1.7m.

Neither of the adjustments had an impact on operating profit or profit before or after tax.

3 Interest payable and similar charges

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
On shares held by individuals	**37.8**	40.4	**37.8**	40.4
On subscribed capital	**2.3**	2.3	**2.3**	2.3
On deposits and other borrowings				
- subordinated liabilities	**-**	0.8	**-**	0.8
- to other depositors and borrowers	**2.4**	5.5	**2.4**	5.5
On finance leases	**0.2**	0.2	**0.2**	0.2
Net income on derivatives hedging liabilities	**-**	(0.5)	**-**	(0.5)
	42.7	48.7	**42.7**	48.7

4 Other income and charges

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Other income				
Fee and commission income	**5.9**	6.4	**1.5**	1.9
Other operating income	**34.1**	31.0	**10.0**	9.8
	40.0	37.4	**11.5**	11.7

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Other charges				
Fee and commission expense	**0.3**	0.4	**0.3**	0.4

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Dividend income				
Received from subsidiary undertakings	**-**	-	**1.9**	1.3

5 Revenue from contracts with customers

1. Disaggregation of revenue from contracts with customers

The Group and Society derives revenue from the transfer of services at a point in time and over time in the following business segments and service areas.

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Solutions Business				
Savings management services recognised over time	**31.6**	27.5	**-**	0.7
Savings management project and change services recognised over time	**1.2**	0.9	**-**	-
IT services recognised over time	**0.7**	0.6	**-**	-
	33.5	29.0	**-**	0.7
Member Business				
Regulated advice services recognised at a point in time	**1.8**	2.5	**-**	-
Regulated advice services recognised over time	**2.5**	2.0	**-**	-
Third party services recognised at a point in time	**0.6**	0.7	**0.6**	0.7
Other services recognised over time	**0.1**	-	**0.1**	-
	5.0	5.2	**0.7**	0.7
Total revenue from contracts with customers	**38.5**	34.2	**0.7**	1.4

In accordance with IFRS 8, 'Operating Segments', the Group reports the following segments; Member business and Solutions business. When the Group prepares financial information for management, it disaggregates revenue by segment and service type. Revenue from contracts with customers generated by the Solutions business and the Member business is included in 'Other income and charges' within the Segment information note.

Disaggregation of intercompany income for the Society is included in the Related parties note.

5 Revenue from contracts with customers Continued

2. Unsatisfied long-term service contracts

The following table shows partially unsatisfied performance obligations resulting from fixed-price long-term contracts as at 31 December 2020:

	GROUP	
	2020 £m	2019 £m
Aggregate amount of transaction price allocated to long-term savings management contracts	**5.8**	3.3
Aggregate amount of transaction price allocated to long-term IT services	**2.4**	2.2
	8.2	5.5

In relation to savings management contracts, the Group expects to recognise approximately £1.8m of the unearned amount in 2021, and £4.0m thereafter. In relation to savings management systems contracts, the Group expects to recognise approximately £0.6m of the unearned amount in 2021, and £1.8m thereafter.

3. Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	GROUP	
	2020 £m	2019 £m
Asset recognised for costs incurred to fulfil a contract	**0.1**	0.1
Contract liability for IT savings management systems	**0.1**	0.1

In adopting IFRS 15, the Group recognised an asset in relation to costs to fulfil a long-term IT contract, and a liability for income received in advance of performance under a long-term IT contract. The amounts for each are included within Other assets and Other liabilities on the Balance Sheet.

5 Revenue from contracts with customers Continued

4. Descriptions of segments

Savings management, and savings project and change services

Savings management, and savings project and change services are provided by the Society's subsidiary, Newcastle Strategic Solutions Limited (NSSL). NSSL provide outsourced savings management services which cover the full lifecycle of a savings management contract, including implementation, operation, and decommission.

Revenue for implementation, project, and change services is recognised over time, inline with milestones achieved by NSSL. Each milestone has a corresponding transaction price which represents the portion of the service provided to the customer at that point in time. Revenue for savings management administration is recognised over time in discrete monthly amounts which are calculated based on actual work completed by NSSL in the relevant month. Revenue for providing an ongoing savings management service is recognised monthly in line with the time elapsed in each individual contract. The amount of revenue recognised for ongoing savings management is spread evenly throughout the contractual term, consistent with the pattern of transfer of the service to the customer.

NSSL receive consideration for all services based on an invoicing schedule set out in the contracts with customers. Implementation, project, and change services are invoiced upon achievement of each milestone. Savings management services are invoiced monthly. All invoices relate to performance completed up to the invoice date and the related consideration is unconditional. It is recognised as a receivable on the Balance Sheet until payment is received, which is typically the month following the invoice date in line with contractual payment terms.

IT services

NSSL provide managed IT services to the Group and external customers, which includes managed IT solutions for savings management and client account systems, and data storage services.

Revenue for all services is recognised monthly in line with the time elapsed in each individual contract. The amount of revenue recognised for savings management systems and data storage services is spread evenly throughout the contractual term, consistent with the pattern of transfer of the service to the customer. The amount of revenue recognised for client account systems is calculated based on the actual asset balance held by a customer in the relevant month.

NSSL receives consideration for all services based on an invoicing schedule set out in the contracts with customers. With the exception of data storage services, all invoices relate to performance completed up to the invoice date, and are invoiced in either annual or quarterly periods. Consideration is unconditional, and is recognised as a receivable on the Balance Sheet until payment is received, which is typically the month following the invoice date in line with the contractual payment terms. Consideration for data storage services is received annually in advance of performance, for which a contract liability is recognised.

Regulated advice services

Regulated advice services are provided by the Society's subsidiary, Newcastle Financial Advisers Limited (NFAL). All services derive from the company's principal activity, the provision of financial planning services, and include regulated advice, ongoing advice, and life protection plans. The company is an appointed representative of Openwork Limited, and provides services on behalf of Openwork Limited. For the purposes of IFRS 15, Openwork Limited are the sole customer of the company and all consideration for the services provided by the company is received from Openwork Limited.

Revenue for regulated advice and protection plans is recognised when confirmation of the investment or plan is received by Openwork Limited, and the service is complete. Revenue for ongoing advice is recognised on a straight-line basis at the end of each month the service is in place. Consideration for regulated advice and protection plans is calculated using contractually stated and agreed rates, on an ad valorem basis for regulated advice, and dependant upon specific product lines for protection plans. Consideration for ongoing service is calculated on an annual basis at a percentage of an investment portfolio.

NFAL receive consideration for all services based on an invoicing schedule set out in the contract with Openwork Limited. Consideration is received monthly and relates to performance completed in the previous month. Consideration is unconditional, and is recognised as a receivable on the Balance Sheet until payment is received, which is typically the month following the invoice date inline with the contractual payment terms.

Third party services

Third party services are provided by the Society through its branch network and online. The Society introduces customers to third parties who provide funeral plans, estate management services, and general insurance. The Society is the principal in the relationship with each third party provider and has no contractual relationship for the third party service with the customer.

The service provided by the Society of introducing or referring customers to a third party is complete once the third party provider has agreed a sale with the customer. Revenue for all services is recognised when cash is received, which in all instances is in line with, or shortly after, completion of the third party contract in line with contractual payment terms. Consideration for all services is calculated based on discrete, and contractually agreed, transaction prices which are noted as a commission amount to the Society. The Society receives consideration based on an invoicing schedule agreed with each third party and all payments received relate to performance completed up to the invoice date.

All services

Due to the nature of services provided, IFRS 15 is more material to NSSL and NFAL than to the Society or the Group. Details of transactions which are not material to the Group, but are material to the individual companies, can be found in the specific company's annual report and accounts.

The transaction prices for all services provided by the Group are calculated using contractually stated and agreed rates. There are no elements of variable consideration and no critical judgements in allocating the transaction price.

The Group measures impairment losses on receivable balances as of the end of the reporting period at an amount equal to lifetime expected credit losses in accordance with IFRS 9, 'Financial Instruments'. Provisions held against receivable balances at 31 December 2020 are not material.

Notes to the Accounts for the year ended 31 December 2020

6 Administrative expenses

	Note	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Staff costs	7	**41.2**	39.1	**20.7**	18.7
Rentals under operating leases for land and buildings					
- payable to third parties		**0.5**	0.4	**0.1**	0.2
- payable to subsidiary undertaking		**-**	-	**0.1**	0.1
Other administrative expenses		**16.2**	14.4	**15.7**	17.0
		57.9	53.9	**36.6**	36.0

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

	GROUP 2020 £'000	GROUP 2019 £'000	SOCIETY 2020 £'000	SOCIETY 2019 £'000
Regular fees payable for the audit of Society and consolidated financial statements	**176**	155	**176**	155
Additional fees payable for the audit of the Society and consolidated financial statements due to scope changes relating to Covid-19	**55**	-	**55**	-
Fees payable for the audit of subsidiaries	**146**	50	**20**	15
Fees payable for other audit related assurance services	**60**	35	**60**	35
Fees payable for non-audit services	**15**	16	**15**	16
	452	256	**326**	221

7 Staff costs

	Note	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Wages and salaries		**33.4**	32.5	**16.7**	15.3
Social security costs		**3.5**	2.9	**1.6**	1.3
Pension costs for defined contribution scheme		**4.3**	3.7	**2.4**	2.1
	6	**41.2**	39.1	**20.7**	18.7

Directors' emoluments are disclosed in the Remuneration Committee Report.

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

	GROUP 2020	GROUP 2019	SOCIETY 2020	SOCIETY 2019
Full time	**992**	928	**420**	372
Part time	**263**	240	**164**	155
	1,255	1,168	**584**	527
Head Office	**1,040**	978	**392**	361
Branches	**215**	190	**192**	166
	1,255	1,168	**584**	527

8 Taxation expense

	Note	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Current tax					
Current year		**0.6**	2.0	**0.2**	1.3
Adjustments in respect of previous years		**-**	-	**(0.1)**	-
Total current tax		**0.6**	2.0	**0.1**	1.3
Deferred tax					
Current year		**-**	1.1	**(0.1)**	1.0
Adjustments in respect of prior years		**0.2**	0.2	**0.1**	0.2
Effect of changes in tax rates		**(0.2)**	-	**(0.1)**	-
Total deferred tax	20	**-**	1.3	**(0.1)**	1.2
Total taxation expense in Income Statements		**0.6**	3.3	**-**	2.5

Analysis of taxation expense for the year

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

	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Analysis of taxation expense for the year				
Profit/(loss) for the year before taxation	**2.0**	14.7	**(1.8)**	11.6
Profit/(loss) before taxation at the standard rate of corporation tax in the UK of **19%** (2019: 19%)	**0.4**	2.8	**(0.3)**	2.2
Expense not deductible for tax purposes:				
Non-taxable dividend income received	**-**	-	**(0.4)**	(0.2)
Expenses not deductable for tax	**0.1**	-	**0.1**	(0.1)
Other items not deductable for tax	**0.1**	0.4	**0.7**	0.4
Change in forward tax rates	**(0.2)**	-	**(0.1)**	-
Adjustments in respect of prior years	**0.2**	0.1	**-**	0.2
Total taxation expense	**0.6**	3.3	**-**	2.5

Factors affecting future tax charges

The Society has brought forward trading losses for tax purposes which are expected to affect future taxable profits (see further details in note 20).

9 Segment information

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

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

The 'Member business' segment provides mortgage, savings, investment and insurance products to Members and customers. The 'Solutions business' segment (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 impairments and provisions is also assessed as this provides information on underlying business performance.

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

Period to 31 December 2020	**Member Business £m**	**Solutions Business £m**	**Group Business £m**
Net interest income	**41.8**	**(1.6)**	**40.2**
Other income and charges	**-**	**39.0**	**39.0**
Administrative expenses	**(24.8)**	**(33.1)**	**(57.9)**
Depreciation and amortisation	**(2.8)**	**(2.1)**	**(4.9)**
Operating profit before impairments and provisions	**14.2**	**2.2**	**16.4**
Impairment charges on loans and advances to customers	**(10.5)**	**-**	**(10.5)**
Provisions for liabilities and charges	**-**	**(0.1)**	**(0.1)**
	3.7	**2.1**	**5.8**
Impairment charges on property and equipment			**(3.8)**
Profit for the year before taxation			**2.0**
Taxation expense			**(0.6)**
Profit after taxation for the financial year			**1.4**

Period to 31 December 2019*	Member Business £m	Solutions Business £m	Group Business £m
Net interest income	37.8	(0.9)	36.9
Other income and charges	5.0	32.5	37.5
Administrative expenses	(25.6)	(28.3)	(53.9)
Depreciation and amortisation	(2.8)	(1.4)	(4.2)
Operating profit before impairments and provisions	14.4	1.9	16.3
Impairment charges on loans and advances to customers	(1.5)	-	(1.5)
Provisions for liabilities and charges	(0.1)	-	(0.1)
Profit for the year before taxation	12.8	1.9	14.7
Taxation expense			(3.3)
Profit after taxation for the financial year			11.4

*Please note the period to 31 December 2019 has been restated.

10 Loans and advances to banks

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

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Accrued interest	**-**	0.1	**-**	0.1
On demand	**15.7**	10.7	**-**	-
In not more than three months	**250.7**	221.2	**250.7**	221.2
Gross loans and advances to banks	**266.4**	232.0	**250.7**	221.3
Less: allowance for losses on loans and advances to banks	**-**	(1.5)	**-**	(1.5)
	266.4	230.5	**250.7**	219.8

Allowance for losses on loans and advances to banks

	GROUP and SOCIETY	
	2020 £m	2019 £m
Balance at 1 January	**1.5**	1.5
Amounts utilised during the year	**(1.5)**	-
At 31 December	**-**	1.5

At 31 December 2020 the Society had loans and advances to Icelandic banks totalling £nil (2019: £1.5m), against which allowance for losses of £nil (2019: £1.5m) has been made.

11 Debt securities

	GROUP and SOCIETY	
Transferable debt securities	**2020 £m**	2019 £m
Issued by public bodies - listed	**41.1**	95.1
Issued by other borrowers - unlisted	**327.6**	321.2
	368.7	416.3

These have remaining maturities as follows:		
Accrued interest	**0.5**	1.0
In not more than one year	**43.5**	101.0
In more than one year but not more than five years	**309.2**	262.6
In more than five years	**15.5**	51.7
	368.7	416.3

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

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

12 Loans and advances to customers

	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Loans fully secured on residential property	**3,452.4**	3,249.9	**3,450.3**	3,247.6
Loans fully secured on land	**39.2**	47.6	**39.2**	47.6
Other loans	**1.9**	2.6	**1.9**	2.6
Gross loans and advances	**3,493.5**	3,300.1	**3,491.4**	3,297.8
Less: allowance for losses on loans and advances	**(15.6)**	(5.0)	**(15.6)**	(5.0)
	3,477.9	3,295.1	**3,475.8**	3,292.8

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

	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
On demand	**4.5**	4.3	**4.5**	4.3
In not more than three months	**25.8**	22.0	**25.8**	22.0
In more than three months but not more than one year	**68.7**	59.5	**68.6**	59.5
In more than one year but not more than five years	**386.9**	320.0	**386.8**	319.9
In more than five years	**3,007.6**	2,894.3	**3,005.7**	2,892.1
Gross loans and advances	**3,493.5**	3,300.1	**3,491.4**	3,297.8
Less: allowance for losses on loans and advances	**(15.6)**	(5.0)	**(15.6)**	(5.0)
	3,477.9	3,295.1	**3,475.8**	3,292.8

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 some mortgages are redeemed before their scheduled maturity date.

As a consequence, the maturity analysis illustrated above may not reflect actual experience.

12 Loans and advances to customers Continued

Allowance for losses on loans and advances

Group and Society

	Loans fully secured on residential property £m	**Loans fully secured on land £m**	**Other loans £m**	**Total £m**
Balance at 1 January 2020	3.2	1.8	-	5.0
Charge for the year	2.9	7.6	-	10.5
Utilised during the year	-	(0.1)	-	(0.1)
Interest suspended adjustment	-	0.2	-	0.2
Balance at 31 December 2020	**6.1**	**9.5**	**-**	**15.6**

Group and Society

	Loans fully secured on residential property £m	Loans fully secured on land £m	Other loans £m	Total £m
Balance at 1 January 2019	2.3	9.4	-	12.0
Charge for the year	0.9	0.6	-	1.5
Utilised during the year	-	(8.2)	-	(8.5)
Balance at 31 December 2019	**3.2**	**1.8**	**-**	**5.0**

13 Insurance contracts

The Group's equity release mortgage assets are accounted for as insurance contracts under IFRS 4. The mortgages were advanced as indeterminate length fixed interest rate contracts, to be repaid in full at maturity through sale of the mortgaged properties. Most equity release contracts contain a no-negative-equity guarantee; that is, where the value of a mortgaged property at the point of sale falls short of the contractual amount due to the Group, the shortfall is written off. Equity release mortgages are presented on Balance Sheet as part of the Group's loans and advances to customers net of any anticipated recovery shortfall identified through IFRS 4 liability adequacy testing.

	Gross mortgage balances £m	Insurance liability £m	Net position presented on balance sheet £m
31 December 2020	**182.5**	**(2.4)**	**180.1**
31 December 2019	187.2	(1.5)	185.7

The gross mortgage balances above reflect the Group's maximum pre collateral exposure to credit risk at 31 December. The Group typically expects its equity release mortgages to be repaid through sale of the underlying properties. In all instances the Group holds the contractual right to sales proceeds required to repay a borrower's mortgage at the time of sale. Property collateral of £467.8m (2019: £507.1m) is held against the Group's equity release exposures. By their nature, equity release mortgages are not considered to hold a pre-determined maturity date.

The insurance liability of **£2.4m** (2019: £1.5m) reflects discrete provisions made against equity release mortgages with an expected shortfall. In 2020, no claims have been made under no negative equity guarantees.

Against equity release insurance contract assets the following income and charges have been recognised through the income statements:

	Interest income £m	Insurance liability charge £m
31 December 2020	**12.7**	**0.9**
31 December 2019	13.6	0.4

Risk management for insurance liabilities is the same as the credit risk management of residential mortgage portfolios, see note 41 for details. All movements in insurance liabilities relate to changes in insurance risk and updates to assumptions used in calculating insurance risk.

The Group recognises interest income on a per asset basis using the effective interest rate method. For equity release mortgages, the effective interest rate is considered to be the contractual fixed rate of interest detailed in the mortgage contracts.

For fixed reversion contracts, the effective interest rate is considered to be the rate implicit in the mortgage contract, with interest recognised being adjusted on a regular basis for actual repayment experience. The balances recognised in respect to fixed reversion mortgages included in the total above are as follows:

	Net position presented on balance sheet £m	Interest income £m	Fair value gains included in interest income £m
31 December 2020	**23.1**	**1.6**	**0.3**
31 December 2019	25.1	1.4	-

Insurance liabilities are calculated on a per mortgage basis. The Group makes use of an actuarial model to calculate the difference between discounted contractual amounts due to the Group and the discounted expected value of property collateral across a range of probability weighted maturity dates. Maturity dates are derived from the latest life tables issued by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries (S3PA tables). Details about the core assumptions used in the model and a sensitivity analysis to these assumptions is provided in note 42.

The Group's equity release mortgages' primary identified risk is interest rate risk, as discussed in the Risk Management Report.

The Group does not consider the insurance risk arising from no negative equity guarantees across its equity release mortgage books to be a material risk. The Group's equity release books are closed to new entrants with limited further advances available to existing customers at the discretion of the Group. The Group's equity release lending was conducted at low loan to values, protecting the Group from adverse movements in originally expected mortality and house price growth.

14 Fair value adjustments 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 adjustments for hedged risk'.

The cumulative fair value adjustment for hedged risk for assets for the Group and Society was **£214.3m** (2019: £186.6m).

The cumulative fair value adjustment for hedged risk for liabilities for the Group and Society was **£nil** (2019: £nil).

15 Investments in subsidiary undertakings

Society

Investments in subsidiary undertakings	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2020	13.0	30.8	43.8
Additions	-	1.7	1.7
Repayments received	-	(1.0)	(1.0)
At 31 December 2020	**13.0**	**31.5**	**44.5**
Provisions			
At 1 January 2020	0.6	-	0.6
Impairment in intercompany investment	2.3	-	2.3
	2.9	**-**	**2.9**
Net book amount at 31 December 2020	**10.1**	**31.5**	**41.6**

Investments in subsidiary undertakings	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2019	12.0	30.4	42.4
Additions	1.0	1.8	2.8
Repayments received	-	(1.4)	(1.4)
At 31 December 2019	**13.0**	**30.8**	**43.8**
Provisions			
At 1 January and 31 December 2019	**0.6**	**-**	**0.6**
Net book amount at 31 December 2019	**12.4**	**30.8**	**43.2**

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 Advisers 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 savings management and IT services
Newcastle Systems Management Limited	The company has not been trading since its assets were transferred into Newcastle Strategic Solutions Limited in 2019

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.

16 Intangible assets

Group

	Purchased software £m	Internally developed software: Work in Progress £m	Internally developed software: In Use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2020	8.4	-	-	0.3	8.7
Additions	2.0	1.2	0.9	0.1	4.2
At 31 December 2020	**10.4**	**1.2**	**0.9**	**0.4**	**12.9**
Accumulated depreciation					
At 1 January 2020	6.2	-	-	-	6.2
Charge for the year	0.8	-	0.1	0.1	1.0
At 31 December 2020	**7.0**	**-**	**0.1**	**0.1**	**7.2**
Net book amount at 31 December 2020	**3.4**	**1.2**	**0.8**	**0.3**	**5.7**

Group

	Purchased software £m	Internally developed software: Work in Progress £m	Internally developed software: In Use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2019	7.4	-	-	-	7.4
Additions	1.0	-	-	0.3	1.3
At 31 December 2019	**8.4**	**-**	**-**	**0.3**	**8.7**
Accumulated depreciation					
At 1 January 2019	5.6	-	-	-	5.6
Charge for the year	0.6	-	-	-	0.6
At 31 December 2019	**6.2**	**-**	**-**	**-**	**6.2**
Net book amount at 31 December 2019	**2.2**	**-**	**-**	**0.3**	**2.5**

Society

	Purchased software £m	Internally developed software: Work in Progress £m	Internally developed software: In Use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2020	2.2	-	-	-	2.2
Additions	0.3	-	-	-	0.3
At 31 December 2020	**2.5**	**-**	**-**	**-**	**2.5**
Accumulated depreciation					
At 1 January 2020	1.7	-	-	-	1.7
Charge for the year	0.2	-	-	-	0.2
At 31 December 2020	**1.9**	**-**	**-**	**-**	**1.9**
Net book amount at 31 December 2020	**0.6**	**-**	**-**	**-**	**0.6**

16 Intangible assets Continued

Society

	Purchased software £m	Internally developed software: Work in Progress £m	Internally developed software: In Use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2019	2.0	-	-	-	2.0
Additions	0.2	-	-	-	0.2
At 31 December 2019	**2.2**	**-**	**-**	**-**	**2.2**
Accumulated depreciation					
At 1 January 2019	1.6	-	-	-	1.6
Charge for the year	0.1	-	-	-	0.1
At 31 December 2019	**1.7**	**-**	**-**	**-**	**1.7**
Net book amount at 31 December 2019	**0.5**	**-**	**-**	**-**	**0.5**

Purchased software

Purchased software relates to IT systems purchased from external providers, with a useful economic life longer than one year.

Internally developed software

Internally developed software relates to capitalised staff costs for developing new IT systems or enhancing the functionality of existing ones. The Software is either used by the group or licenses are sold to third parties. Internally developed software assets are classified as work in progress until the software is ready to use. Once it is ready to use, it is reclassified as Internally developed software in use and amortised over its useful economic life.

Acquired customer lists

Acquired customer lists relate to customer lists acquired by Newcastle Financial Advisers Limited. In 2019, Newcastle Financial Advisers bought Fidelis Financial Solutions Limited and integrated its trade and assets into its own operations. In 2020, the customer list of Carter James Associates Limited was acquired and integrated into Newcastle Financial Advisers Limited.

17 Non-current assets held for sale

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Leasehold land and buildings	**4.9**	-	**-**	-

The balance recognised as non-current assets held for sale relates to Portland House, formerly the Group's head office. In September 2020, the Board took the decision that the property would no longer play a part in the Group's property strategy. Negotiations to sell the property started immediately and led to an exchange of contracts in December 2020. The sale is expected to complete in March 2021.

After the Board's decision to dispose of the property, an impairment charge of £3.8m was recognised in the income statement to reflect the property's expected market value, less costs to sell. The property was then reclassified as a non-current asset held for sale.

18 Property, plant and equipment

Group

	Freehold buildings £m	Leasehold land and buildings £m	Equipment fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2020	2.9	34.1	28.1	65.1
Additions	-	0.4	1.0	1.4
Transfers to available for sale assets	-	(11.5)	(5.6)	(17.1)
Adjustments	0.1	-	-	0.1
Disposals	-	(0.2)	(0.3)	(0.5)
At 31 December 2020	**3.0**	**22.8**	**23.2**	**49.0**
Accumulated depreciation				
At 1 January 2020	0.7	5.4	15.4	21.5
Charge for the year	-	1.6	2.2	3.8
Impairment	-	1.8	2.0	3.8
Transfers to available for sale assets	-	(6.3)	(5.6)	(11.9)
Adjustments	0.1	0.1	-	0.2
Disposals	-	(0.1)	(0.1)	(0.2)
At 31 December 2020	**0.8**	**2.5**	**13.9**	**17.2**
Net book amount at 31 December 2020	**2.2**	**20.3**	**9.3**	**31.8**

Group

	Freehold buildings £m	Leasehold land and buildings £m	Equipment fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2019	3.1	21.1	22.6	46.8
IFRS 16 Day 1 Transition	-	6.6	-	6.6
Additions	-	1.8	5.8	7.6
Transfers	-	5.8	-	5.8
Write Offs	-	(1.2)	-	(1.2)
Disposals	(0.2)	-	(0.3)	(0.5)
At 31 December 2019	**2.9**	**34.1**	**28.1**	**65.1**
Accumulated depreciation				
At 1 January 2019	0.7	4.6	13.6	18.9
Charge for the year	0.1	1.1	2.0	3.2
Transfers	-	0.3	-	0.3
Write Offs	-	(0.6)	-	(0.6)
Disposals	(0.1)	-	(0.2)	(0.3)
At 31 December 2019	**0.7**	**5.4**	**15.4**	**21.5**
Net book amount at 31 December 2019	**2.2**	**28.7**	**12.7**	**43.6**

The impairment charge relates to the Group's current head office, which will be disposed of. See note 17 for details.

18 Property, plant and equipment Continued

Society

	Freehold buildings £m	Leasehold land and buildings £m	Equipment fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2020	2.9	7.6	17.7	28.2
Additions	-	0.4	0.3	0.7
Transfer to available for sale assets	-	-	(5.6)	(5.6)
Adjustments	0.1	0.1	-	0.2
Disposals	-	(0.2)	(0.1)	(0.3)
At 31 December 2020	**3.0**	**7.9**	**12.3**	**23.2**
Accumulated depreciation				
At 1 January 2020	0.9	0.6	9.2	10.7
Charge for the year	-	1.1	1.4	2.5
Impairment	-	-	2.0	2.0
Transfer to available for sale assets	-	-	(5.6)	(5.6)
Adjustments	-	0.1	-	0.1
Disposals	-	-	(0.1)	(0.1)
At 31 December 2020	**0.9**	**1.8**	**6.9**	**9.6**
Net book amount at 31 December 2020	**2.1**	**6.1**	**5.4**	**13.6**

Society

	Freehold buildings £m	Leasehold land and buildings £m	Equipment fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2019	3.1	-	14.5	17.6
IFRS 16 Day 1 Transition	-	6.6	-	6.6
Additions	-	1.0	3.5	4.5
Disposals	(0.2)	-	(0.3)	(0.5)
At 31 December 2019	**2.9**	**7.6**	**17.7**	**28.2**
Accumulated depreciation				
At 1 January 2019	0.8	-	8.3	9.1
Charge for the year	0.1	0.6	1.2	1.9
Disposals	-	-	(0.3)	(0.3)
At 31 December 2019	**0.9**	**0.6**	**9.2**	**10.7**
Net book amount at 31 December 2019	**2.0**	**7.0**	**8.5**	**17.5**

18 Property, plant and equipment Continued

Leases

The right of use assets recognised for leases is included in the table above as "Leasehold land and buildings"

The corresponding lease liability is included in Other liabilities note.

Lease liabilities are expected to amortise as follows:

	GROUP and SOCIETY 2020 £m	2019 £m
Within one year	**1.0**	0.9
In one to five years	**3.9**	4.2
In more than five years	**2.1**	2.8
	7.0	7.9

The following charges are included in the income statement in respect to leases:

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Depreciation of right of use assets included in administrative expenses	**1.6**	1.1	**1.1**	0.6
Interest charges on lease liabilities (note 3)	**0.2**	0.2	**0.2**	0.2
Expenses relating to short term and low value leases included in administrative expenses				
- payable to third parties	**0.5**	0.4	**0.1**	0.2
- payable to subsidiary undertakings	**-**	-	**0.1**	0.1
	2.3	1.7	**1.5**	1.1

The following amounts are payable under non-canceable leases classified as short term or small:

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Total minimum lease payments:				
Within one year	**0.1**	0.1	**-**	0.1
In more than one year	**0.1**	-	**-**	-
	0.2	0.1	**-**	0.1

19 Investment property

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Cost				
At 1 January	**4.0**	10.0	**4.0**	4.3
Transfers	**-**	(5.8)	**-**	-
Adjustments	**0.1**	-	**0.1**	-
Disposals	**-**	(0.2)	**-**	(0.2)
At 31 December	**4.1**	4.0	**4.1**	4.1
Accumulated depreciation				
At 1 January	**1.1**	0.9	**0.9**	0.6
Charge for the year	**0.1**	0.4	**-**	0.3
Adjustments	**(0.1)**	-	**0.2**	-
Disposals	**-**	(0.2)	**-**	-
At 31 December	**1.1**	1.1	**1.1**	0.9
Net book amount at 31 December	**3.0**	2.9	**3.0**	3.1

Included within Investment property are freehold and leasehold commercial buildings, which are owned by the Society and Group, and held to earn rental income. The transfer relates to Cobalt, which now is occupied exclusively by the Group, and has therefore been reclassified within fixed assets.

Management consider the purchase price less depreciation to represent a fair value for properties held. No formal third party valuation of the Society or Group investment property holdings was undertaken during 2020 with the properties managed to facilitate continued operation (via rental to third parties or otherwise) and not towards view of speculative sale.

During 2020 rental income from investment properties of **£0.2m** was recognised in both Group and Society (2019: £0.2m). Directly attributable operating expenses to investment property are not measured as both Group and third parties occupy the properties.

20 Deferred tax

The movement on the deferred tax account is shown below.

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
At 1 January	**1.0**	2.3	**1.1**	2.2
Income Statement expense	**-**	(1.1)	**0.1**	(1.0)
Other	**-**	0.1	**(0.1)**	0.3
Previous year adjustment	**(0.2)**	(0.2)	**(0.1)**	(0.2)
Effect of change in tax rates	**0.2**	-	**0.1**	-
Credited on items taken directly through reserves	**(0.2)**	(0.1)	**(0.1)**	(0.2)
At 31 December	**0.8**	1.0	**1.0**	1.1

Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	**0.1**	1.0	**0.4**	0.9
Deferred tax asset to be recovered in more than 12 months	**0.7**	-	**0.6**	0.2
	0.8	1.0	**1.0**	1.1

The table below shows the items deferred tax are attributable to and how movements in the deferred tax assets and liabilities are reflected in the Income Statement and the Statement of Other Comprehensive income.

Group

	2019 £m	Charge credited to Income Statements £m	Other Comprehensive Income £m	2020 £m
Trading losses	**0.8**	(0.1)	**-**	0.7
Depreciation in excess of capital allowances	**0.4**	-	**-**	0.4
Other items	**(0.2)**	0.1	**(0.2)**	(0.3)
	1.0	-	**(0.2)**	0.8

Society

	2019 £m	Charge credited to Income Statements £m	Other Comprehensive Income £m	2020 £m
Trading losses	**0.8**	(0.1)	**-**	0.7
Depreciation in excess of capital allowances	**0.4**	0.2	**-**	0.6
Other items	**(0.1)**	-	**(0.2)**	(0.3)
	1.1	0.1	**(0.2)**	1.0

21 Retirement benefit obligations

Group and Society Pension schemes

The Society operates a UK registered trust based pension scheme, Newcastle Building Society Pension and Assurance Scheme, that provides defined benefits. The Scheme was closed to new entrants in 2000 and closed the future accrual of benefits in 2010. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier).

The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:

- Deferred members: current and former employees of the Society who are not in receipt of a Scheme pension; and
- Pensioner members: in receipt of Scheme pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit obligations (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. A proportion of benefits receive increases linked to inflation (subject to a cap of no more than 5% pa). The valuation method used is known as the Projected Unit Method.

The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2020 was 17 years. (2019: 17 years).

Future funding obligation

The Trustees are required to carry out an actuarial valuation every 3 years. The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 30 June 2019. This valuation revealed the Scheme had no funding deficit relative to the Scheme's statutory funding objective and so no deficit reduction contributions are payable.

However, the Society has agreed to pay contributions of up to £300,000 per annum in respect of Scheme expenses and levies.

Assumptions

The results of the actuarial valuation as at 30 June 2019 have been updated to 31 December 2020 by a qualified independent actuary. The assumptions used for the IAS 19 year end valuation are as follows:

Significant actuarial assumptions	**2020**	2019
Discount rate	**1.40%**	2.05%
RPI inflation	**2.95%**	3.00%
CPI inflation	**2.20%**	2.00%
Mortality assumptions		
Mortality (post-retirement)	**SAPS 'S3'CMI 2018 [1.25%] (yob)**	SAPS 'S3'CMI 2018 [1.25%] (yob)
Other actuarial assumptions		
RPI pension increases	**2.90%**	2.95%
Pension increases in deferment	**2.20%**	2.10%
Life expectancies (in years)		
For an individual aged 62		
Male	**24.6 years**	24.5 years
Female	**27.0 years**	26.9 years
At age 62 for an individual aged 42 in 2020		
Male	**26.0 years**	25.9 years
Female	**28.5 years**	28.4 years

21 Retirement benefit obligations Continued

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 assets. These assets are expected to outperform corporate bonds in the long term, but provide volatility and risk in the short term.
- **Changes in bond yields:** A decrease in corporate bond yields would increase the Scheme's defined benefit obligation. The Scheme invests in Liability Driven Investments (LDI) assets, which are designed to offset the impact of changes to market yields. Changes in bond yields are therefore not expected to be a significant source of balance sheet volatility other than significant changes in credit spreads.
- **Inflation risk:** A significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place), although the Scheme's LDI holding is expected to offset the impact of inflation rate changes to some extent.
- **Mortality risk:** If Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's defined benefit obligation.

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

- **Diversification:** Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- **Investment strategy:** The Trustees are required to review their investment strategy on a regular basis.
- **Liability driven investment (LDI):** The Scheme invests in LDI assets, whose long term investment returns are expected to partially hedge interest rate and inflation rate movements.
- **Pension increase exchange:** The Trustees currently offer retiring members an option to exchange future pension increases for a higher immediate pension. This has reduced the Scheme liabilities for retired members who have already taken up the option and, based upon the assumption of future take up, for deferred members who will retire in future.

Sensitivity analysis	Change in	Change in defined
Assumption	assumption	benefit obligation
Discount rate	+ 0.5% / – 0.5%	– 8% / + 8%
Inflation	+ 0.5% / – 0.5%	+ 4% / – 4%
Assumed life expectancy	+ 1 year / –1 year	– 5% / +5%

Limitations of the sensitivity analysis

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

Asset class at market value

The assets of the Scheme were invested as follows:

	2020 %	2019 %
Equities	**21.6**	21.8
Diversified Growth Funds	**13.8**	14.3
Corporate bonds	**27.4**	26.7
Fixed interest and index linked gilts	**36.7**	31.7
Cash	**0.5**	5.5
Total	**100.0**	100.0
Actual return on assets over the period (£m)	**14.6**	16.9

All assets listed above are held as Legal & General Pooled Investment Vehicles with the exception of the small amount in the Trustees bank account. The Multi Asset class consists of a single diversified fund with underlying assets of equities, bonds, commodities and listed infrastructure, property, private equity and global real estate companies.

21 Retirement benefit obligations Continued

Reconciliation to the Balance Sheet

	2020 £m	2019 £m
Total value of assets	**125.7**	116.1
Present value of defined benefit obligation	**(120.1)**	(108.1)
Funded status	**5.6**	8.0
Adjustment in respect of minimum funding requirement	**(5.6)**	(8.0)
Pension asset recognised in the Balance Sheet before allowance for deferred tax	**-**	-

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

	2020 £m	2019 £m
Value of defined benefit obligation at start of period	**108.1**	93.4
Interest cost	**2.2**	2.6
Benefits paid	**(5.2)**	(4.3)
Past service cost	**0.1**	-
Actuarial (gains)/losses: experience differing from that assumed	**(0.8)**	4.5
Actuarial (gains): changes in demographic assumptions	**-**	(0.2)
Actuarial losses: changes in financial assumptions	**15.7**	12.1
Value of defined benefit obligation at end of period	**120.1**	108.1

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

	2020 £m	2019 £m
Market value of assets at start of period	**116.1**	102.6
Interest income	**2.3**	2.8
Actual return on assets less interest	**12.3**	14.1
Employer contributions	**0.6**	1.2
Benefits paid	**(5.2)**	(4.3)
Administration costs	**(0.4)**	(0.3)
Market value of assets at end of period	**125.7**	116.1

Amount recognised in Income Statements

	2020 £m	2019 £m
Administration costs	**0.4**	0.3
Amount charged to Income Statements	**0.4**	0.3

Amounts recognised in Statements of Comprehensive Income

	2020 £m	2019 £m
Actuarial losses on defined benefit obligation	**(14.9)**	(16.4)
Actual return on assets less interest	**12.3**	14.1
Limit on recognition of assets less interest	**2.4**	1.5
Amounts recognised in Statements of Comprehensive Income	**(0.2)**	(0.8)

Guaranteed minimum pension equalisation

On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that trustees are under a duty to make sure that equal benefits are paid, including where these benefits are in the form of GMP. As a result, all schemes with GMP rights will have to act to allow for equalisation of benefits for the effect of unequal GMPs. This is known as GMP equalisation. As a result of this judgment, auditors generally expect companies to make an allowance for any increase in the defined benefit obligation that they expect as a result of GMP equalisation. As per previous years, an approximate allowance for the impact of GMP equalisation of 0.5% of the defined benefit obligation has been made. This considers current members of the Scheme only.

21 Retirement benefit obligations Continued

Past transfers

The 2018 judgment did not consider whether trustees needed to include past transfers within the perimeter of GMP equalisation. However, this question was addressed in a further judgment handed down on 20 November 2020. This judgment confirmed, broadly, that past individual transfers do need to be included (to the extent they related to relevant GMP benefits), but that actuarially certified bulk transfers do not. The 2020 judgement has resulted in an increase in the Group's estimated scheme liabilities of £0.1m. As the Group does not recognise defined benefit pension surpluses on balance sheet, the effect of the GMP charge has not impacted the Group's total comprehensive income for the year, as the GMP charge reduces a net surplus position that has already been derecognised from the Balance Sheet in previous years.

22 Other assets

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Receivable from subsidiary undertakings	**-**	-	**5.4**	1.1
Prepayments and accrued income	**11.4**	12.8	**8.4**	12.0
Other	**4.1**	5.0	**1.9**	2.0
	15.5	17.8	**15.7**	15.1

23 Due to Members

	GROUP and SOCIETY	
	2020 £m	2019 £m
Held by individuals	**3,776.1**	3,400.7
Other shares	**0.2**	0.2
	3,776.3	3,400.9

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

Accrued interest	**12.4**	16.2
On demand	**1,659.4**	1,445.8
In more than three months	**1,468.1**	1,396.8
In more than three months but not more than one year	**65.6**	227.5
In more than one year but not more than five years	**567.4**	312.7
In more than five years	**3.4**	1.9
	3,776.3	3,400.9

24 Due to other customers

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Due to other customers	**121.0**	189.8	**121.0**	189.8
	121.0	189.8	**121.0**	189.8

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

Accrued interest	**0.3**	0.9	**0.3**	0.9
On demand	**8.1**	5.1	**8.1**	5.1
In not more than three months	**80.8**	75.0	**80.8**	75.0
In more than three months but not more than one year	**31.8**	101.8	**31.8**	101.8
In more than one year but not more than five years	**-**	7.0	**-**	7.0
	121.0	189.8	**121.0**	189.8

25 Deposits from banks

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

	GROUP and SOCIETY	
	2020 £m	2019 £m
Accrued interest	**0.2**	0.7
In not more than three months	**155.8**	43.7
In more than three months but not more than one year	**131.0**	84.2
In more than one year but not more than five years	**220.0**	261.0
	507.0	389.6

26 Other liabilities

	GROUP		SOCIETY	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Amounts payable to subsidiary undertakings	**-**	-	**3.0**	4.2
Obligations under finance leases	**7.0**	7.9	**7.0**	7.9
Other creditors	**2.0**	1.5	**1.2**	0.9
Accruals and deferred income	**8.5**	8.7	**7.8**	7.3
	17.5	18.1	**19.0**	20.3

27 Provisions for liabilities and charges

Group

	FSCS Levy £m	Other Provisions £m	Total £m
Opening provision at 1 January 2020	**-**	**0.8**	**0.8**
New provisions for the year	**-**	**0.2**	**0.2**
Released provisions during the year	**-**	**(0.1)**	**(0.1)**
Amounts utilised / transferred during the year	**-**	**(0.2)**	**(0.2)**
Closing provision at 31 December 2020	**-**	**0.7**	**0.7**

Group

	FSCS Levy £m	Other Provisions £m	Total £m
Opening provision at 1 January 2019	0.1	0.8	0.9
New provisions for the year	-	0.6	0.6
Released provisions during the year	-	(0.4)	(0.4)
Amounts utilised / transferred during the year	(0.1)	(0.2)	(0.3)
Closing provision at 31 December 2019	-	0.8	0.8

Society

	FSCS Levy £m	Other Provisions £m	Total £m
Opening provision at 1 January 2020	**-**	**0.8**	**0.8**
New provisions for the year	**-**	**0.1**	**0.1**
Released provisions during the year	**-**	**(0.1)**	**(0.1)**
Amounts utilised / transferred during the year	**-**	**(0.2)**	**(0.2)**
Closing provision at 31 December 2020	**-**	**0.6**	**0.6**

Group

	FSCS Levy £m	Other Provisions £m	Total £m
Opening provision at 1 January 2019	0.1	0.8	0.9
New provisions for the year	-	0.6	0.6
Released provisions during the year	-	(0.4)	(0.4)
Amounts utilised / transferred during the year	(0.1)	(0.2)	(0.3)
Closing provision at 31 December 2019	-	0.8	0.8

Provision for Financial Services Compensation Scheme Levy

At 31 December 2019 and 2020 the Society no longer held a provision for the FSCS levy

Other provisions

Other provisions include an estimate of the costs of potential consumer redress and restructure costs

28 Subscribed capital

	GROUP and SOCIETY 2020 £m	2019 £m
12.625% permanent interest bearing shares	**10.0**	10.0
10.750% permanent interest bearing shares	**10.0**	10.0
	20.0	20.0

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.

29 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 2020. Commitments in respect to leases classified as short term or small under IFRS 16 are disclosed in note 18.

	GROUP and SOCIETY 2020 £m	2019 £m
Irrevocable undrawn committed loan facilities	**237.4**	215.8

30 Note to the Cash Flow Statements

	GROUP 2020 £m	GROUP 2019 £m	SOCIETY 2020 £m	SOCIETY 2019 £m
Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities				
Profit/(loss) before taxation	**2.0**	14.7	**(1.8)**	11.6
Depreciation and amortisation	**4.9**	4.2	**2.7**	2.3
Interest on subordinated liabilities	**-**	0.8	**-**	0.8
Interest on subscribed capital	**2.3**	2.3	**2.3**	2.3
Increase in derivative financial instruments	**28.5**	11.0	**28.5**	11.0
Increase in other financial liabilities at fair value through profit or loss	**(27.7)**	(11.1)	**(27.7)**	(11.1)
Changes in retirement benefit obligations	**0.3**	0.3	**0.3**	0.3
Other non-cash movements	**14.7**	(13.9)	**13.9**	(14.8)
Net cash inflow before changes in operating assets and liabilities	**25.0**	8.3	**18.2**	2.4
Increase in loans and advances to customers	**(193.4)**	(515.9)	**(193.6)**	(516.4)
Increase in cash collateral pledged	**(30.9)**	(19.4)	**(30.9)**	(19.4)
Increase in shares	**375.4**	687.2	**375.4**	687.2
Increase in amounts due to other customers and deposits from banks	**48.6**	27.0	**48.6**	25.9
Decrease / (increase) in other assets, prepayments and accrued income	**2.3**	(5.4)	**(0.6)**	0.4
(Decrease) / increase in other liabilities	**0.3**	7.2	**(0.4)**	5.7
Net cash inflow from operating activities	**227.3**	189.0	**216.7**	185.8
Cash and cash equivalents				
Cash and balances with the Bank of England	**474.6**	215.7	**474.6**	215.7
Loans and advances to banks repayable on demand	**15.7**	10.7	**-**	-
At 31 December	**490.3**	226.4	**474.6**	215.7

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.

IAS 7 "statement of cashflows" requires enhanced disclosures around changes in liabilities from financing activities arising from cash flows and non cash changes.

Changes of liabilities arising from financing liabilities in the year were as follows:

	Balance sheet 31 December 2019	Non-cash changes: Day 1 adjustment*	Non-cash changes: Accrued interest/lease charge	Cash Flows: Interest payment flows	Cash Flows: Capital repayment flows	Cash Flows: Other	Balance sheet 31 December 2020
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Subscribed capital (PIBS)	**20.2**	**-**	**2.3**	**(2.3)**	**-**	**-**	**20.2**
Finance lease arrangements	**7.9**	**0.1**	**0.2**	**(0.2)**	**(1.0)**	**-**	**7.0**

	Balance sheet 31 December 2018	Non-cash changes: Day 1 adjustment*	Non-cash changes: Accrued interest/lease charge	Cash Flows: Interest payment flows	Cash Flows: Capital repayment flows	Cash Flows: Other**	Balance sheet 31 December 2019
	£m	£m	£m	£m	£m	£m	£m
Subordinated liabilities	25.0	-	1.0	(1.0)	25.0	-	-
Subscribed capital (PIBS)	20.4	-	0.9	(1.1)	-	-	20.2
Finance lease arrangements	0.9	6.4	0.2	(0.9)	(0.9)	2.2	7.9

Opening and closing balance sheet positions include applicable accrued interest. The Group's financing liabilities are held on balance sheet at their amortised cost and are denominated in Sterling. Accordingly, the accounting value of the Group's financing liabilities has not been impacted by changes in fair value or foreign exchange rates during the year to 31 December 2020.

*Day 1 adjustment relates to finance lease arrangements on the recognition of IFRS 16 lease liability on balance sheet.

**This relates to new leases entered into in 2019.

31 Related parties

The Group is controlled by Newcastle Building Society which is registered in England and Wales and operates in the United Kingdom. Further details of subsidiary undertakings are disclosed in Note 15 to these Accounts. 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 to Directors and their close family members

	2020 £000	2019 £000
At 31 December	**266**	-

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

	2020 £000	2019 £000
At 31 December	**291**	446

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

There were no other transactions with Directors or their close family members during 2019 or 2020.

Transactions with other Group undertakings

The Society receives managed IT, property and business support services from Newcastle Strategic Solutions Limited, a wholly owned subsidiary of the Society. The Society provides financial and administrative services to Newcastle Strategic Solutions Limited. In 2019, the Society also received services from and delivered services to Newcastle Systems Management Limited, another wholly owned subsidiary of the Society that was merged with Newcastle Strategic Solutions Limited in 2019.

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

(a) Sales of financial and administrative services

	2020 £000	2019 £000
Newcastle Systems Management Limited	**-**	630
Newcastle Strategic Solutions Limited	**9,588**	7,698

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

(b) Purchases of services:

	2020 £000	2019 £000
Managed IT and Property Services		
Newcastle Systems Management Limited	**-**	2,955
Business Support Services		
Newcastle Strategic Solutions Limited	**5,400**	4,388
Property Rental		
Newcastle Portland House Limited	**66**	66

Purchased services are negotiated with related parties on commercial terms.

31 Related parties Continued

At 31 December 2020 the following unsecured balances remained outstanding with related parties:

(c) Outstanding balances:

	Amounts owed to Society		Amounts owed by Society	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Newcastle Systems Management Limited	**41**	-	**-**	-
Newcastle Strategic Solutions Limited	**5,325**	1,066	**118**	392
Newcastle Financial Advisers Limited	**9**	-	**3**	3
Newcastle Portland House Limited	**19**	19	**2,885**	2,891
Newcastle Mortgage Loans (Jersey) Limited	**16**	16	**-**	-

At 31 December 2020 the following borrowings and cash deposits remained outstanding with related parties:

(d) Borrowings/ cash deposits:

	Amounts borrowed from Society		Amounts deposited with Society	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Newcastle Strategic Solutions Limited	**29,969**	29,002	**-**	-
Newcastle Mortgage Loans (Jersey) Limited	**1,562**	1,836	**-**	-

	Interest paid to Society		Interest paid by Society	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Newcastle Systems Management Limited	**-**	805	**-**	3
Newcastle Strategic Solutions Limited	**1,560**	737	**-**	1
Newcastle Mortgage Loans (Jersey) Limited	**96**	131	**-**	-

(e) Lease relationships:

Newcastle Strategic Solutions Limited lease office space in the Group's head office from the Society under contractual leases. The initial lease term ended in 2020, and it now operates on a three months rolling basis and is treated as short term leases under IFRS 16 as at 31 December 2020.

The contractual lease payments to the Society in the next financial year in respect to this lease are £47,000.

32 Accounting for financial instruments

Disclosures relating to financial instruments in notes 33 to 43 are given on a Group basis, as the risks of the organisation are managed on a Group basis. The Society basis is not considered to be materially different from the Group basis for any of these disclosures.

Note 1 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following measurement basis acronyms are used throughout this disclosure:

FVOCI Fair value through other comprehensive income

FVTPL Fair value through profit or loss

The Group has financial assets and liabilities for which there is a practical right to offset the recognised amounts, and which are settled net in practice. However, the netting arrangements do not result in an offset of balance sheet assets and liabilities for accounting purposes as the right to offset is not unconditional in all circumstances. Therefore, there are no financial assets or liabilities which are offset with the net amount presented on the balance sheet.

The Group has not reclassified any financial assets during the year.

Notes 33-35 provide further information on the classification and valuation of financial instruments.

Notes 36-40 provide further information on the Group's interest rate risk management

Notes 41-43 provide further information on the Group's credit risk management

The Group does not have exposures to currency risk and has no material exposure to equity risk.

33 Categories of financial instruments

The following table analyses the financial assets and liabilities in the balance sheet by the class of financial instrument to which they are assigned and by the measurement basis.

		Amortised Cost	FVOCI	FVTPL	Total
Group as at 31 December 2020	Note	£m	£m	£m	£m
Cash in hand and balances with the Bank of England*		474.6	-	-	474.6
Loans and advances to banks	10	266.4	-	-	266.4
Debt securities	11	-	368.7	-	368.7
Derivative financial instruments	37	-	-	-	-
Fair value adjustments for hedged risk	14	-	-	214.3	214.3
Loans and advances to customers	12	3,477.9	-	-	3,477.9
Other assets, of which financial	22	3.9	-	0.6	4.5
Total financial assets		**4,222.8**	**368.7**	**214.9**	**4,806.4**
Financial liabilities					
Due to Members - shares	23	3,776.3	-	-	3,776.3
Due to other customers	24	121.0	-	-	121.0
Deposits from banks	25	507.0	-	-	507.0
Derivative financial instruments	37	-	-	214.3	214.3
Subscribed capital	28	20.0	-	-	20.0
Other liabilities, of which financial	26	1.7	-	-	1.7
Total financial liabilities		**4,426.0**	**-**	**214.3**	**4,640.3**

33 Categories of financial instruments Continued

Group as at 31 December 2019	Note	Amortised Cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England*		215.7	-	-	215.7
Loans and advances to banks	10	230.5	-	-	230.5
Debt securities	11	-	416.3	-	416.3
Derivative financial instruments	37	-	-	0.1	0.1
Fair value adjustments for hedged risk	14	-	-	186.6	186.6
Loans and advances to customers	12	3,295.1	-	-	3,295.1
Total financial assets		**3,741.3**	**416.3**	**186.7**	**4,344.1**
Financial liabilities					
Due to Members - shares	23	3,400.9	-	-	3,400.9
Fair value adjustments for hedged risk	14	-	-	-	-
Due to other customers	24	189.8	-	-	189.8
Deposits from banks	25	389.6	-	-	389.6
Derivative financial instruments	37	-	-	185.9	185.9
Subscribed capital	28	20.0	-	-	20.0
Total financial liabilities		**4,000.3**	**-**	**185.9**	**4,186.2**

*Cash in hand includes £15.7m (2019: £10.7m) in cash held by the Society's subsidiary entities.

All of the Group's FVTPL financial assets and liabilities are mandatorily measured at fair value under IFRS 9. The Group has not elected to hold at FVTPL any financial assets or liabilities that could otherwise have been held at amortised cost or at FVOCI.

Cash in hand and balances with the Bank of England
Cash held for liquidity and operational purposes 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 counterparties to be repaid to the Society in future periods.

Debt securities
Assets comprising covered bonds, residential mortgage backed securities, and government gilts. Investments made to utilise liquid cash reserves to generate interest income.

Derivative financial instruments
Financial instruments whose value is derived from an underlying asset, index or reference rate it is linked to. The Group does not operate a derivative financial instruments trading book. 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.

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.

Subscribed capital
Permanent Interest Bearing Shares issued by the Society, with further details given in Note 27.

Notes to the Accounts for the year ended 31 December 2020

34 Financial instruments held at fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For assets held at fair value, the following table summarises the basis for measuring the fair value, using the three levels defined in IFRS 13:

	Level	2020 £m	2019 £m
Financial assets			
Debt securities at FVOCI	1	**368.7**	416.4
Equity investments (included in other assets)	1	**0.3**	0.3
Derivative financial instruments	2	**-**	0.1
Fair value adjustments for hedged risk on underlying items	2	**214.3**	175.9
Equity investments (included in other assets)	3	**0.3**	0.1
Financial liabilities			
Derivative financial instruments	2	**214.3**	185.9
Fair value adjustments for hedged risk on underlying items	2	**-**	0.4

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).

The Society does not trade in financial instruments but is required to demonstrate the liquidity of its debt security holdings for regulatory purposes on a periodic basis. As a result, the Society crystallised gains of £0.2m during the year (2019: gains of £0.4m) through sale of FVOCI debt securities.

No financial instruments have been reclassified during the year.

35 Fair value of assets held at amortised cost

Fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's or Society's balance sheets at their fair value. These assets and liabilities are held at values reflecting their intended use. In all cases, this is via collection of contractual amounts due and not through disposal. This is deemed to also reflect their best use. If the Society's intended use of an asset or liability changes, the accounting adopted for the item is revisited for reclassification. The carrying values below reflect the Group's maximum exposure to counterparty credit risk at 31 December 2020.

Group

			Carrying value		Fair value	
	Note	Level*	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Financial assets						
Cash and balances with the Bank of England		1	**474.6**	215.7	**474.6**	215.7
Loans and advances to banks	10	1	**266.4**	230.5	**266.4**	230.5
Loans and advances to customers	12	3	**3,477.9**	3,295.1	**3,689.3**	3,475.7
Other assets, of which financial	22	1	**3.9**	-	**3.9**	-
Financial liabilities						
Due to Members - shares	23	3	**3,776.3**	3,400.9	**3,822.2**	3,423.3
Due to other customers	24	3	**121.0**	189.8	**122.1**	193.3
Deposits due to other banks	25	3	**507.0**	389.6	**507.1**	390.0
Subscribed capital	28	1	**20.0**	20.0	**35.0**	34.2
Other liabilities, of which financial	26	3	**1.7**	6.9	**1.7**	6.9

*Levels are defined in note 34.

The Group does not trade in financial instruments. Against level three assets there is no expectation that a deferred gain or loss on initial recognition will be recognised in future periods: the transaction price at inception is considered to reflect an appropriate day one fair value. For short term receivables and payables within other assets and other liabilities, the carrying value of amounts due and owed is considered to approximate the fair value of the amounts due and owed. IFRS 9 based impairment allowances against other assets is not material.

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 cash flows 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.

Subscribed capital

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

Notes to the Accounts for the year ended 31 December 2020

36. 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 the 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.

	2020 +2% £m	**-2% £m**	**2019 +2% £m**	**-2% £m**
Next 12 months	0.4	(0.4)	4.1	(0.5)
Next 24 months	(1.1)	2.3	4.6	0.2
Next 36 months	(2.3)	4.6	8.9	(0.3)

Please see notes 37-40 for details about instruments used for managing interest rate risk.

The exposure to interest rate risk due to the Group's defined benefit pension scheme is detailed in note 21.

37 Derivative financial instruments

The Group uses interest swaps to hedge against interest rate risk. Offsetting collateral is pledged and received in line with underlying Credit Support Annexes (CSA) with the Group's financial counterparties. The table below shows the fair value of the Group's swaps portfolios and the collateral pledged/received against these.

Group as at 31 December 2020

	Gross Amount **£m**	Master netting arrangements **£m**	Financial collateral **£m**	Net amount **£m**
Financial assets				
Interest rate swaps	-	-	-	-
Financial liabilities				
Interest rate swaps	(214.3)	-	218.6	4.3

Group as at 31 December 2019

	Gross Amount **£m**	Master netting arrangements **£m**	Financial collateral **£m**	Net amount **£m**
Financial assets				
Interest rate swaps	0.1	(0.1)	-	-
Financial liabilities				
Interest rate swaps	(185.9)	0.1	190.4	4.6

Cash collateral is posted and received on a daily basis to minimise the Group's and the counterparty's counterparty credit risk. Collateral posted is measured against counterparty mark-to-market values and may not reflect the Society's internal valuation of its financial instruments.

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

The Society has continued to make use of the London Clearing House (LCH) through 2020, minimising its exposure to non-LCH counterparties. The protected manner of LCH collateral placements mitigates counterparty credit risk with respect to collateral that would otherwise be pledged to non-centralised derivative counterparties.

Financial collateral of £32.0m (2019: £29.2m) has been placed with LCH with respect to 'initial margin': an amount calculated by central counterparties to protect against potential future exposures that could arise from valuation changes. This is in addition to the 'variation margin', covering LCH's current exposure to the Society. The Society's collateral pledged against initial margin requirements is not included in the collateral column above, but it is included in note 38. The remaining overcollateralization of £4.3m (2019: £4.6m) shown above relates to differences between internal valuations used for reporting purposes and counterparty valuations which collateral is based on.

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

38 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 in note 37. Cash collateral received is the legal property of the Group with no obligation to return. Similarly, cash collateral pledged is no longer under the Group's legal ownership or control.

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

	2020 £m	2019 £m
Cash collateral received under CSA agreements	**-**	-
Other financial assets collateral pledged under repurchase agreements	**821.7**	586.4
Cash collateral paid under CSA agreements	**250.6**	219.7

As at 31 December 2020 an immediate 100bp uplift in the zero-coupon 3-month yield curve would produce collateral inflows of **£73.6m** (2019: £69.1m).

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

39 Hedge accounting

The Group is exposed to interest rate risk across its fixed interest rate financial assets and liabilities.

The Society's core business is to provide competitive mortgage and savings products to its Members. Deposits by Members fund the Society's mortgage lending, with the Society paying an interest charge in return for deposited funds, and borrowers pay to the Society an interest income in return for the funds they have borrowed.

Mortgage contracts attracting a fixed rate of interest are typically the most popular of the Society's mortgage offerings, with a fixed rate usually agreed for a term of two to five years. By contrast, most of the Society's deposits are made under short term agreements, with deposits often repayable 'on demand'. This introduces 'interest rate risk' to the Society's business, as when market-wide interest rates move, the return received on mortgage assets adjusts more slowly than the return paid on Member deposits.

To address this risk, the Society enters into interest rate swap agreements with external counterparties. These contracts protect against interest rate risk by 'swapping' a portion of the Society's fixed interest rate exposure to a variable rate: the Society agrees to pay a fixed rate to a financial counterparty for a period of time in exchange for receipt of a variable interest rate against a notional balance. The resulting variable interest income received matches the Society's variable interest expense.

Derivative financial instruments, including interest swaps, are held at fair value, which changes when market interest rates change; and this change is reflected in the Income statement. However, the mortgages they are used to hedge are held at amortised cost, and thus their value on the Society's balance sheet does not change in line with market interest rates. The Society applies fair value hedge accounting to address this mismatch. Hedge accounting allows to post an adjustment for the value change in the hedged risk; and the movement of this adjustment is reflected in the Income Statement. If the hedge is effective, the adjustment in relation to swaps' fair value change and the hedged risks' fair value change net off.

The Society makes use of two different types of accounting hedges: The hedged instrument in a micro hedge is a specific mortgage contract or a specific group of such contracts. The hedged instrument in a macro hedge is a defined portion of a mortgage book, but this portion is re-designated on a regular basis to reflect changes in the hedged portfolio, such as mortgage prepayments or new mortgage contracts.

The Society enters into derivative contracts for hedging purposes only. However, not all interest rate swaps may be designated in accounting hedge relationships. This could be the case if the hedged instrument is held at fair value, and there is therefore no mismatch to be addressed by hedge accounting, or if the restrictive accounting rules do not allow for a hedge to be designated or make it impractical to do so.

39 Hedge accounting Continued

Maturity analysis of hedging instruments

The maturity profile of the Society's hedging instruments as at 31 December 2020 is as follows:

	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Interest rate swaps designated in macro fair value hedge relationships					
Nominal amount £m	-	100.0	759.5	160.6	1,020.1
Average fixed interest rate	-	0.29%	0.52%	5.00%	1.00%
Fair value of assets £m	-	-	-	-	-
Fair value of liabilities £m	-	0.2	9.3	97.5	107.0
Interest rate swaps designated in micro fair value hedge relationships					
Nominal amount £m	-	3.0	83.5	157.4	243.9
Average fixed interest rate	-	5.83%	4.56%	5.00%	4.85%
Fair value of assets £m	-	-	-	-	-
Fair value of liabilities £m	-	0.1	10.5	96.7	107.3
Interest swaps in economic hedge relationships but not designated in accounting hedge relationships					
Nominal amount £m	10.0	-	-	-	10.0
Average fixed interest rate	1.18%	-	-	-	1.18%
Fair value of assets £m	-	-	-	-	-
Fair value of liabilities £m	-	-	-	-	-
Total					
Nominal amount £m	10.0	103.0	843.0	318.0	1,274.0
Average fixed interest rate	1.18%	0.45%	0.92%	5.00%	1.74%
Fair value of assets £m	-	-	-	-	-
Fair value of liabilities £m	-	0.3	19.8	194.2	214.3

Swap assets and liabilities are held at their fair value on balance sheet as 'derivative financial instruments'.

Hedge Ineffectiveness

By design, the Society's hedges are expected to be economically effective, with notional balances, durations and rates on interest rate swaps agreed only where they are expected to be a good fit to the same characteristics of the underlying assets that are to be hedged. Hedge ineffectiveness can nonetheless arise from early asset repayments, imperfectly matched key terms, differences in the timing of cash flows of hedged items and hedging instruments, different interest rate curves applied to discount the hedged items and hedging instruments and the effect of changes in counterparties' credit risk on the fair values of hedging instruments. The table below provides details of the hedge ineffectiveness during the year.

	2020 £m	2019 £m
Gains / (losses) on non-macro hedging instruments		
Interest rate swaps	(12.5)	0.5
Gains on non-macro hedged items		
Mortgage assets (loans and advances to customers)	13.5	1.0
(Losses) on macro hedging instruments		
Interest rate swaps	(15.9)	(9.8)
Gains on macro hedged items		
Mortgage assets (loans and advances to customers)	14.2	8.9
Total ineffectiveness recognised in the Income Statement	**(0.7)**	**0.6**

Hedging gains and losses are recognised in the income statement within 'gains less losses on financial instruments and hedge accounting'.

40 Interest rate benchmark reform

Following the financial crisis, the replacement of benchmark interest rates such as LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators, with the transition period to move onto a new benchmark ending on 31 December 2021.

The Society's exposure to LIBOR

The Society has identified all remaining LIBOR exposures. It has successfully used Sonia for all newer financial instruments linked to an interest rate benchmark and has already transitioned 20 swap contracts with a nominal value of £194.5m from LIBOR to SONIA in 2020. All remaining derivative exposures maturing after 2021 will be proactively transitioned to SONIA in 2021. In addition, the Society plans to sign up to the ISDA protocol, which acts as a back-stop for derivative contracts still linked to LIBOR by the end of 2021.

The Society also has plans in place to contact customers whose loans are linked to LIBOR in 2021 to agree a transition of their loan products to the new reference rate.

The Society does not have exposures to interbank offer rates other than LIBOR.

The table below summarises the remaining exposure to LIBOR linked financial instruments.

Instrument	Maturing in 2021		Maturing after 2021	
	No of contracts	Notional value £m	No of contracts	Notional value £m
Interest rate swaps used to hedge prime residential lending	3	25.0	-	-
Interest rate swaps used to hedge lifetime lending	-	-	7	180.7
Interest rate swaps used to hedge commercial lending	1	3.0	38	193.3
Loans secured on commercial property	2	0.5	43	200.0
Other loans	-	-	431	36.0
Investments in RMBS and Covered Bonds	12	21.5	4	20.5

The nominal hedged with LIBOR liked swaps is equal to the nominal of the swaps, with the exception of a £10m nominal swap included in the interest rate swaps used to hedge prime residential lending. This swap matures within 3 months after the year end and has therefore been excluded from the hedge relationship.

In addition, the Society uses LIBOR as the hedged rate in designated hedge relationships for commercial loans with a total nominal value of £196.3m and for residential loans with a total nominal value of £15m. These relationships will be re-designated to a new benchmark as the relating swaps are transitioned to an alternative benchmark. There are no other hedge relationships where the interest rate hedged is linked to LIBOR or another IBOR.

40 Interest rate benchmark reform Continued

Changes in accounting policies relating to the interest benchmark reform

The benchmark change could have significant impacts on the treatment and measurement of financial instruments and hedge accounting under IFRS 9 or IAS 39. The IASB has issued amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by the IBOR reform. The amendments have been released in two phases. Phase 1 is mandatory for accounting periods starting 1 January 2020 and Phase 2 is mandatory for accounting periods starting 1 January 2021. The Society has adopted both phases for the year ended 31 December 2020, as permissible under the amendments.

The following reliefs are relevant to the Society:

Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. Under the relief, the Society assumes that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by IBOR reform.

IBOR reform might cause a hedge to fall outside the 80–125% hedge effectiveness range required under IAS 39. The relief provides an exception to the retrospective effectiveness test, such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside of this required 80–125% range.

Both IAS 39 and IFRS 9 require hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. Hedge documentation is amended to reflect the changes. Any changes in the fair value of the hedging instrument or the hedged risk are recognised immediately in the income statement.

Where applicable, the Society makes use of the practical expedient available to account for changes in contractual cash flows that are a direct consequence of the interest rate reform by updating the effective interest rate of the relevant product. The practical expedient can only be used where the original and new benchmarks are economically equivalent.

41 Credit risk: Impairment methodologies

Credit risk is the risk that a customer or counterparty is unable to honour their repayment of obligations as they fall due. The Group Risk Committee, as detailed in the Risk Management Report, maintain oversight of the Credit Risk Committee. The Committee is involved in the monitoring of the credit risk within the Group's assets. With IFRS 9 introducing forward looking requirements to model credit risk across long term horizons, a Model Risk Committee also operates charged with oversight of the Group's IFRS 9 models and assessment and approval of its key model inputs. Through 2020 the Model Risk Committee met quarterly, coinciding with key dates in the Society's reporting calendar.

Credit risk mainly arises from commercial and consumer loans and advances and loan commitments arising from such lending activities but also arises from the Group's investment in debt securities and exposure to third party (financial and non-financial) debtors.

The Group's policy with respect to accounting for impairment of financial assets is given in Note 1. This note describes the practical application of this policy.

Provisioning methodology

Under IFRS 9, the Group conducts a forward looking assessment of impairment. Expected credit losses are recognised across applicable financial assets based on whether there has been a significant increase in credit risk since the asset's origination. Throughout this note, assets with no significant increase in credit risk since origination will be denoted as 'stage 1 assets', assets which have suffered a significant increase in credit risk but have not defaulted will be denoted as 'stage 2 assets' and assets that have defaulted are denoted as 'stage 3 assets'.

When assessing movement in credit risk, it is the change in the risk of default occurring that is key, not the change in the amount of any expected credit loss.

Assets are assessed on an individual basis with a forward looking assessment undertaken to support the recognition 'now' of future potential losses. While losses are provided for, assets are only formally written off when the Society no longer holds any expectation of subsequent receipt, typically at the conclusion of a negotiation or sale.

Implementation and ongoing administration of high quality IFRS 9 impairment models requires significant management experience and judgement, both in assessing historic performance trends and factors and in projecting these into uncertain future economic environments. External professional modelling assistance has been coupled with the Society's extensive internal expertise to facilitate a robust and compliant implementation. Best practice guidance issued by consolidated professional audit and accountancy firms, IFRS implementation guidance, and banking centric governance and modelling guidance from European and domestic authorities form the foundation of the Society's IFRS 9 impairment response.

41 Credit risk: Impairment methodologies Continued

Residential and Buy to Let mortgages

Significant increase in credit risk since origination

At the application stage, a prospective borrower's credit risk is assessed. The Society does not lend to high risk customers but will lend to 'prime customers' who can fall under a range of 'application scores'- based on a wide variety of factors including affordability, credit history, committed monthly spend, etc. A borrower's application score gives a quantified assessment of borrower risk - a 'risk score'.

On a quarterly basis, the Group receives borrower credit scores from Experian, an industry leader in the provisioning of consolidated credit scoring information. This data is mapped internally to a new borrower risk score– allowing continuous assessment of the movement in borrower risk since origination.

Where a borrower's risk score is suitably consistent between origination and the reporting date, a borrower is categorised as a 'stage 1' borrower.

Where a borrower's risk score increases past pre-defined internal thresholds, but a borrower has not otherwise 'defaulted', the borrower is categorised as a 'stage 2' borrower. A borrower who has fallen into >1 month's arrears is automatically considered to be a stage 2 borrower. A borrower who has defaulted, (assessed against a range of internal qualitative and quantitative criteria) is categorised as a 'stage 3' borrower. A borrower who has fallen into >3 month's arrears is automatically considered to be a stage 3 borrower.

Impairment calculation

The Society calculates, for each mortgage exposure, a forward view as to how likely that mortgage is to default at some point over its expected life. The probability that a mortgage will default is not 'point in time'- the Society has to calculate a continuous and forward looking assessment of the probability of default as IFRS 9's base expectation is that 'lifetime' expected credit losses will be provided for (or 12 month expected losses for stage 1 assets).

Lifetime expected credit losses are calculated by the Society as the discrete losses that would likely be incurred (considering mortgage exposure vs. the expected sale value of the mortgaged property) if a mortgage defaulted on any of a large range of future dates. Each discrete provision needs to be assigned a probability of default weighting in order to calculate one overall 'lifetime' expected credit loss. As such, a continuous forward view to the probability of default must be calculated.

Key impairment model inputs, assumptions and estimation techniques

The Society calculates its probability of default as follows:

- The Society has undertaken a detailed assessment of more than 12 years of its internal credit risk data to determine the core factors that lead to borrower default.
- Default indicators identified included granting of forbearance, evidence of mortgage fraud, borrowers falling into > 3 months arrears, borrower insolvency or bankruptcy and voluntary repossession of property. These are used in the staging assessment above to assist in the classification of borrowers as stage 1, stage 2 or stage 3.
- The Society's assessment also considered 'wider' patterns of default, analysing historic borrower defaults by their maturity (how long a mortgage had been held by the Society), vintage (during which original time period the Society lent to a borrower) and considering 'exogenous' (external factors including the interest rate environment, unemployment rates, UK (nominal) GDP, House Price Index, etc.) factors in play at the time of default.
- The exogenous, maturity and vintage (EMV) factors are used to derive point in time and forward looking probability of default curves: projecting historical information about defaults suffered under known 'EMV conditions' forward in combination with the Society forward views on the wider macroeconomic environment (as this will influence the forward view on how exogenous factors may develop over time). In combination, these curves form the Society's forward looking probability of default curve, as calculated under the 'EMV' model.

The Society calculates its exposure at default (EAD) as follows:

- The Group projects mortgage balances forward to give an estimate of each borrower's mortgage balance over time. This factors in forecast interest additions and expected borrower payments alongside an estimate of the value of each borrower's property collateral throughout a long term forecast. An adjustment is made to uplift the Group's exposure to borrowers to simulate a typical borrower default of 3 missed monthly payments plus typical fees associated with arrears.
- The output is a per-mortgage forward projection of mortgage balances.

The Society calculates its expected loss, given default (LGD) as follows:

- The Group calculates a per-mortgage 'loss given default'(LGD), an estimate of the proportion of each mortgage loan exposure that is believed to be at risk if the borrower defaults on their obligation to repay the outstanding capital and interest and the property is subsequently possessed and sold.
- LGD is calculated as the probability of possession given the default of a borrower (PPD) which estimates the likelihood of possession following default multiplied by the expected shortfall on each mortgage: an estimation of the difference between the exposure at default (as discussed above) and the sale price of the property, net of relevant sales costs.

41 Credit risk: Impairment methodologies Continued

Provisions: PD * EAD * LGD

The Group then calculates a final provision for each mortgage: the probability of default multiplied by the amount the Group expects to lose in the event of a default. As discussed above, this is not 'static' or a 'point in time' loss: the Group calculates PD, EAD and LGD across a continuous forward planning horizon. The final provision number is not a singular PD*EAD*LGD, it reflects the discounted overall expected loss that could be incurred over the life of each mortgage: a weighted average of multiple possible future loss events.

Multiple economic scenarios

IFRS 9 expects more than one scenario to be considered when calculating expected credit losses. The Society applies this principle by assessing the provisions required under four separate macroeconomic forecasts. These macroeconomic forecasts feed into the exogenous component of the Society's EMV models.

The Society runs:

- Base scenario: calculated with reference to the Bank of England's quarterly forecasts, and in line with budgets;
- Upside scenario: a positively stressed variant to the base scenario; and
- Downside scenario: a negatively stressed variant to the base scenario.
- Severe downside scenario: a severely negatively stressed variant to the base scenario; and

The Society's final expected credit losses are the losses calculated under each discrete scenario multiplied by a 'likelihood factor'. Please see note 42 for details.

Key macroeconomic information

The Society considers the following to be the key macroeconomic and forward view inputs to its impairment models:

- Bank of England base rate
- Society standard variable rate
- UK nominal gross domestic product
- UK unemployment rate
- UK household income growth rate
- UK house price index

The Society's assessments as to which variables are key has not changed during 2020. Quarterly updates to the variables themselves to reflect the most recent market information have been reflected in the Society's impairment results.

Changes to economic scenarios

Covid-19 has had and will continue to have a significant impact on the UK's economy. However, the shape of the UK's economic recovery is still unknown and difficult to project, resulting in significant uncertainty around future house price inflation, unemployment and other factors used to determine expected credit losses.

In addition, the transition period of the UK's exiting the EU has ended on 31 December 2020. And whilst some of the areas of the UK's future relationship with EU have been agreed on, agreement on other areas is still outstanding. Both, the short term impact of Brexit on the UK's recovery from the economic impact of Covid-19 and the longer term impact on the UK's future prosperity are not yet known and will depend on a significant number of external factors.

Against this uncertainty, the Group have developed new economic scenarios for the credit loss provision model, using the most recent industry data, forecasts and benchmarks.

The Society's IFRS 9 model is most sensitive to assumed house price growth and unemployment, which are summarised below.

Scenario	Economic measure	2020	2021	2022	2023	2024	2025
Upside	Unemployment rate, %	4.5	5.5	4.5	3.5	3.0	3.0
	House price growth, % pa	1.0	1.0	2.0	3.0	4.0	5.0
Base	Unemployment rate, %	5.0	6.0	5.5	5.0	4.0	3.0
	House price growth, % pa	2.0	(6.0)	(2.0)	2.0	3.0	4.0
Downside	Unemployment rate, %	6.0	7.5	7.0	6.5	6.5	5.5
	House price growth, % pa	(5.0)	(9.5)	(6.5)	(2.0)	-	1.0
Severe downside	Unemployment rate, %	8.0	9.5	11.0	10.0	8.5	8.0
	House price growth, % pa	-	(20.0)	(25.0)	(5.0)	5.3	16.7

41 Credit risk: Impairment methodologies Continued

Post model adjustments

Forced sale discount

The Society's IFRS 9 model applies a flat forced sale discount, but actual discounts vary. Using historic data, Monte Carlo Simulation was used to estimate the impact of this model implementation limitation on calculated expected credit losses. As a result, the provision was increased by 15.8%, resulting in a post model adjustment of £0.4m.

Interest only accounts

At term end, the original contractual obligation expires and borrowers are required to pay the account balance. If there is not a suitable repayment vehicle in place, there is a risk of non-payment. Technically, this is a breach of the contractual obligation and it would be classed as a default. The Society has provided £0.1m against potential losses relating to interest only accounts in a post model adjustment.

Payment holidays and other public measures

The current pandemic, in conjunction with the unique set of fiscal and monetary measures put in place to tackle it, are difficult to model, as none has been observed in the past. The impact of those measures manifest themselves in ways that will have a direct impact on the model outputs; for example, the current furlough scheme will have prevented the unemployment rate to increase in the manner and speed that it would have done without the measure. Likewise, payment holidays are preventing arrears cases from occurring, as they would have had otherwise.

Whilst the expected effect of the tapering of employment support schemes to the general population have been included in the economic scenarios above, a more specific post model adjustment was designed to address the credit risk in relation to customers who are currently benefiting from a payment holiday or have recently done so.

Our data suggest that a small but significant proportion of customers fall into arrears shortly after their payment holidays end. The Society has used its internal data to identify those accounts most at risk of falling into arrears after their payment holidays end. For these accounts, provisions were increased to reflect the level of provisions the model would have allocated to the accounts had they been classified as stage 2. This has resulted in a post model adjustment of £0.4m.

Commercial and other legacy books

Commercial and other legacy books are managed by the Commercial Lending department and includes properties secured on commercial property as well as commercial and other legacy buy to let customers. In 2020, also loans secured on serviced apartments are included in the commercial provisioning methodology. Previously, serviced apartments had been included in the residential provisioning model, but the Society concluded that, due to the effects of Covid-19 on the hospitality industry, their risk profile is no longer homogeneous with residential exposures.

Significant increase in credit risk since origination

Specialist internal departments assess the risk of loss against the Group's legacy mortgage books on a case by case basis. Across the Society's historically highest risk exposures, commercial real estate, this includes the annual completion of a tailored risk grade scorecard designed to encompass the key characteristics contributing to underlying risk.

Each of the scorecard risks are weighted to provide a final 'weighted risk score' for the loan, which categorises the loan in terms of likelihood of failure in a moderate or severe recessionary scenario. The risks that carry the highest weightings relate to tenant failure and serviceability.

Due to the low number of remaining commercial borrowers, all are closely monitored. All payments due are monitored on a real-time basis. In the event of a late payment, the position is reviewed immediately and appropriate action taken. The facility is then closely monitored.

Where a borrower's risk score is suitably consistent between origination and the reporting date, a borrower is categorised as a 'stage 1' borrower.

Where a borrower's risk score increases past pre-defined internal thresholds, or where the specialist commercial lending department flags that credit risk has increased significantly, but a borrower has not otherwise 'defaulted', the borrower is categorised as a 'stage 2' borrower. A borrower who has fallen into over 1 month's, arrears is automatically considered to be a stage 2 borrower.

A borrower who has defaulted, (assessed against a range of internal qualitative and quantitative criteria) is categorised as a 'stage 3' borrower. A borrower who has fallen into over 3 month's arrears is automatically considered to be a stage 3 borrower.'

41 Credit risk: Impairment methodologies Continued

Impairment calculation and key impairment model inputs

The calculation used to determine the provisions for legacy mortgage contracts is similar to that used for the prime residential book. Provisions are determined as probability of default (PD) * exposure at default (EAD) * loss given default (LGD). Please see explanations of each of these terms above.

The main difference between the prime residential and the legacy books consists in the way model inputs are determined. Due to the nature and the small size of the legacy books, the most significant model inputs are determined manually on a mortgage by mortgage basis or for small groups of mortgages.

Thus, for each mortgage contract, the Society uses its expertise, knowledge of the customer and the property, as well as its understanding of the sector to determine a forward view as to how likely that mortgage is to default at some point over its expected life for stage 2 mortgages, or due to events occurring in the following 12 months in the case of stage 1 accounts.

Loss given default is calculated based on a sector specific discount to the property's current indexed valuation. The discount reflects management's confidence about the sector's prospects in the current and projected future economic environment. The valuation takes into account the individual property's circumstance, including whether it is tenanted or vacant and the local market conditions.

Economic scenarios

The provisions booked in respect to commercial and other legacy books are based on three economic scenarios.

The impairment provision is most sensitive to the borrower specific probability of default and the sector specific discount to indexed valuations at the time of disposal.

Future commercial property prices are highly uncertain and depend on the future prosperity of the UK in general, the individual sector the property is, or can be, used for, local economic conditions, the remaining duration of the current lease agreement, and the strength of the current tenant. The modelled impairment provision is most sensitive to the sector specific discount to indexed valuations at the time of disposal and scenarios weightings.

For loans secured on Legacy Buy to Let and Commercial properties, the following sector specific discounts have been assumed, compared to valuations as at 31 December 2020:

Sector	Upside	Base	Downside
Retail	20%	40% - 50%	50% - 60%
Banking	10%	20%	30%
Leisure	10%	45%	55%
Residential	(6)%	10% - 15%	20% - 25%

A separate model has been designed to accommodate the specific circumstances of the Serviced Apartments portfolio, where property values are exposed to the profitability of the London hotel market. For this portfolio, the following discounts to 2020 property values have been assumed:

Sector	Upside	Base	Downside
Hotel	(4.0)%	32.8%	59.6%

Housing associations

Housing associations are monitored and managed by the Commercial Lending Department, with ongoing covenant compliance confirmed on an annual basis. Housing associations are tightly regulated and historically a nil loss, nil default sector. In addition, they are widely considered to be Government backed in case of financial stress.

The strength of a 'nil-default sector' should not be understated: housing association exposures have proven to be of the lowest credit risk throughout a volatile and extended recession period. The Society has no internal history of loss to draw on with respect to housing association exposures and cannot supplement its own data with loss data of its peers.

The combined effect of a well collateralized set of exposures, in an environment where the demand for housing is only increasing, with no history of default on the part of any borrower and a sincere expectation that any theoretical default would be addressed by the jurisdictional Government leads to a conclusion that no material impairment of housing association exposures is plausibly expected.

41 Credit risk: Impairment methodologies Continued

Debt securities

The Society monitors the external credit ratings applied to its debt security investments on a daily basis.

The Society's debt security holdings are all of 'investment grade' or higher. The Society has therefore assessed that the credit risk on its debt security exposures has not increased significantly since initial recognition.

The Society's treasury risk department runs very severe annual stressed scenarios over the Society's residential mortgage backed securities (RMBS). The Society's policy to allow only investment grade and senior secured exposures leaves the Society highly insensitive to stressed scenarios as the 'waterfall structure' of RMBS payments ensures continued Society receipt of contractual cash flows even through significantly stressed scenarios.

The Society's covered bond exposures are similarly resilient: the Society is only exposed to regulated UK covered bonds with the regulations providing for the full segregation of covered bond asset pools from the bond issuer. The regulations introduce numerous investor protections including mandatory over-collateralisation, an extensive initial application process and regular regulatory stress testing and supervisory monitoring.

Other financial assets

The Society has elected to take advantage of IFRS 9's practical expedient when assessing the accounting impairment applied to its trade receivables. Lifetime expected credit losses are therefore provided against all trade receivables. A provisions matrix approach, where provisions against receivables are calculated as an increasing percentage of the receivable balance, rising as receivables fall further overdue, has been adopted.

Assessment of the appropriate provision percentages has been made in line with the company's historic trade receivable recovery. Where appropriate, forward looking views to recovery are also be incorporated.

Modifications

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

The Society occasionally grants forbearance to other borrowers (in similar forms to commercial) where this is expected to improve the ultimate recovery on loans advanced.

The requirement to grant forbearance is considered an objective indicator that an asset has suffered a significant increase in credit risk since origination. As such, while forbearance may mitigate a selection of the Society's other indications of default, the granting of forbearance will not result in a preferential staging (Stage 1 or 2) being applied to any forborne asset. While benefiting from any revised terms that forbearance may bring, an asset is not able to move to a lower staging. Only once forbearance has been lifted can an asset qualify for a reduced staging with the Society operating a 6 month 'curing' policy: deferring the reduction in staging until a 6 month period has passed in which no other indicators of default or heightened credit risk have presented themselves.

Notes to the Accounts for the year ended 31 December 2020

42 Credit risk: Expected credit losses

Quantitative impairment impact

Reconciliation table	Loss allowance as presented in 2019 Accounts	Reallocation	Loss allowance at 1 January 2020	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to change in the provisioning methodology	Transition between stages	Loss allowance at 31 December 2020
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Prime residential									
Stage 1	102.9	-	102.9	113.1	(11.7)	1.5	107.6	14.8	328.2
Stage 2	436.0	-	436.0	685.5	(31.4)	448.3	336.2	(15.2)	1,859.4
Stage 3	1,075.6	(333.3)	742.3	39.4	(82.5)	152.1	59.9	0.4	911.6
Total	**1,614.5**	**(333.3)**	**1,281.2**	**838.0**	**(125.6)**	**601.9**	**503.7**	**-**	**3,099.2**
Buy to Let									
Stage 1	7.0	-	7.0	11.8	(0.2)	37.7	27.0	11.9	95.2
Stage 2	24.2	-	24.2	39.8	-	132.8	52.4	(12.9)	236.3
Stage 3	8.6	333.3	341.9	-	-	14.7	-	1.0	357.6
Total	**39.8**	**333.3**	**373.1**	**51.6**	**(0.2)**	**185.2**	**79.4**	**-**	**689.1**
Legacy Buy to Let									
Stage 1	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	908.8	-	-	908.8
Stage 3	-	720.0	720.0	-	-	1,339.2	-	-	2,059.2
Total	**-**	**720.0**	**720.0**	**-**	**-**	**2,248.0**	**-**	**-**	**2,968.0**
Commercial									
Stage 1	215.0	-	215.0	-	-	-	-	(215.0)	-
Stage 2	-	-	-	-	-	460.3	-	-	460.3
Stage 3	1,521.2	(720.0)	801.2	-	-	4,166.4	-	215.0	5,182.6
Total	**1,736.2**	**(720.0)**	**1,016.2**	**-**	**-**	**4,626.7**	**-**	**-**	**5,642.9**
Housing Association									
Stage 1	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Serviced Apartments									
Stage 1	-	-	-	-	-	141.2	-	-	141.2
Stage 2	-	-	-	-	-	531.0	-	-	531.0
Stage 3	-	-	-	-	-	177.7	-	-	177.7
Total	**-**	**-**	**-**	**-**	**-**	**849.9**	**-**	**-**	**849.9**
Policy Loans									
Stage 1	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total									
Stage 1	**324.9**	**-**	**324.9**	**124.9**	**(11.9)**	**180.4**	**134.6**	**(188.3)**	**564.6**
Stage 2	**460.2**	**-**	**460.2**	**725.3**	**(31.4)**	**2,481.2**	**388.6**	**(28.1)**	**3,995.8**
Stage 3	**2,605.4**	**-**	**2,605.4**	**39.4**	**(82.5)**	**5,850.1**	**59.9**	**216.4**	**8,688.7**
Total	**3,390.5**	**-**	**3,390.5**	**889.6**	**(125.8)**	**8,511.7**	**583.1**	**-**	**13,249.1**

42 Credit risk: Expected credit losses Continued

Quantitative impairment impact

Reconciliation table	Gross exposure as presented in the 2019 Accounts	Reallocation	Gross exposure at 1 January 2020	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in provisioning methodology	Transition between stages	Gross exposure at 31 December 2020
	£m	£m	£m	£m	£m	£m	£m	£m
Prime residential								
Stage 1	2,081.0	(13.0)	2,068.0	443.8	(286.9)	(55.4)	7.8	2,177.3
Stage 2	241.2	-	241.2	98.7	(26.0)	(2.1)	(16.4)	295.4
Stage 3	16.8	(0.3)	16.5	2.0	(2.1)	(0.2)	8.6	24.8
Total	**2,339.0**	**(13.3)**	**2,325.7**	**544.5**	**(315.0)**	**(57.7)**	**-**	**2,497.5**
Buy to Let								
Stage 1	295.5	(20.9)	274.6	63.6	(16.1)	(0.3)	0.5	322.3
Stage 2	23.2	-	23.2	6.7	(0.2)	-	(1.7)	28.0
Stage 3	0.2	0.3	0.5	-	-	-	1.2	1.7
Total	**318.9**	**(20.6)**	**298.3**	**70.3**	**(16.3)**	**(0.3)**	**-**	**352.0**
Legacy Buy to Let								
Stage 1	-	33.9	33.9	-	(5.4)	-	(7.8)	20.7
Stage 2	-	-	-	-	-	-	7.8	7.8
Stage 3	-	3.2	3.2	0.3	-	-	-	3.5
Total	**-**	**37.1**	**37.1**	**0.3**	**(5.4)**	**-**	**-**	**32.0**
Commercial								
Stage 1	26.0	-	26.0	-	(5.0)	-	(10.8)	10.2
Stage 2	0.1	-	0.1	-	-	-	2.9	3.0
Stage 3	3.9	(3.2)	0.7	-	-	-	7.9	8.6
Total	**30.0**	**(3.2)**	**26.8**	**-**	**(5.0)**	**-**	**-**	**21.8**
Housing Association								
Stage 1	396.8	-	396.8	-	(15.4)	-	-	381.4
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
Total	**396.8**	**-**	**396.8**	**-**	**(15.4)**	**-**	**-**	**381.4**
Serviced Apartments								
Stage 1	18.2	-	18.2	-	(0.2)	-	(4.0)	14.0
Stage 2	-	-	-	-	-	-	3.5	3.5
Stage 3	-	-	-	-	-	-	0.5	0.5
Total	**18.2**	**-**	**18.2**	**-**	**(0.2)**	**-**	**-**	**18.0**
Policy Loans								
Stage 1	2.6	-	2.6	-	(0.7)	-	-	1.9
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
Total	**2.6**	**-**	**2.6**	**-**	**(0.7)**	**-**	**-**	**1.9**
Total								
Stage 1	**2,820.1**	**-**	**2,820.1**	**507.4**	**(329.7)**	**(55.7)**	**(14.3)**	**2,927.8**
Stage 2	**264.5**	**-**	**264.5**	**105.4**	**(26.2)**	**(2.1)**	**(3.9)**	**337.7**
Stage 3	**20.9**	**-**	**20.9**	**2.3**	**(2.1)**	**(0.2)**	**18.2**	**39.1**
Total	**3,105.5**	**-**	**3,105.5**	**615.1**	**(358.0)**	**(58.0)**	**-**	**3,304.6**

The gross carrying values above reflect the Group's maximum exposure to credit risk as at 31 December 2020 without taking into account any collateral held or provisions made against expected loss.

The Society did not purchase or originate any financial assets that were considered to be credit impaired during 2020.

There has been no material movement in loss allowances held against other financial assets during 2020. Debt securities held remain of very high credit quality at 31 December 2020 and the Group is not exposed to any significant value or volume of overdue trade receivables.

No collateral is held against the Group's debt security or other financial asset exposures.

42 Credit risk: Expected credit losses Continued

Risk exposures by credit grade for residential lending

Across the Society's prime residential and new buy to let mortgage exposures (i.e the Group's non-closed mortgage books) provisions may be disaggregated by detailed probability of default ranges as follows:

Lifetime probability of default	Exposure			Provision			Provision Coverage Ratio		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
%	£m	£m	£m	£000	£000	£000	%	%	%
0% - 1%	60.4	0.1	0.3	53.9	-	4.6	0.09	-	1.72
1% - 2%	1,063.1	-	-	70.8	-	-	0.01	-	-
2% - 3%	828.4	-	-	109.0	-	-	0.01	-	-
3% - 4%	232.0	-	-	74.2	-	-	0.03	-	-
4% - 5%	189.4	-	-	45.9	-	-	0.02	-	-
5% - 6%	86.9	-	-	43.1	-	-	0.05	-	-
6% - 7%	1.7	-	-	-	-	-	-	-	-
7% - 8%	2.0	0.5	-	-	0.2	-	-	0.05	-
8% - 9%	0.4	4.1	-	-	7.0	-	-	0.17	-
9% - 10%	1.4	6.0	-	0.2	2.8	-	0.02	0.05	-
10% - 100%	31.4	312.7	25.2	26.3	2,085.7	444.5	0.08	0.67	1.76
Total	**2,497.1**	**323.4**	**25.5**	**423.4**	**2,095.7**	**449.1**	**0.02**	**0.65**	**1.76**

*The table above excludes a total balance of £3.8m, with a provision of £0.4m, for which no lifetime probability of default is available.

Lifetime probability of default indicates the percentage change that a loan will trigger any of the stage 3 indicators, as detailed above, over the life of the loan and does not alone indicate a likeliness that the default will result in any significant loss to the Group.

The comparatively small provisions coverage reflects the capacity for property collateral to effectively mitigate the Society's ultimate exposure to loss.

Provisions against other financial assets are not considered to be sufficiently material to warrant further detailed analysis.

Provisions against commercial and legacy Buy to Let mortgages are not presented by risk grade as legacy exposures are assessed for impairment on an individual basis by the specialist commercial lending department.

Sensitivity of the credit loss provisions to key assumptions

Residential and Buy to Let mortgages

The Group's mortgage provisions reflect probability weighted scenarios run across its mortgage books and are sensitive to the probabilities applied accordingly. Provisions are most sensitive to increases in the downside scenarios probabilities:

	Actual	Alternative 1	Alternative 2	Alternative 3
Upside	10%	15%	10%	5%
Base	40%	45%	40%	40%
Downside	35%	30%	40%	40%
Stress	15%	10%	10%	15%
Provision, £m	3.8	3.3	3.5	3.9
Increase in Provision, £m	-	(0.5)	(0.3)	0.1

The provisions required under each scenario are most sensitive to HPI assumptions. Increasing the assumed HPI by 10% on average would result in a reduction of the required provision by £0.7m, whereas a similar reduction in HPI, would increase the required provision by £1.4m.

42 Credit risk: Expected credit losses Continued

Legacy portfolios

The provisioning for legacy portfolios is sensitive to the assumed impact of the current economic conditions, including Covid-19 and Brexit, on individual sectors and related commercial property values, which is reflected in the three different scenarios used to calculate the provision. The sensitivity analysis presented below shows the result of alternative scenario weightings on the provision.

The provision required is also sensitive to commercial property prices. For the commercial and legacy buy to let portfolios, assuming the same scenario weightings and increasing property prices by 10% would result in a reduction of the required provision by £1.1m, whereas similar reduction of property prices by 10% would increase the required provision by £1.1m. For serviced apartments, a 10% increase in property prices would result in a reduction of the provision by £0.2m, whereas a similar increase in property prices would require an increase of £0.3m.

Commercial and Legacy Buy to let portfolios

	Actual	Alternative 1	Alternative 2	Alternative 3
Upside	20%	30%	20%	10%
Base	55%	55%	60%	55%
Downside	25%	15%	20%	35%
Provision, £m	8.6	8.2	8.5	9.0
(Decrease)/Increase in Provision, £m	-	(0.4)	(0.1)	0.4

Serviced Apartments

	Actual	Alternative 1	Alternative 2	Alternative 3
Upside	22%	40%	40%	10%
Base	53%	50%	40%	50%
Downside	25%	10%	20%	40%
Provision, £m	0.8	0.5	0.7	1.1
(Decrease)/Increase in Provision, £m	-	(0.3)	(0.1)	0.3

Equity release portfolio

The Society's equity release portfolio is accounted for under IFRS 4: insurance contracts. As a result, the Society recognises an insurance liability in respect to equity release mortgages, rather than a credit loss provision. As a result, the tables above do not include disclosures about equity release balances and related insurance liabilities (see note 16 for details about the equity release books). Nonetheless, similar to the credit loss provisions, the insurance liability is sensitive to assumptions used to determine the insurance liability, in particular to assumed long term house price inflation (HPI). The table below compares the HPI assumed to determine the insurance liability with alternative scenarios. In addition, the insurance liability required is sensitive to the assumed dilapidation discount. Whereas our historic data suggest that a discount of 5% is most appropriate, assuming a discount of only 2% would lead to a reduction of the insurance liability by £0.6m, whereas an increase to 8% would increase the insurance liability by £0.8m.

Scenario description	Insurance Liability £m	(Decrease)/Increase in Provision £m
Scenario used for calculating the insurance liability: HPI falls by 5% in 2021, followed by 3% annual HPI growth starting in 2023	2.4	-
Alternative scenario 1: There is no drop in HPI and HPI grows 2.5% annually	1.4	(1.0)
Alternative scenario 2: HPI falls by 5% in 2021, followed by 3.5% annual growth starting in 2023	1.8	(0.6)
Alternative scenario 3: HPI falls by 7.5% in 2021, followed by 3% annual growth starting in 2023	3.0	0.6

43 Credit quality

The Group's mortgage lending is all secured with a first charge registered against the collateral property. While not in scope of IFRS 9, this includes the Group's equity release mortgages. The average loan to value of the Group's loan portfolios at 31 December 2020 is 65.3% (2019: 65.2%) as detailed in the Strategic Report. Quarterly regional Halifax House Price Index data is used to monitor the value of residential collateral. The contractual capacity to recover defaulted mortgage contracts through the sale of property collateral acts significantly to reduce the Group's risk of loss.

The credit quality of the Group's residential loans is considered to be excellent with the loans continuing to perform and arrears being below industry averages. At 31 December 2020 there were 25 loans in 12 months arrears or more with balances of £1.9m (2019: 18 loans totalling £1.4m).

The Group's non-impaired commercial loan assets are also considered to be of a good credit quality.

Further specifics by type of mortgage lending are as follows:

Prime residential mortgage book

The Prime residential mortgage book consists of traditional residential loans. No sub-prime or self-certification lending has been undertaken. The below analysis includes equity release mortgage lending that is not within the scope of the IFRS 9 credit risk disclosures provided in the tables above.

Loan to value (indexed)	**2020 £m**	**2020 %**	2019 £m	2019 %
<70%	**1,815.2**	**67.7**	1,611.9	64.1
70% - <80%	**409.9**	**15.3**	348.1	13.9
80% - <90%	**435.6**	**16.3**	289.9	11.5
>90%	**19.1**	**0.7**	262.7	10.5
	2,679.8	**100.0**	2,512.6	100.0

Payment status

	2020 £m	**2020 %**	2019 £m	2019 %
Neither past due nor in default	**2,656.4**	**99.1**	2,491.8	99.2
Past due up to 3 months but not in default	**14.2**	**0.5**	13.0	0.5
Not past due but in default	**-**	**-**	-	-
In default and 3 to 6 months past due	**4.5**	**0.2**	4.8	0.2
In default and over 6 months past due	**4.5**	**0.2**	2.2	0.1
In possession	**0.2**	**-**	0.8	-
	2,679.8	**100.0**	2,512.6	100.0

The Society continued to experience a low level of possessions on residential loans and Law of Property Act receiver appointments. At the end of 2020 the Society had 1 possession property in relation to owner occupied loans.

Against past due and possession cases, **£52.1m** (2019: 46.1m) collateral is held.

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

The Society granted forbearance against 42 residential loans in 2020 in the form of reduced payments or payment breaks. With no alteration made to the contractual rates of interest and balances totalling £7.1m at 31 December 2020 no modification gain or loss is recorded as a result of short-term forbearance granted. Provisions of £104,000 are held against residential mortgages that were granted forbearance during the year.

In addition, the Society has granted Covid-19 related payment holidays to 4,357 customers with a total balance of £662m during 2020, of which 356 with a balance of £40m had redeemed by the end of the year and 300 with a total balance of £47m where still on a payment holiday as at 31 December 2020.

43 Credit quality Continued

Retail Buy to Let Mortgage book

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

Loan to value (indexed)	2020 £m	2020 %	2019 £m	2019 %
<70%	**282.0**	**80.2**	192.3	65.2
70% - <80%	**68.3**	**19.3**	100.5	34.0
80% - <90%	**1.1**	**0.3**	1.0	0.3
>90%	**0.6**	**0.2**	1.6	0.5
	352.0	**100.0**	295.4	100.0

Payment status	2020 £m	2020 %	2019 £m	2019 %
Neither past due nor in default	**349.9**	**99.4**	293.5	99.4
Past due up to 3 months but not in default	**1.3**	**0.4**	1.3	0.4
In default and past due over 6 months	**0.7**	**0.2**	0.4	0.1
LPA receivership	**0.1**	**-**	0.2	0.1
	352.0	**100.0**	295.4	100.0

At the end of 2020 the Society had no BTL possession properties and there was 1 exposure being managed by a Law of Property Act receiver.

Against past due and possession cases, **£2.8m** (2019: £2.9m) collateral is held.

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

The Society granted forbearance against 1 retail BTL loans in 2020 in the form of reduced payments or payment breaks. With no alteration made to the contractual rates of interest and balances totalling £0.2m at 31 December 2020 no modification gain or loss is recorded as a result of short-term forbearance granted.

In addition, the Society has granted Covid-19 related payment holidays to 307 retail buy to let customers with a total balance of £74m during 2020, of which 17 with a balance of £4m had redeemed by the end of the year and 12 with a total balance of £3m where still on a payment holiday as at 31 December 2020.

43 Credit quality Continued

Legacy lending books

The legacy lending books comprises the following:

	2020 £m	2020 %	2019 £m	2019 %
Loans secured on commercial property	**21.8**	**4.8**	30.0	6.2
Loans secured on Serviced Apartments	**18.0**	**4.0**	18.2	3.8
Specialist Buy to Let	**32.0**	**7.0**	37.2	7.7
Loans to Housing Associations	**381.4**	**84.2**	396.6	82.3
	453.2	**100.0**	482.0	100.0

Loans secured on commercial property

Loan to value (unindexed)	2020 £m	2020 %	2019 £m	2019 %
<70%	**13.8**	**63.3**	15.3	51.0
70% - <80%	**-**	**-**	1.7	5.7
80% - <90%	**0.2**	**0.9**	-	-
>90%	**7.8**	**35.8**	13.0	43.3
	21.8	**100.0**	30.0	100.0

Payment status	2020 £m	2020 %	2019 £m	2019 %
Neither past due nor in default	**13.2**	**60.6**	26.2	87.2
Not past due but in default	**8.6**	**39.4**	3.8	12.8
	21.8	**100.0**	30.0	100.0

Diversification by industry type	2020 £m	2020 %	2019 £m	2019 %
Retail	**15.6**	**71.6**	16.8	56.0
Office	**1.5**	**6.9**	1.7	5.7
Industrial	**1.9**	**8.7**	8.2	27.3
Hotel/Leisure	**2.4**	**11.0**	2.7	9.0
Other	**0.4**	**1.8**	0.6	2.0
	21.8	**100.0**	30.0	100.0

At 31 December 2020, the Society had no commercial investment loans in arrears of 3 months or more (2019: none). No loans that would be past due or impaired have had their terms renegotiated.

The Society had no commercial loans in possession or subject to LPA receivership at the end of 2020 (2019: none).

The Society did not grant forbearance against any loans secured on commercial property in 2020 (2019: 3). However, the Society has granted Covid-19 related payment holidays to 4 commercial customers with a total balance of £2.1m. None of these were still on a payment holiday as at 31 December 2020.

43 Credit quality Continued

Loans secured on Serviced Apartments

Loan to value (indexed)	2020 £m	2020 %	2019 £m	2019 %
<70%	**2.7**	**15.0**	2.8	15.5
70% - <80%	**10.0**	**55.6**	10.1	55.4
80% - <90%	**5.3**	**29.4**	5.3	29.1
	18.0	**100.0**	18.2	100.0

Payment status	2020 £m	2020 %	2019 £m	2019 %
Neither past due nor in default	**17.5**	**97.2**	18.2	100.0
LPA receivership	**0.5**	**2.8**	-	-
	18.0	**100.0**	18.2	100.0

Against cases where an LPA appointment has been made, £0.6m collateral is held.

No loans that would be past due or impaired have had their terms renegotiated. The Society did not grant forbearance against any loans for serviced apartments during the year. However, a total of 13 accounts with a total balance of £2.5m were granted Covid-19 related payment holidays. None of these were still on payment holidays as at the 31 December 2020.

43 Credit quality Continued

Specialist Buy to Let

The Specialist residential mortgage book consists of residential investment loans, loans secured on buy to let properties to corporates, and loans secured on buy to let properties to individuals, where the Society's exposure to the borrower is larger than £1m.

Loan to value (unindexed)	2020 £m	2020 %	2019 £m	2019 %
<70%	**20.8**	**65.0**	23.2	62.3
70% - <80%	**-**	**-**	10.6	28.5
80% - <90%	**-**	**-**	0.2	0.5
>90%	**11.2**	**35.0**	3.2	8.7
	32.0	**100.0**	37.2	100.0

Payment status	2020 £m	2020 %	2019 £m	2019 %
Neither past due nor in default	**28.5**	**89.1**	29.0	77.9
In default and 3 to 6 months past due	**-**	**-**	5.0	13.4
LPA receivership	**3.5**	**10.9**	3.2	8.7
	32.0	**100.0**	37.2	100.0

Against past due and possession cases, **£2m** (2019: £2m) collateral is held.

At 31 December 2020, the Society had no specialist buy to let loans in arrears of 3 months or more (2019: none). No loans that would be past due or impaired have had their terms renegotiated.

The Society had one specialist buy to let properties in possession or subject to LPA receivership at the end of 2020 (2019: 1).

The Society did not grant forbearance against any loans secured on specialist buy to let property in 2020 (2019: nil). However, the Society has granted Covid-19 related payment holidays to 6 specialist buy to let customers with a total balance of £4.9m. One of these with a balance of £3.0m were still on a payment holiday as at 31 December 2020.

Loans to Housing Associations

Loan to value (unindexed)	2020 £m	2020 %	2019 £m	2019 %
<70%	**163.8**	**42.9**	158.3	39.9
70% - <80%	**110.6**	**29.0**	131.2	33.1
80% - <90%	**107.0**	**28.1**	107.1	27.0
	381.4	**100.0**	396.6	100.0

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

Annual Business Statement

for the year ended 31 December 2020

1 Statutory percentages

	2020 %	Statutory %
Lending limit	**1.7**	25.00
Funding limit	**14.3**	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. 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 plus allowances for losses on loans and advances less liquid assets, investment properties and property, plant, and equipment as shown in the Group balance sheet.

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

The statutory limits are as laid down under the Building Societies Act 1986, 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:	2020 %	2019 %
Gross capital	**5.17**	5.67
Free capital	**4.40**	4.51
Liquid assets	**25.20**	21.67
Result for the year as a percentage of mean total assets	**0.03**	0.28
Management expenses as a percentage of mean total assets	**1.35**	1.43

The above percentages have been prepared from the Annual Accounts.

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

Free capital represents gross capital less property, plant and equipment, investment property and non-current assets held for sale.

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

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

Management expenses represent the aggregate of administrative expenses and depreciation.

Mean total assets are the average of the 2020 and 2019 total assets.

Annual Business Statement

for the year ended 31 December 2020 (Continued)

Directors at 31 December 2020

	Date of Birth	Date of Appointment	Business Occupation
GA Bennett MA	**10.02.61**	**24.04.19**	**Non Executive Director**
	Other Directorships: Newcastle Portland House Limited; Darkwood Croft Management Company Limited; MAM Properties Limited.		
BP Glover LLB, ACIB	**03.07.60**	**11.08.17**	**Company Director**
	Other Directorships: Cygnet Properties and Leisure PLC; Recognise Bank Limited; Property & Funding Solutions Ltd.		
AS Haigh BSc	**26.01.63**	**27.01.14**	**Building Society Chief Executive Officer**
	Other Directorships: Community Foundation serving Tyne & Wear and Northumberland; North East England Chamber of Commerce.		
K Ingham	**20.02.65**	**04.09.14**	**Vice President Operations**
	Other Directorships: Newcastle Strategic Solutions Limited; Vice President Operations (Europe Middle East and Africa at Expedia Inc.).		
A Laverack BA **(Business name: Anne Shiels)**	**08.06.61**	**17.07.17**	**Company Director**
	Other Directorships: Newcastle Financial Advisers Limited; Anne Shiels Consulting Limited.		
SL Lynn	**10.05.60**	**22.04.20**	**Non Executive Director**
	Other Directorships: Newcastle Strategic Solutions Limited; Newcastle Systems Management Limited; Stuart Lynn Limited; Whitley Bay Golf Club Limited.		
S Miller BSc, ACIB	**16.10.70**	**16.01.18**	**Building Society Customer Director**
	Other Directorships: Newcastle Financial Advisers Limited.		
PJ Moorhouse FCCA	**18.01.53**	**31.10.11**	**Non Executive Director**
	Other Directorships: Newcastle Strategic Solutions Limited; Newcastle Systems Management Limited.		
DA Samper BA, CA	**21.12.74**	**20.12.18**	**Building Society Chief Financial Officer**
	Other Directorships: Newcastle Portland House Limited.		
MR Thompson BA, FCA	**11.10.61**	**29.01.19**	**Non Executive Director**
	Other Directorships: Atlas Cloud Limited; Newcastle United Foundation; The Clinkard Group Limited; The North of England Protecting & Indemnity Association Limited; Tyne and Wear Building Preservation Trust Limited.		
IW Ward FCIB	**04.05.49**	**09.07.13**	**Non Executive Director**
	Other Directorships: Newcastle Financial Advisers Limited; Newcastle Systems Management Limited; Branston Consultancy Limited.		

Documents may be served on any of the Directors c/o Addleshaw Goddard LLP, One St Peter's Square, Manchester M2 3DE. The Executive Directors have service contracts which can be terminated at any time by the Society on six months' notice. The Executive Directors' service contracts were entered into on the dates of their appointment, excepting A S Haigh who was appointed to the role of Chief Executive on 1 May 2015, having previously held the role of Chief Operating Officer. There are no contracts for Non-Executive Directors and no compensatory terms for loss of office.

Principal office

Newcastle Building Society is a building society incorporated and domiciled in the United Kingdom.

Up to 9 March 2021 the address of the Society's principal office is Portland House, New Bridge Street, Newcastle Upon Tyne, NE1 8AL.

From 10 March 2021 the address of the Society's principal office is 1 Cobalt Park Way, Wallsend, NE28 9EJ.

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 c. £4.9 billion.

As a mutual organisation, the Society's primary focus is its Members and it aims to provide mortgage, savings and insurance products supported by excellent customer service. Additionally, the Society offers financial advice, as an appointed representative of Openwork, through Newcastle Financial Advisers Limited. Outsourcing of financial services and Information Technology services are provided through Newcastle Strategic Solutions Limited.

The consolidated financial statements of the Newcastle Building Society Group include the audited results of the Society and its subsidiary undertakings. The consolidated entities, their principal activities and countries of incorporation, are detailed in Note 15 to the Annual Report and Accounts.

Basis of preparation

a) Country

All of the consolidated entities were incorporated in the United Kingdom, with the exception of Newcastle Mortgage Loans (Jersey) Limited, which is incorporated and operates with no employees in Jersey.

b) Total operating income and profit before tax

Total operating income and profit before tax are compiled from the Newcastle Building Society Group consolidated financial statements for the year ended 31 December 2020, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). Total operating income represents the sum of the Group's net interest income, other income, other charges and gains less losses on financial instruments and hedge accounting. Group total operating income was **£79.2m** (2019: £74.4m), the proportion not arising from UK-based activity is not considered material for the purpose of this disclosure.

c) Corporation tax paid

Corporation tax paid represents the net cash taxes paid to the tax authority, HMRC, during 2020. Corporation tax paid is reported on a cash basis and will normally differ from the tax expense recorded for accounting purposes due to:

- Timing differences in the accrual of tax charge. The Group makes quarterly payments on account to HMRC. Payments are made in July, October, January, and April. As the Group's accounting year runs from January to December, payments made in any financial year will not align with tax due in that financial year.
- The Society brought forward into 2020 tax losses from previous years that were used to extinguish a portion of its taxable profits in 2020 and will be similarly used in future years.
- Other differences between when income and expenses are accounted for under IFRSs and when they become taxable.

During 2020 the Group paid **£2.2m** in corporation tax.

d) Full-time equivalent employees ("FTEs")

The average number of Group full time equivalent employees was **1,159.6** (2019: 1,039.0) all of which were employed in the UK.

e) Group profit before tax

Group profit before tax was **£2.0m** (2019: £14.7m) with tax a charge of **£0.6m** (2019: £3.3m). The profit before tax and the tax charged relates to UK-based activity and the UK tax jurisdiction.

Independent auditors' report to the Directors of Newcastle Building Society

Report on the audit of the country-by-country information

Opinion

In our opinion, Newcastle Building Society's country-by-country information for the year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2020 in the Country-by-Country Reporting.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the schedule of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

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

- Review and challenge of key assumptions used by the directors in their determination of the going concern of the Group and Society
- Review of key regulatory returns in relation to liquidity and capital and consideration of the stress testing performed
- Consideration as to whether our audit work had identified events or conditions which may give rise to uncertainty as to the Group's future ability to trade;
- Review of legal and regulatory correspondence to ensure that no compliance issues which may impact the going concern of the Group had been identified; and
- Considered the impact of Covid-19 on the business, including key subsidiaries, and whether any further risks to going concern have arisen as a result.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

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

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation statement in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

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

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

Based on our understanding of the Society/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations including, but not limited to, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations, Pension legislation and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to reduce expenditure and increase income and inappropriate management bias in accounting estimates. Audit procedures performed included:

- Review of the financial statement disclosures to underlying supporting documentation;
- Review of correspondence with and reports to the regulators;
- Testing significant accounting estimates;
- Testing of journal entries which contained unusual account combinations back to corroborating evidence;
- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud; and
- Specific audit procedures over non-interest revenue streams significant to the Group accounts.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Society directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, 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.

The engagement partner responsible for this audit is Catrin Thomas.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle Upon Tyne
4 March 2021


Great customer and personal service.
Dean, North Shields customer

Glossary

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

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

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

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

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

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

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

Commercial lending / mortgage - Loans secured on commercial property.

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

Common Equity Tier 1 ratio - Common Equity Tier 1 capital as a percentage of risk weighted assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest rate risk - The risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates.

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

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

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

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

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

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

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

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

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

Loans and advances to 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.

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 ongoing customer relationship or in response to an adverse change in the circumstances of the borrower.

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

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

Residential loans - Residential loans are secured against residential property.

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

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

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

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

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

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

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

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

Tier 2 capital - Comprises the Group's qualifying subordinated debt and collective impairment allowance (for exposures treated on a Basel II standardised basis).

Wholesale funding - The total of deposits from banks, amounts owed to other customers and debt securities in issue.

Branch and Financial Advice Centre Directory

Alnwick - 28 Bondgate Within, NE66 1TD	**Tel: (01665) 603 344**
Ashington - 10 Station Road, NE63 9UJ	**Tel: (01670) 815 919**
Barnard Castle - 25 Market Place, DL12 8NE	**Tel: (01833) 600 100**
Berwick Upon Tweed - 12 Hide Hill, TD15 1AB	**Tel: (01289) 306 417**
Bishop Auckland - 15 Newgate Street, DL14 7HG	**Tel: (01388) 433 001**
Carlisle - 65 English Street, CA3 8JU	**Tel: (01228) 524 518**
Chester-Le-Street - 42 Front Street, DH3 3BG	**Tel: (0191) 388 5266**
Consett - 19/21 Middle Street, DH8 5QP	**Tel: (01207) 502 636**
Cramlington - 34/35 Craster Court, NE23 6UT	**Tel: (01670) 735 813**
Darlington - 7/8 Horsemarket, DL1 5PW	**Tel: (01325) 383 656**
Durham - 73/75 Saddler Street, DH1 3NP	**Tel: (0191) 384 3182**
Gateshead - 12 Ellison Walk, Trinity Square, NE8 1BF	**Tel: (0191) 477 2547**
Gosforth - 105/107 High Street, NE3 1HA	**Tel: (0191) 285 5965**
Hawes - Hawes Community Office, Market Place, DL8 3RA	**Tel: (01969) 600 333**
Hartlepool - 133/135 York Road, TS26 9DR	**Tel: (01429) 233 014**
Hexham - 1-2 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**
Newcastle - 136 Northumberland Street, NE1 7DQ	**Tel: (0191) 261 4940**
North Shields - 76 Bedford Street, NE29 0LD	**Tel: (0191) 259 5286**
Penrith - 12 Market Square, CA11 7BX	**Tel: (01768) 862 888**
Ponteland - 23 Broadway, Darras Hall, NE20 9PW	**Tel: (01661) 821 828**
South Shields - Unit 3-5 Denmark Centre, NE33 2LR	**Tel: (0191) 454 0407**
Stokesley - 36 High Street, TS9 5DQ	**Tel: (01642) 711 742**
Sunderland - 14 Waterloo Place, SR1 3HT	**Tel: (0191) 565 0464**
West Denton - 22 Denton Park Centre, NE5 2RA	**Tel: (0191) 267 5038**
Whickham - 28 Front Street, NE16 4DT	**Tel: (0191) 488 1766**
Whitley Bay - 303 Whitley Road, NE26 2HU	**Tel: (0191) 252 0642**
Wooler - The Cheviot Centre, NE71 6BL	**Tel: (01668) 260 360**
Yarm Library - 41 The High Street, TS15 9BH	**Tel: (01642) 785 985**


Esther Killian, South Shields customer