Connecting our communities with a better financial future

Newcastle Building Society Group

Half-Yearly Financial Information 2024

Newcastle
Building Society

Performance Highlights 2024

£20.1m
(HY 2023: £17.9m*)
Operating profit before impairments and provisions

£15.6m
(HY 2023: £15.0m*)
Underlying profit

£0.2m
(HY 2023: £16.3m*)
Profit before tax

£5.3bn
(YE 2023: £5.0bn)
Savings balances

12.1%
(YE 2023: 12.5%)
Common Equity Tier 1

£584m
(HY 2023: £660m)
Gross residential lending

91%
(YE 2023: 95%)
Overall customer satisfaction

685+
(HY 2023: 650+)
Colleague volunteering days

+49
(YE 2023: +57)
Colleague engagement score

*The profit for the six months to 30 June 2023 has been restated by £0.1m; see note 45 of the 2023 Annual Report & Accounts for more details

Purpose is the starting point for everything we do as an organisation, including how we think about strategy, as well as how we measure performance and impact. As a mutual, our principal stakeholders are our Members and it is therefore important that we understand the multiple ways in which we create value on their behalf.

Andrew Haigh
Chief Executive

Chief Executive's Review

Introduction

I'm pleased to report another strong underlying performance for the Society in the first half of 2024, as we continue on our journey of growth, investment and delivery of our Purpose; to connect our communities with a better financial future.

Purpose is the starting point for everything we do as an organisation, including how we think about strategy, as well as how we measure performance and impact. As a mutual, our principal stakeholders are our Members and it is therefore important that we understand the multiple ways in which we create value on their behalf.

Last year, we adopted the Mutual Value Measurement framework (an approach developed by Australia's Business Council for Cooperatives and Mutuals and Monash University Business School in Melbourne) to help structure our approach to how we think about member value, which led us to consider how we add value in three key ways:

- Product, Pricing, Service and Accessibility
- Membership and Community
- Employment, Operations and Partnerships

We were the first UK business to be accredited for our adoption of the framework, which we have now embedded as both a valuable strategic tool in helping us articulate our ambition and a means to demonstrate progress in dialogue with stakeholders. At the end of 2023 we outlined 20 member value commitments and we have made good progress on these so far in 2024. We will be reporting on our delivery of these at the end of the year.

Financial Performance

Performance in the first half of 2024 has evidenced continued progress in our strategic delivery, with increased operating profit before impairments and provisions of £20.1m (HY 2023: £17.9m) and underlying profit of £15.6m (HY 2023: £15.0m).

Capital remains strong and well within regulatory limits, with Common Equity Tier 1 at 12.1% (YE 2023: 12.5%). In view of the Society's significant investment in infrastructure, including our technology renewal and development of the branch network, combined with our aspiration for continued growth, we took the opportunity to raise an additional £20m of tier 2 capital in June, increasing our total capital ratio to 14.2% (YE 2023: 14.1%).

Our profit before tax for the Group fell to £0.2m (HY 2023: £16.3m), reflecting the impact of the decisions we have taken to offer voluntary support to Members who are former customers of The Will Writing Company and have been impacted by the actions of The Philips Trust Corporation ('Philips Trust').

Voluntary support for Members affected by the actions of the Philips Trust

Events leading to the problems that customers have experienced as a result of the actions of Philips Trust are complex, the detail of which has only become clear over a long period. As that detail has emerged, we have been very concerned by, and sympathetic to, the difficult situation faced by Members who have been affected by Philips Trust. It has been extremely distressing to hear our customers' stories and the impact on their lives.

Our Members understand our commitment to Purpose and our support for the communities we serve. Therefore, although there was no obligation to do so, the Society has chosen to offer voluntary financial support to those Members who were impacted. We have set aside £20m of funds to provide this support, including expected costs. Communications are now underway to finalise the arrangements for Members wishing to participate in this voluntary support. Further information is available on our website.

It is clear that the difficulties that Members have experienced are a direct result of the actions of Philips Trust. The Society will continue to offer support to any current or future police investigation which aims to hold those responsible to account.

High streets are better with branches

The national trend of bank branch closures show little sign of slowing but we continue to buck this trend through our commitment to the provision of accessible face-to-face financial services and advice, and our ongoing investment in our branch network. Recent figures from Which? shows that since 2015, more than 6,000 bank branches have now closed, but in that time we've invested around £10m in our branches, opening in new locations and restoring financial services in communities abandoned by the banks.

By considering the needs of our local communities, assessing the issues they face and thinking more creatively about the answers, we are showing that there are ways to deliver accessible financial services and advice in a sustainable and impactful way.

In the first half of the year, we shared details of our move to a new community partnership branch in North Shields, which opened in July, and we've continued work on our new flagship branch in Newcastle city centre. Work continues in the rolling branch refurbishment and updating other branches across the network.

We firmly believe that our flexible approach in adapting size and configuration of the branch based on understanding what a community needs is one that can be replicated for long term success. By prioritising human interaction and combining technology and design, we're showing that branches will continue to have a sustainable essential role within the financial services ecosystem, benefiting not just those most likely to be at risk of financial exclusion.

Putting financial services at the heart of our communities

Our latest community partnership branch builds on previous success and takes the model to the next level. By moving our North Shields branch into the vibrant community facility at YMCA North Tyneside, we're establishing a new presence at the heart of the community, sharing space with the YMCA team and their popular café and gym. The new branch, which opened in July, extends a longstanding partnership with YMCA North Tyneside, and as well as contributing to their impactful work tackling complex social challenges including poverty, addictions, homelessness, and mental wellbeing, the move means we'll benefit from a combination of reduced operating costs and increased footfall, and will help us to serve even more people in North Tyneside.

At our new Monument branch in Newcastle city centre, we are creating a flagship location with modern facilities for customers, communities and colleagues spread over five floors, bringing an iconic building into use for the whole community and putting accessible financial services and advice right at the heart of our home city for generations to come.

We continue to work with North Tyneside Council on plans for another new branch to be located within their redevelopment of the library in Tynemouth.

Value for Members

One important measure of value is that over the first five months of the year (the latest data available) our average savings rate of 3.83% compared to a market average of 3.34%, which is a benefit of £9.8m more savings interest for our Members compared to the market average. In the first half of 2024 we've seen a £261m growth in savings balances (HY 2023: £458m) to £5.3bn (YE 2023: £5.0bn), with a net growth in branch accounts of around 9,000, demonstrating that the combination of good value on the high street and exceptional customer service through our branches is helping to grow our business.

Our Standard Variable Rate (SVR) for mortgages remains one of the most competitive on the market at 6.94% vs a market average of 8.18%, saving our SVR borrowers around £1.4m in interest payments over the first half of 2024 compared to the market average.

Through engagement with our Members, we understand our continued commitment to offer passbook savings accounts is important, and has also helped retain and attract customers, especially as other high street providers have moved away from passbooks. We're also developing our savings offer from a digital perspective, with continued investment in our mobile app, and by offering branch customers the option to manage their money both online as well as in person, if they wish.

Branches play an important role in creating value within our communities. Fifteen branches have dedicated community space for use by local charities and community groups, giving people a warm, comfortable place to socialise. Community rooms are free of charge and well used for a range of purposes including workshops, first aid classes and language groups. We've had more than 2,200 hours of community room bookings across our network so far this year, welcoming 61 new groups.

In July we completed our Consumer Duty change programme after over 18 months of delivery. Over the first half of the year our focus was on embedding the principles and finalising the requirements, across the business, ahead of the 31 July 2024 deadline; which included completion and Board approval for our Consumer Duty Annual Assessment report. With our Members and customers at the heart of our action, we continue to be vigilant to identify further opportunities to ensure more consistent and more positive outcomes for customers.

The combined effect of our focus on what matters to our Members is reflected through very high levels of customer satisfaction at 91% (YE 2023: 95%).

Our financial advice subsidiary, Newcastle Financial Advisers Limited (NFAL), which provides regulated financial advice across our communities and locations, has continued to deliver strong performance with almost 5,000 customer advice appointments undertaken, evidencing ongoing demand for accessible, face to face advice in our communities.

With nearly £60m invested on behalf of our customers, our financial advice team again achieved Top Rated firm status from VouchedFor, the UK's leading review site for financial advisers, for now the third consecutive year, one of only a select group of financial advisory businesses in the UK to do so. We have now received over 2,400 feedback reviews with an overall rating of 4.9/5.

Powering the savings industry

Our subsidiary Newcastle Strategic Solutions Limited ('Solutions'), which is celebrating 20 years of managing savings accounts for providers across the UK, now manages savings balances in excess of £50bn (YE 2023: £48bn+) for 16 different banks and building societies. After a period of very low interest rates, the savings market is increasingly dynamic and Solutions is investing in new capabilities to support its clients. This includes the transition of all clients onto a new digital savings platform, the rollout of a new workforce management tool, and the implementation of Contact Centre as a Service, which will continue throughout the year. With several new clients in the pipeline, the Solutions business is well placed to extend its important role in generating capital for the wider Society business.

Helping homeowners

Our mortgage lending continues to perform well. In the first half of the year we've received more than £1bn new mortgage applications, supporting more than 2,000 first time buyers. Our gross residential lending to 30 June 2024 was £584m (HY 2023: £660m). We have seen small increases in underlying arrears levels as the cost of living pressures continue to affect borrowers. We continue to offer a range of measures to support them should they experience financial difficulty, including measures introduced by the Government's Mortgage Charter.

The majority of our lending is delivered through our network of intermediary partners, and we've invested significantly in our service with the launch of a new digital mortgage application platform for brokers. By listening to brokers and understanding their needs, we've built a new platform in-house which brokers have told us helps to simplify and accelerate the process, giving them more time to spend with their clients. 61% of our broker partners say our new platform is better or substantially better than other lenders' systems.

Making a difference in our communities

In the first half of the year, membership of the Society grew to more than 371,000 and we've maintained a high standard of service with customer satisfaction scores at 91% (YE 2023: 95%). There are signs that more and more people are recognising the value that comes from being part of the mutual movement and choosing long term value and sustainability for their communities.

As part of our ongoing strategic partnership, we're pleased to support the Community Foundation Tyne & Wear and Northumberland in their creation of Vital Signs 2024, a collection of reports on ten key themes which take a deep dive into the issues faced by the North East. Earlier this year over 100 leaders from business, charity, and the public sector were involved in an event at our Cobalt HQ to help launch Vital Signs 2024 and start a conversation about working collaboratively to drive action and meaningful, sustainable change in our communities. Vital Signs 2024 informs our strategic community priorities, creating a clear link to our Purpose including how we approach giving and volunteering.

By asking colleagues to focus their efforts on our key strategic themes, we're able to work more closely with our communities on the issues that matter most. Our community support and volunteering centres on five key areas: food poverty; debt management; work and opportunity; environment and sustainability; and homelessness and insecure housing.

So far this year, more than 60% of colleague volunteering time has been spent on causes and projects supporting these strategic themes, with the total volunteering time standing at more than 685+ days (HY 2023: 650+).

Through the Newcastle Building Society Community Fund at the Community Foundation, we've made grants worth a total of more than £55,000 to charities tackling these strategic themes, which are expected to benefit almost 3,000 people in communities around our branch network.

We continue to support Members with the delivery of the Helping Hand scheme in partnership with Citizens Advice Gateshead, which provides fast access to a dedicated expert adviser. So far this year, more than 80 Members have used the service to access advice and information on a range of topics including housing, debt management, access to welfare support, relationships and community care. The estimated financial gain for all Members in the first half of the year is more than £150,000.

Creating an organisation ready for the future

We also aim to create value for Members and our communities in our role as a major employer. This means making the Society a great place to work, and through our 'A Place To Be You' strategy we're focused on building a diverse workforce which represents all our communities where everyone feels able to be themselves at work and can achieve their potential.

We're making good progress on our long term journey to evolve our culture by building on our solid foundations through our 'Be the Change' programme, to create the conditions which match and will deliver our wider ambitions for growth and success.

With so much change in the organisation, we have seen our colleague employee net promoter score (eNPS) fall slightly to +49 (YE 2023: +57); a score of +49 is a very positive result and places us in the top 25% of our survey provider's finance sector benchmark.

Our journey as an employer mirrors the good progress we are making against our performance and growth ambitions, as well as the clear ways we are creating value for our communities. This work will continue in the second half of the year.

Thanks

The first half of 2024 has seen strong progress in the combined ambitions for growth and investment in the Group and at the same time, we have voluntarily supported Members impacted by the actions and subsequent collapse of Philips Trust. At the heart of all that we do, is our Purpose, 'Connecting our communities with a better financial future' and delivering value for our Members.

As always, we are grateful for the continued support of our Members and the hard work of colleagues from across the Group, which ensures that we are well placed for continued progress in the months ahead.

Andrew Haigh | Chief Executive
1 August 2024

Business review

Our financial performance

Newcastle Building Society is the largest building society based in the North East of England and the seventh largest building society in the UK, with assets of £6.5 billion (31 December 2023: £6.2 billion). 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	Unaudited 6 months to 30 Jun 24	Unaudited 6 months to 30 Jun 23 Restated*	Audited 12 months to 31 Dec 23
	£m	£m	£m
Net interest income	43.6	40.1	86.4
Other income and charges	27.6	25.0	51.9
Fair value gains less losses and hedge accounting	6.0	3.3	(0.4)
Total operating income	77.2	68.4	137.9
Administrative expenses and depreciation	(57.1)	(50.5)	(106.5)
Operating profit before impairments and provisions	20.1	17.9	31.4
Impairments and provisions charges	(19.9)	(1.6)	(2.3)
Profit before taxation	**0.2**	**16.3**	**29.1**
Taxation	4.1	(3.9)	(7.0)
Profit after taxation	**4.3**	**12.4**	**22.1**

*The fair value of the derivative liabilities has been restated. This increased 30 June 2023 derivative liabilities by £2.1m, increased 30 June 2023 profit for the period by £0.1m, with adjustments to: opening reserves at 1 January 2023 of £1.7m; other assets of £0.6m; and other liabilities of £0.1m. Please see note 45 of the 2023 Annual Report & Accounts for more details.

The Group's profit before taxation for the period of £0.2m (30 June 2023: £16.3m (restated)) was impacted by the costs that were recognised during the period following the announcement to provide voluntary financial support to Members who are affected by the actions and subsequent collapse of Philips Trust. Further details of this voluntary support are found in the CEO update on page 4 and in note 14 to the financial information.

The Group's 2024 half-yearly financial results demonstrate the core strength of the Group's operating model and is reflected in the operating profit before impairments and provisions, which increased to £20.1m for the period compared to £17.9m (restated) for the six months to 30 June 2023.

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

Underlying operating profit of the Group is determined by removing income or expenses arising from events or transactions distinct from the core activities of the Group which do not represent the Group's true performance. The following table provides a reconciliation of operating profit before impairments and provisions to underlying operating profits:

Underlying Operating Profit	6 months to 30 Jun 24	6 months to 30 Jun 23 Restated*	12 months to 31 Dec 23
	£m	£m	£m
Operating profit before impairments and provisions	20.1	17.9	31.4
Net gains in fair value of equity release mortgages and associated derivative financial instruments	(4.0)	(3.1)	(0.5)
(Gains) / losses in hedge ineffectiveness on accounting hedges	(1.9)	0.3	0.5
(Gains) / losses in revaluation of investments	-	(0.1)	0.2
Foreign exchange movements	-	-	(0.3)
Transactional costs	-	1.1	1.3
Gains on loan modifications	-	(1.1)	-
IT transformation costs	1.4	-	0.2
Underlying operating profit	**15.6**	**15.0**	**32.8**

*The fair value of the derivative liabilities has been restated. This increased 30 June 2023 profit for the period by £0.1m.

The non-underlying adjustments in the half year include net gains in the fair value of the equity release mortgage book and associated derivatives of £4.0m (30 June 2023: gain of £3.1m (restated)), hedge ineffectiveness gains on accounting hedges of £1.9m (30 June 2023: loss of £0.3m) and £1.4m of IT transformation costs (30 June 2023: nil) relating to IT and systems investment during the period.

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

Net interest income

Net interest income was £43.6m (30 June 2023: £40.1m, 31 December 2023: £86.4m) and our net interest margin was 1.38% at 30 June 2024 (30 June 2023: 1.45% and 31 December 2023: 1.50%). The reduction in net interest margin was due to a reduction in new mortgage volumes at the start of the year, which has since increased throughout the period. In addition, we have increased our savings rates following significant Bank Base Rate rises in 2023.

The impact of changing rates on the Society is mitigated by hedging our exposure to interest rate risks using interest rate swaps. This significantly reduces the impact of changes in market interest rates on net interest income, ensuring that existing lending remains profitable when interest rates rise.

Interest rate swaps are held at fair value and therefore the value of the swap changes when market interest rates move. As a result of changing interest rates, net values of the interest rate swaps have increased by £40.3m in the six month period to June 2024. This was largely offset by reductions in the Society's hedge adjustments and the value of mortgages held at fair value, resulting in a net gain of £6.0m, which is included in the fair value gains less losses on financial instruments and hedge accounting line in the income statement. Additional information on derivative and fair value movements is provided in notes 10 and 11 to the financial information.

Other income and charges

Other income and charges, which includes income from Newcastle Strategic Solutions ('Solutions') and Newcastle Financial Advisers, was £27.6m for the six months ended 30 June 2024 compared to £25.0m for the first half of 2023. Solutions continued to see growth in its underlying business in the first half of 2024 as balances under management with existing clients continue to increase. Newcastle Financial Advisers delivered a strong performance over the first half of the year with new business, service income and appointment levels performing above original targets.

Administrative expenses and depreciation

Administrative expenses and depreciation increased by £6.6m from £50.5m for the half year 2023 to £57.1m for the half year to June 2024. The increase in administrative expenses relates predominantly to the continued investment in colleagues during the period and is in line with expectations.

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. Our cost to income ratio at 30 June 2024 has reduced to 74.0% from 77.2% at 31 December 2023 (30 June 2023: 73.9%).

Impairments and provisions

Provisions for liabilities and charges

The Society has committed to providing voluntary financial support to help Members whose trusts are affected by the actions and subsequent collapse of Philips Trust. Management have determined an estimate of the total cost of the voluntary scheme and associated costs to be incurred (including legal and scheme costs), which will not exceed £20m and have recognised a provision during the period for this cost. Further information is found in note 14 to the financial information.

Impairment on loans and advances to customers

Impairment on loans and advances to customers was a reversal of £0.6m for the half year to June 2024 (30 June 2023: charges of £1.1m, 31 December 2023: charges of £1.1m). The reversal is predominantly due to the release of provisions made against commercial properties that have since repaid their loans during the period.

The Group's credit risk in relation to its core residential mortgage portfolios is closely correlated with significant rises in unemployment rates and falls in property values. Provisions against residential exposures are based on the Society's provisioning model that considers a range of economic scenarios. Although the economic environment has improved over the last six months, there is a still a significant degree of uncertainty and tail risks that we continue to monitor. Of particular relevance is the risk around the cost of living and inflationary pressures which is affecting some of our borrowers, however to a lesser degree than expected originally.

Provisions against residential and buy to let mortgages have remained broadly static during the first six months of the year. Assets values have appreciated by circa 3% over the period along with a more positive view of the forward-looking macro environment. That effect has been offset by book growth and a small increase in stage 3 assets to 1.4%.

Taxation

The tax credit recognised in the period of £4.1m (six months to 30 June 2023: £3.9m charge) includes recognition of £4.0m of deferred tax assets relating to taxable losses of Manchester Building Society. These have been recognised in the current period following a change in tax regulations applicable to Building Societies, allowing the Society to utilise the tax losses against profits since 1 July 2023, as outlined in note 19 of the 2023 Annual Report & Accounts.

Balance Sheet

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

Summary Balance sheet	Unaudited 30 Jun 24 £m	Unaudited 30 Jun 23 Restated* £m	Audited 31 Dec 23 £m
Assets			
Liquid assets	1,305.9	1,144.1	1,250.3
Derivatives and hedged risk adjustments	38.1	43.9	37.7
Loans and advances to customers	5,079.9	4,619.5	4,859.7
Other assets	78.3	63.6	75.5
Total assets	**6,502.2**	**5,871.1**	**6,223.2**
Liabilities			
Shares	5,275.2	4,678.8	5,014.3
Deposits and debt securities	800.1	846.2	801.0
Derivatives and hedged risk adjustments	35.6	44.1	61.7
Other liabilities	62.7	16.9	25.4
Capital and reserves	328.6	285.1	320.8
Total liabilities and equity	**6,502.2**	**5,871.1**	**6,223.2**

*The fair value of the derivative liabilities has been restated. This increased: 30 June 2023 derivative liabilities by £2.1m; 30 June 2023 profit for the period by £0.1m, with adjustments to: opening reserves at 1 January 2023 of £1.7m; other assets of £0.6m; and other liabilities of £0.1m. Please see note 45 of the 2023 Annual Report & Accounts for more details.

Liquid assets

We continue to manage our liquidity levels efficiently and comfortably within our regulatory limits. The quality of liquidity continues to be excellent, comprising assets held in cash or that can easily be converted to cash through treasury markets (repo) or via the various Bank of England liquidity schemes.

The statutory liquidity percentage (liquid assets as a percentage of shares, deposits and liabilities) at 30 June 2024 was 21.5% (30 June 2023: 20.7%, 31 December 2023: 21.5%). 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 at 30 June 2024 was 212% (30 June 2023: 191%, 31 December 2023: 227%), comfortably in excess of the minimum regulatory limit of 100%.

Loans and advances to customers

The net increase in loans and advances to customers after provisions was £220m for the first half of the year, which is a decrease in comparison to £360m for the first half of 2023. The decrease relates to a reduction in new mortgage volumes at the start of the year, which has since increased throughout the period. In addition, there has been a £51m reduction in our exposure to the legacy lending book (30 June 2023: £45m), resulting in loans and advances to customers of £5.1bn at 30 June 2024 (31 December 2023: £4.9bn). Gross lending for the first half of the year was £584m (30 June 2023: £660m). The Society's core residential mortgage book grew by £280m during the first half of 2024 (30 June 2023: £408m). Movement in the Group's mortgage provisions are outlined on page 8 above.

The percentage of mortgages in arrears by 3 months or more was 1.06% (30 June 2023 :0.37%, 31 December 2023: 0.87%). The Society's arrears position has increased since 30 June 2023, partly due to the mortgages acquired in the second half of 2023 as part of the merger with Manchester Building Society, as well as a small increase in accounts in arrears given the cost of living pressures experienced by borrowers. The mortgages acquired through our merger with Manchester Building Society have significantly higher arrears positions than the lending originated by the Society, however they make up only £119m of total lending. In addition, we have redefined the basis of our arrears definition to include interest only mortgages that have passed the capital repayment date, which were not included in prior periods as this more accurately reflects the number of mortgages that are in arrears. Excluding these interest only mortgage accounts, the percentage of mortgages in arrears by 3 months or more was 0.93%.

There were 14 properties in possession at the half year ended 30 June 2024 (30 June 2023: nil, 31 December 2023: eight), of which two are from voluntary possessions, and seven relate to the Group's legacy equity release loans.

Shares, deposits and debt securities

The Society is predominantly funded by retail savings with wholesale funding used to provide a diversified funding source. 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.

Retail savings balances were £5.3bn at 30 June 2024 (31 December 2023: £5.0bn), increasing by £261m during the first half of 2024 (6 months to 30 June 2023: £458m), as savings volumes were managed to balance with mortgage volumes seen during the period.

Deposits and debt securities, or wholesale funding, including drawdown on Bank of England Funding Schemes, reduced by £1m during the first half of the year to £800m (31 December 2023: £801m). The Society currently utilises the Bank of England term funding scheme which is due to be repaid in 2024. The Society has sufficient funding available to replace those funds when they fall due, with £30m already repaid during the period. The scheme makes up 61% (December 2023: 65%) of the wholesale funding mix with the remainder being made up with unsecured wholesale funding and funding collateral.

During the period the Society took the opportunity to diversify its funding portfolio, issuing £20m of Tier 2 capital eligible loan notes during the period.

The ratio of shares and deposits to wholesale balances has moved to 87%/13% at 30 June 2024, from 86%/14% at December 2023. Insured deposits (balances that are covered by the Financial Services Compensation Scheme) make up 93% of the Society's retail savings as at 30 June 2024 (31 December 2023: 93%).

Capital

Total capital resource increased from £308.6m at 31 December 2023 to £322.6m in the six months to 30 June 2024 primarily due to tier 2 capital raised in June. In the same period, risk weighted assets increased from £2,186m to £2,271m due to growth of the Society's mortgage book.

As a result, the total capital ratio increased, whereas the Common Equity Tier 1 and Leverage ratio decreased. All capital ratios remained at a robust level well in excess of regulatory limits.

Total Capital ratio (Solvency) was 14.2% as at 30 June 2024 (31 December 2023: 14.1%) and Common Equity Tier 1 ratio 12.1% (31 December 2023: 12.5%). The regulatory minimum is 8.0% and 4.5% for Total Capital ratio and Common Equity Tier 1 ratio respectively. The Society's UK Leverage ratio was 4.6% at 30 June 2024 (31 December 2023: 4.8%). The PRA expects UK firms to maintain their leverage ratio above 3.25%.

In late 2022, the PRA published draft rules for the UK's Basel 3.1 implementation, which will result in a significant change in how capital requirements for larger banks and building societies will be determined from 2025 onwards compared to the current framework. Some of the new rules were finalised in 2023, however the final rules most consequential for the Society have not yet been published. Based on preliminary work, the Society's capital requirements are expected to reduce modestly under the Basel 3.1 framework, improving the Society's capital ratios and headroom to regulatory requirements.

The Society will be in scope of the Small Domestic Deposit Taker Regime, a new regulatory framework for smaller firms. The capital rules for this regime have not yet been published but are expected to be similar to the Basel 3.1 rules. The Society will have a choice to either adopt the Small Domestic Deposit Taker Regime or Basel 3.1.

Key performance indicators

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

Please refer to the Strategic Report in the 2023 Annual Report & Accounts for further details on our KPIs.

Key performance indicators	6 months to 30 Jun 24	6 months to 30 Jun 23	12 months to 31 Dec 23
Financial			
Sustainable business			
Profit before taxation*	£0.2m	£16.3m	£29.1m
Operating profit before impairments and provisions*	£20.1m	£17.9m	£31.4m
Underlying operating profit	£15.6m	£15.0m	£32.8m
Common Equity Tier 1 ratio	12.1%	12.4%	12.5%
Leverage ratio	4.6%	4.8%	4.8%
Liquidity coverage ratio	212%	191%	227%
Efficiency			
Cost to income ratio	74%	74%	77%
Lending and saving			
Net interest margin	1.38%	1.45%	1.50%
Lending			
Gross mortgage lending	£584m	£660m	£1,103m
Net core residential lending	£280m	£408m	£575m
Savings			
Savings balances	£5,275m	£4,679m	£5,014m
Non-financial measures			
Service quality and customer experience			
Customer satisfaction	91%	95%	95%
Customer engagement score (NPS)	+86	+81	+82
People, leadership and culture			
Colleague engagement score (eNPS)	+49	+63	+57

*These indicators have been restated for the prior period adjustment of derivative liabilities, increasing 30 June 2023 profits for the period by £0.1m. Further detail is found in note 45 to the 2023 Annual Report & Accounts.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are detailed below. A more detailed explanation of the risks below and how the Group seeks to mitigate them can be found in the Risk Management report of the 2023 Annual Report & Accounts.

Category	Definition
Capital risk	Capital risk is the risk that the Group is or becomes inadequately capitalised to address the risks to which it is exposed.
Conduct risk	Conduct risk is the risk of customer detriment arising from the Group's activities. Examples include products that do not perform as customers expected them to, or products being sold to customers for whom they are not suitable.
Credit risk	Retail borrowers do not repay the Group and the Group's collateral is insufficient to meet the debt obligations. The risk is sensitive to economic conditions, unemployment rates, property prices, interest rates and the application of underlying assumptions and data within our credit loss modelling.
Interest rate risk	Interest rate risk is the risk that the value of the Group'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.
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 only being able to do so at excessive cost.
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.
Cyber risk	Cyber risk refers to the potential exposure or loss stemming from cyber incidents or data breaches, expanding to the financial stability of the Group, consumer and client confidence.
Climate change risk (Emerging risk)	Climate change risks recognise the risks associated with adverse climate change and the impact on the Group's operations, the impact on borrowers and the decrease in the value of security in support of mortgage lending. The most tangible financial risk to the Group from climate change relates to flood risk in respect to properties held as securities for mortgage loans.

In addition to the above, as outlined on page 4, the Society announced it will provide a scheme of voluntary financial support to its customers affected by the actions and subsequent collapse of Philips Trust. Although there is no legal or regulatory requirement to provide financial support, in doing so, the Society has considered how to balance our values, our reputation as a member owned mutual business, and the expectations of the communities we serve.

Income Statements

Condensed Consolidated Income Statement

	Note	Unaudited 6 months to 30 Jun 24 £m	Unaudited 6 months to 30 Jun 23 Restated £m	Audited 12 months to 31 Dec 23 £m
Interest receivable and similar income	7	161.4	108.0	259.9
Interest payable and similar charges		(117.8)	(67.9)	(173.5)
Net interest income		**43.6**	**40.1**	**86.4**
Other income and charges		27.6	25.0	51.9
Fair value gains less losses on financial instruments and hedge accounting	10	6.0	3.3	(0.4)
Total operating income		**77.2**	**68.4**	**137.9**
Administrative expenses		(53.6)	(47.5)	(100.1)
Depreciation and amortisation		(3.5)	(3.0)	(6.4)
Operating profit before impairments and provisions		**20.1**	**17.9**	**31.4**
Impairment reversals / (charges) on loans and advances to customers		0.6	(1.1)	(1.1)
Impairment charges on tangible and intangible assets		-	(0.1)	(0.3)
Provisions for liabilities and charges		(20.5)	(0.4)	(0.9)
Profit before taxation		**0.2**	**16.3**	**29.1**
Taxation	5	4.1	(3.9)	(7.0)
Profit after taxation for the financial period		**4.3**	**12.4**	**22.1**

The fair value of the derivative liabilities has been restated by £2.1m, increasing 30 June 2023 profit before tax by £0.1m. Please see note 45 of the 2023 Annual Report & Accounts for more details.

The notes on pages 18 to 33 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Statement of Comprehensive Income

	Unaudited 6 months to 30 Jun 24 £m	Unaudited 6 months to 30 Jun 23 Restated £m	Audited 12 months to 31 Dec 23 £m
Profit for the period	**4.3**	**12.4**	**22.1**
Other comprehensive income			
Items that may be reclassified to income statement			
Cash flow hedges			
Fair value movements recognised in equity	5.9	10.3	5.8
Amounts transferred to income statement	(0.9)	0.3	(0.4)
Tax on net amounts recognised in equity	(1.3)	(2.7)	(1.3)
Financial assets measured at fair value through other comprehensive income			
Fair value movements recognised in equity	(0.3)	0.8	0.6
Tax on net amounts recognised in equity	0.1	(0.2)	(0.2)
Total items that may be reclassified to income statement	**3.5**	**8.5**	**4.5**
Total other comprehensive income	**3.5**	**8.5**	**4.5**
Total comprehensive income for the financial period	**7.8**	**20.9**	**26.6**

The fair value of the derivative liabilities has been restated by £2.1m, increasing 30 June 2023 profit for the period by £0.1m. Please see note 45 of the 2023 Annual Report & Accounts for more details.

The notes on pages 18 to 33 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 Jun 24 £m	Unaudited 30 Jun 23 Restated £m	Audited 31 Dec 23 £m
ASSETS				
Liquid assets		1,305.9	1,144.1	1,250.3
Derivative financial instruments		65.2	128.6	50.9
Loans and advances to customers		5,079.9	4,619.5	4,859.7
Fair value adjustments for hedged risk		(27.1)	(84.7)	(13.2)
Property, plant and equipment		30.9	27.9	31.5
Intangible assets		13.8	11.8	12.8
Other assets		33.6	23.9	31.2
TOTAL ASSETS		**6,502.2**	**5,871.1**	**6,223.2**

	Note	Unaudited 30 Jun 24 £m	Unaudited 30 Jun 23 Restated £m	Audited 31 Dec 23 £m
LIABILITIES AND EQUITY				
Shares		5,275.2	4,678.8	5,014.3
Fair value adjustments for hedged risk		(0.1)	(0.3)	-
Deposits and debt securities		800.1	846.2	801.0
Derivative financial instruments		35.7	44.4	61.7
Provisions for liabilities	14	20.3	0.7	0.6
Other liabilities		22.9	16.2	24.8
Subordinated liabilities		19.5	-	-
Subscribed capital		34.8	20.0	34.8
TOTAL LIABILITIES		**6,208.4**	**5,606.0**	**5,937.2**
Reserves		293.8	265.1	286.0
TOTAL LIABILITIES AND EQUITY		**6,502.2**	**5,871.1**	**6,223.2**

The fair value of the derivative liabilities has been restated. This increased 30 June 2023 derivative liabilities by £2.1m, increased 30 June 2023 profit for the period by £0.1m, with an adjustment to opening reserves at 1 January 2023 of £1.7m, an adjustment to other assets of £0.6m and an adjustment to other liabilities of £0.1m. Please see note 45 of the 2023 Annual Report & Accounts for more details.

The notes on pages 18 to 33 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Statement of Movement in Members' Interests

For the 6 months ended 30 June 2024 (Unaudited)

	General reserve	Fair value through other comprehensive income	Cash flow hedge reserve	Total reserves
	£m	£m	£m	£m
At 1 January 2024	284.2	0.4	1.4	286.0
Profit for the period	4.3	-	-	4.3
Net movement in fair value through other comprehensive income	-	(0.2)	-	(0.2)
Net movement in cash flow hedge reserve	-	-	3.7	3.7
At 30 June 2024	288.5	0.2	5.1	293.8

For the 6 months ended 30 June 2023 (Unaudited)

	General reserve	Fair value through other comprehensive income	Cash flow hedge reserve	Total reserves
	Restated			Restated
	£m	£m	£m	£m
At 1 January 2023	246.5	0.4	(2.7)	244.2
Reclassification*	0.4	(0.4)	-	-
Profit for the period	12.4	-	-	12.4
Net movement in fair value through other comprehensive income	-	0.6	-	0.6
Net movement in cash flow hedge reserve	-	-	7.9	7.9
At 30 June 2023	259.3	0.6	5.2	265.1

For the year ended 31 December 2023 (Audited)

	General reserve	Fair value through other comprehensive income	Cash flow hedge reserve	Total reserves
	£m	£m	£m	£m
At 1 January 2023	246.5	0.4	(2.7)	244.2
Reclassification*	0.4	(0.4)	-	-
Profit for the period	22.1	-	-	22.1
Net movement in fair value through other comprehensive income	-	0.4	-	0.4
Net movement in cash flow hedge reserve	-	-	4.1	4.1
Total comprehensive income	269.0	0.4	1.4	270.8
Transfer of engagements**	15.2	-	-	15.2
At 31 December 2023	284.2	0.4	1.4	286.0

*The reclassification relates to historic tax amounts which have been previously realised in the income statement.
** Transfer of engagements from Manchester Building Society.
The fair value of the derivative liabilities has been restated. This increased 30 June 2023 derivative liabilities by £2.1m, increased 30 June 2023 profit for the period by £0.1m, with an adjustment to opening reserves at 1 January 2023 of £1.7m Please see note 45 of the 2023 Annual Report & Accounts for more details.

The notes on pages 18 to 33 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Cash Flow Statement

	Note	Unaudited 6 months to 30 Jun 24	Unaudited 6 months to 30 Jun 23 Restated	Audited 12 months to 31 Dec 23
		£m	£m	£m
Net cash inflows from operating activities	15	66.1	193.8	251.9
Taxation		0.2	(4.0)	(7.0)
Cash inflows from operating activities		**66.3**	**189.8**	**244.9**
Purchases of property, plant and equipment		(1.9)	(1.2)	(2.0)
Purchase of intangible assets		(2.4)	(2.9)	(5.4)
Sales of property, plant and equipment		-	-	0.7
Acquisition of trade and assets		(0.1)	-	-
Cash acquired on transfer of engagements		-	-	42.7
Purchase of investment securities		(241.1)	(132.1)	(501.5)
Sale and maturity of investment securities		241.8	165.2	330.0
Net cash (outflows) / inflows from investing activities		**(3.7)**	**29.0**	**(135.5)**
Interest paid on subscribed capital		(1.8)	(1.2)	(2.9)
Capital payment for finance lease arrangements		(1.0)	(0.6)	(0.9)
Proceeds on issue of subordinated liabilities		19.8	-	-
Net cash inflows / (outflows) from financing activities		**17.0**	**(1.8)**	**(3.8)**
Net increase in cash and cash equivalents		**79.6**	**217.0**	**105.6**
Cash and cash equivalents at the start of period	15	533.5	427.9	427.9
Cash and cash equivalents at the end of the period	15	**613.1**	**644.9**	**533.5**

The 30 June 2023 cash flow statement has been restated due to the removal of the cash ratio deposit held with the Bank of England of £12.6m from cash and cash equivalents as it does not meet the criteria to be included within cash and cash equivalents. Please see note 28 of the 2023 Annual Report & Accounts for more details.

The notes on pages 18 to 33 form an integral part of this condensed consolidated half-yearly financial information.

Notes

1. General information

1.1. The half-yearly financial information set out above, which was approved by the Board of Directors, does not constitute accounts within the meaning of the Building Societies Act 1986.

1.2. The financial information for the 12 months to 31 December 2023 has been extracted from the accounts for that year. The auditors gave an unqualified opinion on the accounts for the 12 months to 31 December 2023, and they have been filed with the Financial Conduct Authority and the Prudential Regulation Authority.

1.3. The half-yearly financial information for the six months to 30 June 2024 and the six months to 30 June 2023 is unaudited.

1.4. The announcement is available at www.newcastle.co.uk.

2. Basis of preparation

The condensed consolidated financial information for the half year ended 30 June 2024 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as applicable in the United Kingdom. It does not include all the information required by International Financial Reporting Standards (IFRSs). The half-yearly financial information should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2023, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as applicable in the United Kingdom.

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

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

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

3. Accounting policies

The half-yearly financial information has been prepared on the basis of the accounting policies adopted for the year ended 31 December 2023.

4. 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 half-yearly financial information. 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. Whilst there have been no changes to the accounting areas where the most significant estimates and judgements are applied, with the exception of management judgement applied to the voluntary financial support provision, an overview on the impact the changed economic situation has had on these is provided below.

Estimates

Fair value of the equity release mortgage assets

The valuation of the Group's equity release mortgage assets depends on a range of assumptions, including the most appropriate discount rate, property price growth rates and volatility. Key assumptions and sensitivity analysis are outlined in note 12, Equity release mortgages.

Impairment of financial assets

The impairment of mortgage assets is determined by a weighted average of the expected credit losses of four different economic scenarios. Each scenario is based on a range of assumptions, including property price growth rates and unemployment rates. The scenario weightings are based on management's current expectation about the future probability of each economic scenario. Economic scenarios and scenario weightings are outlined in note 13, Credit risk.

Pensions

At 31 December 2023 year end, management relied on a range of assumptions including the most appropriate discount rate, mortality rates, inflation, take up of the Pension Increase Exchange offer and future salary increases in estimating the value of the pension scheme. The Board received independent external advice from its actuarial consultants in arriving at the scheme assumptions which were outlined together with sensitivity analysis in note 20, Retirement benefit obligations, of the 2023 Annual Report & Accounts. Detailed sensitivity analysis and stress testing was performed at year end which showed that the probability of the pension surplus becoming a deficit was remote. As a result, no revaluation of the pension scheme surplus was performed at the half year.

Fair value of the assets and liabilities acquired on transfer of engagements

The valuation of identifiable assets and liabilities transferred from Manchester Building Society on merger on 1 July 2023 was dependent on a range of assumptions, including the most appropriate discount rates, property price growth rates, forced sale discounts and property price volatility. The fair value adjustments made are detailed in note 43 to the 2023 Report & Accounts; there have been no changes to these assumptions since publication of the 2023 Report & Accounts.

Judgements

Fair value of derivatives and financial assets

Fair values are determined by the three tier valuation hierarchy as defined within IFRS 13 'Fair Value Hierarchy'. There have been no significant changes to valuation methodologies applied since the publication of the 2023 Annual Report & Accounts.

Impairment of financial assets

The modelling of impairment of mortgage assets included a range of management judgements, including the Society's definition of default, significant increase in credit risk and the use of post model adjustments. See note 13, Credit risk for details.

Fair value of the consideration exchanged on merger

The business combination of the Society with Manchester Building Society did not involve the transfer of any cash consideration. The deemed purchase consideration represents the fair value of the members' interests transferred. We consider the most appropriate method for determining fair value of the members' interests to be the fair value of the net assets transferred on merger, due to Manchester Building Society being in run-off, such that there were no cash flows identified that were not taken into consideration when determining the fair value of the assets and liabilities. The judgement involved the selection of an appropriate method under IFRS 13 to determine the fair value of the acquired business. Further detail is provided in note 43 to the 2023 Annual Report & Accounts.

Voluntary financial support provision

In determining the level of provision for the voluntary financial support announced for Members affected by the collapse of Philips Trust, management judgement and estimates have been used, based on information available at the time, noting detailed information from the Administrators has not yet been provided. Management judgements include estimation of the level of expected claims under the scheme, the value of each claim, potential recoveries from the liquidation of Philips Trust and the expected associated costs of administration of the scheme. In the absence of any detailed information being available, Management have applied an assumption that, based on all known information at this time, all known affected customers would make a claim under this scheme and there will be no recoverable assets repaid from liquidation proceedings. Given the level of management judgement involved in determining the level of provision recognised, actual outcomes could materially adjust the carrying amount of these balances.

5. Taxation

Tax credits recognised in the period of £4.1m (six months to 30 June 2023: £3.9m charge) includes recognition of £4.0m of deferred tax assets relating to taxable losses of Manchester Building Society. These have been recognised in the current period following a change in tax regulations applicable to Building Societies, allowing the Society to utilise the tax losses against profits since 1 July 2023, as outlined in note 19 of the 2023 Annual Report & Accounts. The recognition of £4.0m of deferred tax assets results in the effective rate of tax for the period being significantly different to the standard rate of tax of 25% (30 June 2023: 23.5%).

6. Related party transactions

During the six months to 30 June 2024 the Society purchased £8.4m of business support services and managed IT and property services from Newcastle Strategic Solutions Limited ('Solutions'), a wholly owned subsidiary (in the same period in 2023, £7.9m was procured from Solutions). The Society received £5.1m from Solutions in the six months to 30 June 2024 for the provision of financial and administrative services. This compares to £5.5m from Solutions for the same period in 2023. As outlined in note 9, revised arrangements for funding and administrative expenses between the Society and Solutions were entered into during the first half of 2024. Should these arrangements have been in place in prior periods, the amount received by the Society from Solutions in the six months to 30 June 2023 for the provision of financial and administrative services would have been £4.1m.

7. Interest receivable and similar income

	Unaudited 6 months to 30 Jun 24 £m	Unaudited 6 months to 30 Jun 23 £m	Audited 12 months to 31 Dec 23 £m
Interest income on assets held at amortised cost	120.2	78.8	193.3
Interest income on assets held at fair value through profit or loss	6.0	5.2	11.1
Interest income on assets held at fair value through other comprehensive income	16.4	8.8	21.1
Net income on derivatives used for hedging purposes	18.8	15.2	34.4
Total interest receivable and similar income	**161.4**	**108.0**	**259.9**

8. Revenue from contracts with customers

In accordance with IFRS 8, 'Operating Segments', the Group reports the following segments: Member business and Solutions business segment (also referred to as Newcastle Strategic Solutions Limited ('Solutions')). When the Group prepares financial information for management, it disaggregates revenue by segment and service type.

The table below illustrates the disaggregation of revenue in scope of IFRS 15, 'Revenue from Contracts with Customers'. Revenue from contracts with customers generated by the Solutions business and the Member business is included in 'Other income and charges' within note 9, Segment information.

	Unaudited 6 months to 30 Jun 24 £m	Unaudited 6 months to 30 Jun 23 £m	Audited 12 months to 31 Dec 23 £m
Revenue from contracts with customers			
Solutions business:			
Savings management services	22.5	19.6	41.7
Savings management project and change services	0.2	0.3	1.0
IT services	0.4	0.4	0.9
Member business:			
Regulated advice services	1.3	3.1	6.1
Third party services	1.9	1.0	1.6
Other services	1.2	0.1	0.1
Total revenue from contracts with customers	**27.5**	**24.5**	**51.4**

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 Newcastle Strategic Solutions Limited ('Solutions')) 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.

Revised arrangements between the Society and Solutions were entered into during the first half of 2024 to reflect the unique funding arrangements provided by the Society to the Solutions business. The revised arrangements have decreased net interest expense and administrative expenses in the Solutions business.

Should these revised arrangements have been in place at the half year ended 30 June 2023, the net interest income for the Solutions business would have been £0.1m, administrative expenses £23.9m and operating profit before impairments and provisions would have been £2.9m. At the year ended 2023, the net interest income for the Solutions business would have been £0.2m, administrative expenses £50.4m and operating profit before impairments and provisions would have been £6.3m. There is no impact on the Group position.

6 months to 30 June 2024 - Unaudited	**Member Business £m**	**Solutions Business £m**	**Total £m**
Net interest income	43.5	0.1	43.6
Other (charges) and income	(4.0)	31.6	27.6
Fair value gains less losses on financial instruments and hedge accounting	6.0	-	6.0
Administrative expenses	(26.0)	(27.6)	(53.6)
Depreciation and amortisation	(1.2)	(2.3)	(3.5)
Operating profit before impairments and provisions	**18.3**	**1.8**	**20.1**
Impairment reversals on loans and advances to customers	0.6	-	0.6
Provisions for liabilities and charges	(20.4)	(0.1)	(20.5)
	(1.5)	**1.7**	**0.2**
Profit before taxation			**0.2**
Taxation			4.1
Profit after taxation for the financial period			**4.3**

6 months to 30 June 2023 - Unaudited	**Member Business** Restated **£m**	**Solutions Business** **£m**	**Total** Restated **£m**
Net interest income	40.8	(0.7)	40.1
Other (charges) and income	(3.6)	28.6	25.0
Fair value gains less losses on financial instruments and hedge accounting	3.3	-	3.3
Administrative expenses	(22.2)	(25.3)	(47.5)
Depreciation and amortisation	(1.1)	(1.9)	(3.0)
Operating profit before impairments and provisions	**17.2**	**0.7**	**17.9**
Impairment charge on loans and advances to customers	(1.1)	-	(1.1)
Provisions for liabilities and charges	(0.2)	(0.2)	(0.4)
	15.9	**0.5**	**16.4**
Impairment charges on tangible and intangible assets			(0.1)
Profit before taxation			**16.3**
Taxation			(3.9)
Profit after taxation for the financial period			**12.4**

The fair value of the derivative liabilities has been restated. This increased 30 June 2023 profit for the period by £0.1m.

Year to 31 December 2023 - Audited	Member Business £m	Solutions Business £m	Total £m
Net interest income	88.0	(1.6)	86.4
Other (charges) and income	(8.6)	60.5	51.9
Fair value gains less losses on financial instruments and hedge accounting	(0.4)	-	(0.4)
Administrative expenses	(47.1)	(53.0)	(100.1)
Depreciation and amortisation	(2.4)	(4.0)	(6.4)
Operating profit before impairments and provisions	**29.5**	**1.9**	**31.4**
Impairment charge on loans and advances to customers	(1.1)	-	(1.1)
Provisions for liabilities and charges	(0.3)	(0.6)	(0.9)
	28.1	**1.3**	**29.4**
Impairment charges on tangible and intangible assets			(0.3)
Profit before taxation			**29.1**
Taxation			(7.0)
Profit after taxation for the financial period			**22.1**

10. Fair value gains less losses on financial instruments and hedge accounting

	Unaudited 6 months to 30 Jun 24 £m	Unaudited 6 months to 30 Jun 23 Restated £m	Audited 12 months to 31 Dec 23 £m
Fair value movement on loans and advances to customers held at fair value through profit and loss	(3.8)	(4.8)	4.4
Fair value movement on derivatives in economic but not in accounting hedge relationships	7.8	7.9	(6.6)
Economically offsetting fair value movements	**4.0**	**3.1**	**(2.2)**
Interest income / (expense) on derivatives in economic but not accounting hedge relationships	0.1	(0.7)	(0.5)
Amounts recycled to profit and loss from cash flow hedges	0.8	(0.3)	-
Fair value movement on equity instruments	-	0.1	(0.2)
Fair value movement on loan modification	-	1.1	-
Hedge ineffectiveness on fair value accounting hedges	1.1	-	2.5
Fair value gains less losses on financial instruments and hedge accounting	**6.0**	**3.3**	**(0.4)**

The fair value of the derivative liabilities has been restated. This increased 30 June 2023 fair value gains by £0.1m.

11. Fair value measurement

The following table summarises the fair value measurement basis used for assets and liabilities held on the balance sheet at fair value at 30 June 2024.

	Level	Unaudited 30 Jun 24 £m	Unaudited 30 Jun 23 Restated £m	Audited 31 Dec 23 £m
Financial assets				
Debt securities – fair value through other comprehensive income	1	614.2	400.8	615.0
Equity investments	1	0.1	0.2	0.1
Derivative financial instruments	2	65.2	128.6	50.9
Fair value adjustments for hedged risk	2	(27.1)	(84.7)	(13.2)
Equity investments	3	1.8	2.1	1.8
Loans and advances to customers held at fair value	3	178.3	157.8	188.4
Financial liabilities				
Derivative financial instruments	2	35.7	44.4	61.7
Fair value adjustment for hedged risk	2	(0.1)	(0.3)	-

The fair value of the derivative liabilities at 30 June 2023 has been restated by £2.1m.

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).

Loans and advances to customers held at fair value

The fair value of the equity release portfolio is calculated using a model that estimates the future cash flows expected from the portfolio. The timing of those cash flows is determined with reference to mortality tables overlaid by expected prepayments. The model discounts these cash flows to their present value, using a discount rate based on interest rates for new equity release mortgages available at the balance sheet date, adjusted for the specific characteristics of the Society's portfolio.

The model further calculates a value for the 'no-negative equity guarantee' provided to the customer using an option pricing method.

The valuation uses a number of inputs which require estimation, such as the mortality and prepayment rates, the discount rate, property price volatility and the haircut applied to individual sales prices.

The key estimates used in the model and the basis of estimation are summarized below:

Assumption	Basis of estimation
Discount rate	Estimated funding costs and expected return on equity of an entity that could acquire the portfolio if it was for sale
Long term property price growth	Analysis of historic long term property price growth
Sales discount on collateral	Analysis of historic sales discounts
Property price volatility	Analysis of historic property price volatility and third party research

At 30 June 2024 the fair value of the mortgage assets held at fair value was £178.3m (December 2023: £188.4m). The sensitivity of this value to the estimates shown above is as follows:

Assumption	Change in assumption	(Decrease) / increase in fair value
		£m
Discount rate	+ / -1.0%	(10.3) / 11.4
Long term property price growth	+ / -2.0%	4.3 / (5.6)
Sales discount on collateral	+ / -2.5%	(1.6) / 1.4
Property price volatility	+ / -3.0%	(3.1) / 2.6

The following table provides a reconciliation of the equity release portfolio's opening and closing fair value.

	Unaudited 6 months to 30 Jun 24 £m	Unaudited 6 months to 30 Jun 23 £m	Audited 12 months to 31 Dec 23 £m
As at 1 January	188.4	166.3	166.3
Acquired on transfer of engagements	-	-	26.5
Interest accrued	6.5	4.8	11.2
Redemptions	(11.2)	(8.5)	(19.3)
Changes in property price assumptions – recorded in profit and loss	0.9	1.1	(3.0)
Changes in discount rate – recorded in profit and loss	(5.7)	(5.9)	6.4
Changes in exchange rates – recorded in profit and loss	(0.6)	-	0.3
As at 30 June / 31 December	**178.3**	**157.8**	**188.4**

Equity investments

The fair value of the Group's investment in Openwork units is calculated using a model which discounts the future expected cash flows from the investment. These cash flows relate primarily to the dividends receivable by the Group. These dividends are then discounted to their present value, using a discount rate that estimates the underlying risks associated with an unlisted equity instrument.

The valuation uses a number of inputs which require estimation, such as future dividend payout ratios, discount rates, long term dividend growth and the underlying business performance. These estimates are made using listed peers as a benchmark and other publicly available information.

At 30 June 2024 the fair value of the investments held at fair value was £1.9m (December 2023: £1.9m). The sensitivity of this value to the estimates shown above is as follows:

Assumption	Change in assumption	30 Jun 2024 (Decrease) / Increase in fair value £m
Discount rate	+ / - 1%	(0.2) / 0.2
Long term dividend growth rate	+ / - 2%	0.3 / (0.2)

The following table provides a reconciliation of the level 3 Equity investments opening and closing fair value:

	Unaudited 6 months to 30 Jun 24 £m	Unaudited 6 months to 30 Jun 23 £m	Audited 12 months to 31 Dec 23 £m
As at 1 January	1.8	2.0	2.0
Changes in fair value recorded in profit and loss	-	0.1	(0.2)
As at June / December	**1.8**	**2.1**	**1.8**

12. Equity release mortgages

The gross mortgage balances and fair value adjustment relating to the equity release mortgage portfolio are as follows:

Denominated in £	Unaudited 30 Jun 2024 £m	Unaudited 30 Jun 2023 £m	Audited 31 Dec 2023 £m
Gross mortgage balances	148.3	156.9	151.7
Fair value adjustment	5.1	0.9	9.6
Fair value presented on balance sheet	**153.4**	**157.8**	**161.3**

Denominated in €	Unaudited 30 Jun 2024 £m	Unaudited 30 Jun 2023 £m	Audited 31 Dec 2023 £m
Gross mortgage balances	42.8	-	47.7
Fair value adjustment	(17.9)	-	(20.6)
Fair value presented on balance sheet	**24.9**	**-**	**27.1**

Combined	Unaudited 30 Jun 2024 £m	Unaudited 30 Jun 2023 £m	Audited 31 Dec 2023 £m
Gross mortgage balances	191.1	156.9	199.4
Fair value adjustment	(12.8)	0.9	(11.0)
Fair value presented on balance sheet	**178.3**	**157.8**	**188.4**

The gross mortgage balances above reflect the Group's maximum pre-collateral exposure to credit risk at the balance sheet date. 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 sale proceeds required to repay a borrower's mortgage at the time of sale. By their nature, equity release mortgages are not considered to hold a pre-determined maturity date.

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. The gross mortgage balances, as presented above, reflect both the amortised cost and contractual balance of the Group's equity release mortgages.

The fair value adjustment has reduced by £1.8m during the period and provisions of £2.6m were released to the income statement to offset crystallised losses, as well as £0.6m effective interest rate adjustments being transferred between fair value gains and losses and interest income, resulting in a fair value loss of £3.8m being recognised in the income statement. The main source of the change in fair value was a change in market interest rates, which increased by 0.57% during the period. The Society hedges fair value movements on the equity release portfolio due to market interest rate movements using interest rate swaps. The value of these swaps increased by £7.8m, resulting in a net movement of £4.0m in the period (see also note 10, Fair value gains less losses on financial instruments and hedge accounting).

13. Credit risk

Loans and advances to customers consist of the following balances:

Product	Unaudited 30 Jun 2024 £m	Unaudited 30 Jun 2023 £m	Audited 31 Dec 2023 £m
Prime residential	4,303.6	3,787.0	4,019.8
Buy to let	379.7	385.5	389.6
Legacy books:			
Legacy buy to let	6.9	9.7	13.3
Purchased credit impaired lending	6.7	-	7.7
Commercial	5.9	8.8	6.1
Housing association	179.7	247.5	211.9
Serviced apartments	14.0	15.3	14.7
Policy loans	1.0	1.4	1.2
Equity release mortgages	178.3	157.8	188.4
Provisions	(8.0)	(7.7)	(7.6)
Micro fair value hedge adjustments	4.3	6.3	9.3
Effective interest rate adjustments	7.8	7.9	5.3
Total	**5,079.9**	**4,619.5**	**4,859.7**

Loans and advances to customers are accounted for under *IFRS 9: Financial Instruments.* This note provides an overview of changes in credit risk since December 2023 for all books held at amortised cost.

In line with the trend from the previous year, the Society continues to grow its prime residential lending, and, in line with our risk appetite, we continue to see an increase in higher LTV lending as we optimise our portfolio.

Prime residential and retail buy to let portfolios

Under IFRS 9, scenario analysis is used to assess and provide for expected credit losses. Please see the 2023 Annual Report & Accounts for details of the Society's methodology of this assessment.

No changes were made to the provisioning methodology since the December 2023 accounts. However, scenarios have been updated to reflect the current economic outlook. A summary of each of the macroeconomic scenarios is as follows:

- Base scenario – uses as a reference the average HM Treasury short term forecast for the UK economy over the first two years and then the medium term forecasts for 2026 onwards
- Upside scenario – uses as a reference the most positive HM Treasury short and medium term forecasts for the UK economy
- Downside scenario – uses the most negative short and medium term HM Treasury forecasts
- Stress scenario – uses guidance issued by the Bank of England for stress testing purposes.

The Society's final expected credit losses are the losses calculated under each discrete scenario, multiplied by a 'likelihood factor', or 'scenario weighting'. The scenario weightings remain unchanged since the December 2023 accounts (10% / 40% / 40% / 10%).

The following table summarises the HPI and unemployment assumptions used, which are the most significant assumptions to determine the provision. House price growth is provided as annual percentage growth or contraction compared to the previous year.

Scenario		2024	2025	2026	2027	2028
Upside	Unemployment %	4.2	3.9	3.9	3.9	3.8
	House price growth % pa	4.5	5.5	6.6	7.2	7.1
Base	Unemployment %	4.3	4.4	4.4	4.4	4.4
	House price growth % pa	(1.8)	(0.4)	1.6	3.7	3.8
Downside	Unemployment %	4.5	5.0	5.4	5.7	5.8
	House price growth % pa	(6.3)	(6.9)	(1.4)	2.5	3.3
Stress	Unemployment %	8.5	8.0	7.4	6.8	6.8
	House price growth % pa	(10.7)	(15.2)	(8.3)	(0.8)	0.3
Weighted	Unemployment %	4.8	5.0	5.1	5.1	5.1
	House price growth % pa	(3.9)	(3.9)	(0.1)	3.1	3.6

Sensitivity

The 30 June 2024 provisions are sensitive to the likelihood factor applied to the different scenarios. The analysis below demonstrates the impact of a 100% weighting to each scenario.

	Upside	Base	Downside	Severe downside	Provision
Provision £m	3.0	4.2	6.7	17.5	6.3

Post model adjustments

Fire safety and cladding risk

The Society has a small number of loans secured on properties with unsuitable cladding or other fire safety risks. As the marketability of such properties is currently uncertain, a post model adjustment of £0.3m (December 2023: £0.3m) has been recognised.

Affordability

The Society has experienced modest, from a very low base, increases in non-performing loans in the first six months of 2024. Many borrowers are still adjusting to the high levels of inflation, more so those who are coming off relatively favourable existing fixed mortgage deals and are having to refinance their debt.

However, real incomes are now well in the recovery phase. Base rate expectations have peaked, with inflation returning to their 2% target, and markets are pricing one or two rate reductions in the second half of 2024.

It remains important that we keep monitoring the level of refinance risk remaining in the portfolio as well as the lagged impact it may have on those borrowers who have already refinanced their debt. A post model adjustment of £1.1m is held at 30 June 2024 (December 2023: £0.9m). The adjustment has been determined by classifying borrowers most at risk from increased mortgage interest rates as stage 2 resulting in higher probabilities of default and recognition of lifetime expected credit losses.

IFRS 9 staging and loss provisioning

The impact of IFRS 9's staging and loss provisioning to the Society's closing 30 June 2024 balance sheet was as follows (payment holidays are not considered to be arrears):

IFRS 9 Gross Exposure

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
	£m									
Prime residential	3,611.5	-	-	601.5	27.2	-	19.2	12.6	31.6	**4,303.6**
Buy to let	307.1	-	-	62.6	3.3	-	2.5	1.9	2.3	**379.7**
Total	**3,918.6**	**-**	**-**	**664.1**	**30.5**	**-**	**21.7**	**14.5**	**33.9**	**4,683.3**

Expected Credit Losses

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
	£000									
Prime residential	559.1	-	-	3,002.2	360.6	-	696.8	233.9	716.2	5,568.8
Buy to let	91.4	-	-	274.3	17.2	-	261.9	14.5	85.3	744.6
Total	650.5	-	-	3,276.5	377.8	-	958.7	248.4	801.5	6,313.4

The impact of IFRS 9's staging and loss provisioning to the Society's closing 30 June 2023 balance sheet was as follows (payment holidays are not considered to be arrears):

IFRS 9 Gross Exposure

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
	£m									
Prime residential	3,042.5	-	-	695.2	15.8	-	16.6	4.2	12.7	3,787.0
Buy to let	318.4	-	-	63.8	2.0	-	0.5	0.2	0.6	385.5
Total	3,360.9	-	-	759.0	17.8	-	17.1	4.4	13.3	4,172.5

Expected Credit Losses

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
	£000									
Prime residential	580.2	-	-	2,562.9	174.8	-	1,005.8	93.0	174.5	4,591.2
Buy to let	134.8	-	-	220.5	20.4	-	20.7	6.2	47.4	450.0
Total	715.0	-	-	2,783.4	195.2	-	1,026.5	99.2	221.9	5,041.2

The impact of IFRS 9's staging and loss provisioning to the Society's closing 31 December 2023 balance sheet was as follows (payment holidays are not considered to be arrears):

IFRS 9 Gross Exposure

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
					£m					
Prime residential*	3,374.2	-	-	565.9	28.4	-	19.7	10.1	21.5	4,019.8
Buy to let*	309.5	-	-	71.3	1.6	-	1.8	0.1	5.3	389.6
Total	3,683.7	-	-	637.2	30.0	-	21.5	10.2	26.8	4,409.4

*The above balances have been represented since December 2023 to more accurately reflect the split of post model adjustments between the different stages, resulting in an increase in stage 2 mortgage balances of £144m and reductions in stage 1 and 3 mortgage balances of £143m and £1m respectively. There is no impact on the total of the gross mortgage balances or expected credit losses.

Expected Credit Losses

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
					£000					
Prime residential	781.7	-	-	2,758.4	424.1	-	640.3	231.5	355.0	5,191.0
Buy to let	109.2	-	-	358.2	11.5	-	83.5	0.1	79.4	641.9
Total	890.9	-	-	3,116.6	435.6	-	723.8	231.6	434.4	5,832.9

Prime residential mortgage book

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

Loan to valued (indexed)	Jun 2024		Jun 2023		Dec 2023	
	£m	%	£m	%	£m	%
<70%	2,498.1	58.1	2,240.2	59.2	2,274.6	56.6
70% - <80%	680.0	15.8	656.1	17.3	673.8	16.8
80% - <90%	701.6	16.3	502.5	13.3	592.8	14.7
>90%	423.9	9.8	388.2	10.2	478.6	11.9
	4,303.6	**100.0**	**3,787.0**	**100.0**	**4,019.8**	**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 June 2024, the Society had five properties in possession in relation to prime residential loans.

Against past due cases, £150.9m (December 2023: £123.5m) collateral is held.

The Society offers a range of forbearance measures to customers such as payment breaks and reductions, transfers to interest only products and other support. No loans that would be past due or impaired have had their terms renegotiated.

The Society granted forbearance against 187 residential loans in the six months to 30 June 2024 (December 2023: 157), with no alteration made to the contractual rates of interest and balances totalling £28.8m at 30 June 2024 (31 December 2023: £22.3m), this did not lead to any modification gain or loss as a result of short term forbearance granted. Provisions of £0.6m (December 2023: £0.4m) are held against residential mortgages that were granted forbearance during the period.

Gross lending for prime residential mortgages (excluding retail buy to let) during 2024 has the following loan to value as at 30 June 2024:

Loan to valued (indexed)	£m	%
<70%	209.4	36.9
70% - <80%	88.1	15.5
80% - <90%	127.1	22.4
>90%	143.2	25.2
	567.8	**100.0**

Retail buy to let mortgage book

The retail buy to let mortgage book consists of buy to let individuals of less than £1m.

Loan to valued (indexed)	30 Jun 2024		30 Jun 2023		31 Dec 2023	
	£m	%	£m	%	£m	%
<70%	318.1	83.8	326.6	84.7	312.4	80.2
70% - <80%	52.1	13.7	51.9	13.4	68.8	17.7
80% - <90%	8.4	2.2	6.8	1.8	7.8	2.0
>90%	1.1	0.3	0.2	0.1	0.6	0.1
	379.7	**100.0**	**385.5**	**100.0**	**389.6**	**100.0**

At the end of June 2024, the Society had no buy to let possession properties (December 2023: one), whose exposure was being managed by a Law of Property Act receiver. Against past due cases, £19.2m (December 2023: £13.6m) collateral is held. No loans that would be past due or impaired have had their terms renegotiated.

The Society offers a range of forbearance measures to customers such as payment breaks and reductions, transfers to interest only products and other support. The Society granted forbearance against six buy to let loans in the six months to 30 June 2024 (December 2023: one), with no alteration made to the contractual rates of interest and balances totalling £1.5m at 30 June 2024 (December 2023: £0.2m). There were no provisions (December 2023: £0.1m) held against buy to let mortgages that were granted forbearance during the year.

Gross lending during 2024 has the following loan to value as at 30 June 2024:

Loan to valued (indexed)	£m	%
<70%	6.7	42.1
70% - <80%	6.5	40.9
80% - <90%	2.7	17.0
	15.9	**100.0**

Geographical split of lending

The table below provides a breakdown of the geographic concentration of the Society's prime residential and retail buy to let mortgage portfolio as at 30 June 2024. The Society's mortgage portfolio is diversified across the UK.

Region	Prime Residential £m	Buy to let £m	Total £m	Total %
North East	470.5	7.3	**477.8**	**10.2**
East of England	351.0	38.8	**389.8**	**8.3**
East Midlands	297.9	14.3	**312.2**	**6.7**
Northern Ireland	-	-	**-**	**-**
North West	491.6	19.3	**510.9**	**10.9**
Scotland	491.4	5.6	**497.0**	**10.6**
South East	1,039.6	239.7	**1,279.3**	**27.2**
South West	337.8	22.3	**360.1**	**7.7**
Wales	138.0	5.0	**143.0**	**3.1**
West Midlands	302.3	16.1	**318.4**	**6.8**
Yorkshire	376.3	11.1	**387.4**	**8.3**
Other	7.2	0.2	**7.4**	**0.2**
Total	**4,303.6**	**379.7**	**4,683.3**	**100.0**

Legacy portfolios

The provisioning methodology for commercial, legacy buy to let, and serviced apartments exposures follows that outlined in the 2023 Annual Report & Accounts. Economic scenarios have been updated to correspond with the scenarios used for residential mortgages and the same scenario weightings are used for these books as are used for the core books above. The following sector specific discounts and uplifts have been used, compared to current collateral valuations:

Sector	Upside	Base	Downside	Stress
Retail	65%	55%	45%	35%
Industrial	90%	70%	60%	40%
Leisure	60%	50%	45%	35%
Residential	100%	97%	83%	68%
Serviced apartments	106%	85%	70%	40%

These discounts and uplifts are applied to the latest valuation of the property serving as collateral. No losses are expected on exposures to housing associations and policy loans. The resulting gross balances and corresponding provisions are as follows:

Product	30 Jun 2024		30 Jun 2023		31 Dec 2023	
	Exposure £m	Provision £m	Exposure £m	Provision £m	Exposure £m	Provision £m
Legacy buy to let	6.9	-	9.7	-	13.3	0.1
Purchased credit impaired lending	6.7	0.1	-	-	7.7	0.2
Commercial	5.9	0.6	8.8	1.8	6.1	0.5
Housing associations	179.7	-	247.5	-	211.9	-
Serviced apartments	14.0	1.0	15.3	0.9	14.7	1.0
Policy loans	1.0	-	1.4	-	1.2	-
Total	**214.2**	**1.7**	**282.7**	**2.7**	**254.9**	**1.8**

Sensitivity

The 30 June 2024 provisions are sensitive to the likelihood factor applied to the different scenarios. The analysis below demonstrates the impact of a 100% weighting to each scenario.

	Upside	Base	Downside	Severe downside	Provision
Provision £m	(0.5)*	0.8	2.2	4.6	1.7

* Purchase credit impaired lending is presented net of the expected credit losses on purchase, therefore an upside scenario to the initial credit losses would be held as a positive provision, increasing the overall value of the lending. For sensitivity above, this positive provision offsets the provisions relating to the other legacy mortgage books leading to a net gain to the Group in the upside scenario.

As at 30 June 2024, 13 legacy borrowers were in arrears of 3 months or more with exposures of £4.2m (December 2023: 14 borrowers, £5.0m). The Society did not grant forbearance against any legacy loans in the first six months of 2024 or in 2023.

14. Provisions for liabilities

As announced on 2 May 2024, the Society has committed to providing voluntary financial support to help Members whose trusts are affected by the actions and subsequent collapse of Philips Trust. Support will be provided where a customer was initially referred by the Society to the Will Writing Company where the Member subsequently appointed Philips Trust as a replacement trustee, and appointed Philips Trust as the investment manager.

The support offered is entirely voluntary and there is no legal or regulatory requirement to provide financial support. Management have determined an estimate of the total cost of the voluntary scheme and associated costs to be incurred (including legal and scheme costs), which will not exceed £20m and have recognised a provision during the period for this cost. Management judgement and estimates have been used, based on information available at the time, noting that detailed information from the Administrators has not yet been provided. Further detail on the management judgement applied is found in note 4 to the financial information.

No payments have yet been made as part of this scheme and the timing of payments to be made remains uncertain; offers made under this scheme will be valid for six months on a full and final basis, however each claim will be verified by the Administrators and the timing of this process is uncertain at this point. As at 30 June 2024 £0.2m of associated administrative costs have been paid in relation to the voluntary financial support scheme.

15. Notes to the Cash Flow Statement

	Unaudited 30 Jun 24 £m	Unaudited 30 Jun 23 Restated £m	Audited 31 Dec 23 £m
Reconciliation of profit before taxation to net cash inflow from operating activities			
Profit before taxation	0.2	16.3	29.1
Depreciation and amortisation	3.5	3.0	6.4
Interest on subscribed capital	1.8	1.2	2.9
(Increase) / decrease in derivative financial instruments	(34.4)	(38.0)	52.0
Interest on finance lease arrangements	0.1	0.1	0.2
Other non-cash movements	0.3	(1.8)	(10.2)
Net cash (outflow) / inflow before changes in operating assets and liabilities	**(28.5)**	**(19.2)**	**80.4**
Increase in loans and advances to customers	(218.8)	(358.9)	(492.6)
Increase / (decrease) in fair value adjustments for hedged risk	13.8	23.2	(48.0)
Decrease in cash collateral pledged	5.8	1.8	1.2
Decrease / (increase) in cash ratio deposit	14.5	(1.2)	(3.1)
Increase in shares	260.9	458.0	672.8
(Decrease) / increase in amounts due to other customers and deposits from banks	(0.9)	93.3	42.3
Decrease / (increase) in other assets	1.8	1.0	(1.5)
Increase / (decrease) in other liabilities	17.5	(4.2)	0.4
Net cash inflow from operating activities	**66.1**	**193.8**	**251.9**
Cash and cash equivalents			
Cash and balances with the Bank of England	588.7	645.0	525.5
Less Bank of England cash ratio deposit	-	(12.6)	(14.5)
Loans and advances to banks repayable on demand	24.4	12.5	22.5
At 30 June / 31 December	**613.1**	**644.9**	**533.5**

The 30 June 2023 cash and cash equivalents has been restated due to the removal of the cash ratio deposit held with the Bank of England of £12.6m as it does not meet the criteria to be included within cash and cash equivalents. Please see note 28 of the of the 2023 Annual Report & Accounts for more details.

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.

Statement of Directors' responsibilities

The Directors confirm that this condensed consolidated half-yearly financial information has been prepared in accordance with IAS 34 as applicable in the United Kingdom, and that the half-yearly management report included in this announcement includes a true and fair review of the information required by the Disclosure Guidance and Transparency Rules (DTR 4.2.4, DTR 4.2.7 and DTR 4.2.8).

The Directors of Newcastle Building Society are listed in in the 2023 Annual Report & Accounts (page 168). Mr SL Lynn ceased to be a Director on 24 April 2024. At the start of 2024, Michele Faull informed the Board of her intention not to stand for re-election at the AGM due to personal reasons. However, due to a change in circumstances, Michele subsequently informed the Board that she would like to continue in her role. Due to legislative deadlines, we were unable to include her re-election within the Notice of Meeting for the 2024 AGM. Therefore, Michele stood down as a Director at the end of the AGM. The Board appointed her to a casual vacancy on 29th April 2024.

On behalf of the Board

Andrew Haigh | Chief Executive
1 August 2024

Independent review report to Newcastle Building Society

Conclusion

We have been engaged by the Society to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 which comprises the income statement, the balance sheet, the statement of movement in members' interests, the cash flow statement and related notes 1 to 15.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the Society are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, 'Interim Financial Reporting'.

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, 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.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Society a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusions, including our conclusion relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Society in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the Society those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP | Statutory Auditor
Manchester, United Kingdom
1 August 2024