

**Newcastle Building Society
Pillar 3 Disclosures –
31 December 2022**



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1. Introduction

1.1 Executive Summary

The Society's capital base continues to be strong, with a common equity tier 1 ratio of 12.5% as at 31 December 2022.

The Society's strategy remains to grow its prime residential mortgage business whilst winding down legacy portfolios. The success of this strategy is demonstrated by growth of the prime residential book in 2022. During 2022, net core residential lending was £586m. The Society's risk weighted asset base grew from £1,601m to £1,910m. This increase in risk weighted assets was driven by increased residential lending and increased off balance sheet exposures resulting from a change in regulation effective since January 2022 in combination with rising interest rates causing an increase in uncollateralised derivative assets. Also, capital requirements against operational risk are correlated with the Group's net interest income and other income and have grown in line with these. The capital impact of this growth was not fully netted off by the Society's significant profitability in the year, resulting in a decrease in the Society's common equity tier 1 ratio from 13.8% in 2021 to 12.5% at the end of 2022.

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

The Society complied with PRA overall capital requirements throughout 2022. Capital plans forecast that the Society will maintain adequate headroom to all capital and capital buffer requirements over the planning horizon.

3 www.newcastle.co.uk

Capital Summary

The information below summarises the composition of the Society's Capital and Risk Weighted Assets.

CAPITAL	2022	2021
	£m	£m
Tier 1 capital		
Common equity tier 1 capital	239.3	221.0
Additional tier 1 capital	-	2.0
	239.3	223.0
Tier 2 capital		
Tier 2 capital	20.0	18.0
Collective impairment allowance	-	0.1
	20.0	18.1
Total capital	259.3	241.1
Risk weighted assets		
Liquid assets	45.6	44.1
Loans and advances to customers	1,544.5	1,331.6
Other assets	57.4	68.3
Off balance sheet	114.3	31.9
Operational risk	148.1	125.2
	1,909.9	1,601.1
Capital Ratios	%	%
Common equity tier 1 Ratio	12.5	13.8
Tier 1 ratio	12.5	13.9
Total capital ratio	13.6	15.1
Leverage ratio – including claims on central banks	4.5	4.5
Leverage ratio – excluding claims on central banks	4.8	4.9

1.2 Background

The disclosures in this document meet the Society's obligations under the United Kingdom's Capital Requirements Regulation (CRR) and the disclosure requirements presented in the Prudential Regulation Authority's (PRA) Rulebook.

1.3 Basis and frequency of disclosures

The Society's Pillar 3 key metrics as at 31 December 2022 are disclosed in this document as prescribed by the Disclosure section of the CRR. As per the regulations, the Society is required to publish full Pillar 3 disclosures on an annual basis and key metrics as defined in Article 447 of the CRR on a semi-annual basis. Article 432(2) of the PRA rulebook on non-material, proprietary or confidential information permits institutions to omit one or more items where those items include information that is regarded as proprietary or confidential. No disclosures or references have been omitted on this basis with non-applicable reporting left blank.

Pillar 3 disclosures are issued on a semi-annual basis in conjunction with the publication of the Society's Half-Yearly Report and the Annual Report and Accounts and in accordance with regulatory guidelines. These disclosures are presented using the prescribed disclosure templates in the PRA Rulebook. Row and Column references are based on those prescribed in the templates, no changes have been made to the fixed templates. This Pillar 3 report is based on the Society's Annual Report and Accounts for the period ended 31 December 2022, unless otherwise stated.

1.4 Scope of application

The following entities are consolidated for accounting purposes:

- Newcastle Building Society;
- Newcastle Financial Advisers Limited;
- Newcastle Strategic Solutions Limited;
- Newcastle Systems Management Limited (Dormant);
- Newcastle Portland House Limited (Dormant);
- Newcastle Mortgage Loans (Jersey) Limited; and
- Tyne Funding No. 1 Plc (Special Purpose Vehicle).

All of the above undertakings are incorporated in England and Wales and operate in the United Kingdom, except for Newcastle Mortgage Loans (Jersey) Limited, which is incorporated and operates in Jersey. Tyne Funding No. 1 Plc is a special purpose vehicle (SPV) established as part of the Society's securitisation programme. Although the Society has no direct or indirect ownership interest in this company, it is consolidated into the Group, since there is no significant risk transfer associated with the securitisation.

The Pillar 3 disclosure requirements in this document applies to the Newcastle Building Society Group as one entity (referred to as "the Society" or "the Group" throughout this document). There are no current or foreseen legal impediments to the prompt transfer of capital resources or the repayment of liabilities within the Group.

The principal office of the Society is 1 Cobalt Park Way, Wallsend, NE28 9EJ.

1.5 Location and verification

The Pillar 3 disclosures and the Annual Report and Accounts for Newcastle Building Society are published on www.newcastle.co.uk. They have been reviewed and approved by the Board. The Pillar 3 disclosures are not subject to external audit.

1.6 Internal governance for production of Pillar 3 disclosures

The Pillar 3 disclosures have been prepared in accordance with the Society's internal Pillar 3 Policy and internal processes, systems and controls underpinning the Society's regulatory control environment.

The key controls that support internal governance of the Pillar 3 disclosures include:

- Reconciliation of quantitative data to regulatory returns and externally audited accounts;
- Sign off provided for all qualitative and quantitative information at Executive level; and
- Challenge and approval of disclosures at Audit Committee and the Board.

Management have reviewed the adequacy of the policy and internal processes in place and have confirmed that these are appropriate for the production of the Pillar 3 disclosures.

1.7 Attestation

I confirm that, to the best of my knowledge, the Society's Pillar 3 disclosures for the year ended 31 December 2022 have been prepared in line with the CRR Disclosure section of the PRA Rulebook and in accordance with the Society's internal policies and procedures. – Chief Financial Officer

1.8 Overview of differences between accounting and regulatory scope and application

The following information is a summary of the Group's differences between accounting and regulatory scope, including mapping of financial statement categories, set out in accordance with Tables UK LIA and UK LIB.

Differences between accounting and regulatory exposure amounts

The accounting and regulatory figures are both consolidated on the same Group basis and therefore there are no differences between accounting and regulatory exposure amounts. All subsidiaries are included within this single consolidation.

Impediment to the prompt transfer of own funds or to the repayment of liabilities within the Group

There is an immaterial impediment to the prompt transfer of own funds linked to the services provided to the Society from its subsidiary Newcastle Strategic Solutions Limited (NSSL). The funding relationship between the Society and NSSL is largely defined by the guidance set out in Section 5 of SS9/16 "Financial resilience". The requirement is to hold liquidity and capital equivalent to at least six months of annual fixed overheads. Excess capital and liquidity could be transferred to the Society as long as the remaining capital and liquidity are considered sufficient to manage NSSL's risk in a stress or resolution event.

Subsidiaries not included in the consolidation with own funds less than required

All subsidiaries are included in the consolidation as there are no material impediments to prompt transfer of own funds or to the repayment of liabilities within the Group. Therefore there is no requirement for use of derogation referred to in Article 7 and Article 9 of the CRR.

Table UK LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by asset class according to the balance sheet in the published financial statements	£m	£m	£m	£m	£m	£m	£m
1	Cash and balances with the Bank of England	421.9	421.9	421.9	-	-	-	-
2	Loans and advances to credit institutions	104.8	104.8	104.8	-	-	-	-
3	Debt securities	433.0	433.0	314.1	-	118.9	-	-
4	Derivative financial instruments	90.4	90.4	-	90.4	-	-	-
5	Loans and advances to customers	4,259.5	4,259.5	4,259.5	-	-	-	-
6	Fair value adjustments for hedged risk	(60.9)	(60.9)	-	-	-	-	(60.9)
7	Non-current assets available for sale	0.2	0.2	0.2	-	-	-	-
8	Investments	2.1	2.1	2.1	-	-	-	-
9	Intangible assets	10.2	10.2	-	-	-	-	10.2
10	Property, plant and equipment	29.1	29.1	29.1	-	-	-	-
11	Deferred tax assets	5.0	5.0	5.0	-	-	-	-
12	Current tax assets	0.1	0.1	0.1	-	-	-	-
13	Other assets	17.1	17.1	17.1	-	-	-	-
	Total assets	5,312.5	5,312.5	5,153.9	90.4	118.9	-	(50.7)

		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by liability classes according to the balance sheet in the published financial statements	£m	£m	£m	£m	£m	£m	£m
1	Due to members	4,220.8	4,220.8	-	-	-	-	4,220.8
2	Fair value adjustments for hedged risk	0.3	0.3	-	-	-	-	0.3
3	Due to other customers	175.8	175.8	-	-	-	-	175.8
4	Deposits from credit institutions	577.1	577.1	-	-	-	-	577.1
5	Derivative financial instruments	52.5	52.5	-	-	-	-	52.5
6	Other liabilities	18.9	18.9	-	-	-	-	18.9
7	Deferred tax liabilities	1.2	1.2	-	-	-	-	1.2
8	Subscribed capital	20.0	20.0	-	-	-	-	20.0
9	Reserves	245.9	245.9	-	-	-	-	245.9
	Total equity and liabilities	5,312.5	5,312.5	-	-	-	-	5,312.5

Table UK LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Items subject to				
		Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
		£m	£m	£m	£m	£m
1	Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	5,312.5	5,153.9	118.9	90.4	-
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under the regulatory scope of consolidation	5,312.5	5,153.9	118.9	90.4	-
4	Off-balance-sheet amounts	315.4	265.7	-	49.6	
5	Differences in valuations	-	-	-	-	
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	
7	Differences due to consideration of provisions	(1.8)	(1.8)	-	-	
8	Differences due to the use of credit risk mitigation techniques (CRMs)	-	-	-	-	
9	Differences due to credit conversion factors	-	-	-	-	
10	Differences due to securitisation with risk transfer	-	-	-	-	
11	Other differences	317.2	267.6	-	49.6	
12	Exposure amounts considered for regulatory purposes	5,627.9	5,419.6	118.9	140.0	-

Table UK LI3 – Outline of the differences in the scope of consolidation (entity by entity)

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of regulatory consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Newcastle Building Society	Full consolidation	X					Building Society
Newcastle Financial Advisers Limited	Full consolidation	X					Financial Advice
Newcastle Strategic Solutions Limited	Full consolidation	X					Savings Management and IT Solutions
Newcastle Systems Management Limited	Full consolidation	X					Dormant (struck off the register on 17/01/23)
Newcastle Portland House Limited	Full consolidation	X					Dormant
Newcastle Mortgage Loans (Jersey) Limited	Full consolidation	X					Mortgage lending
Tyne Funding No.1 Plc	Full consolidation	X					Special purpose vehicle (for Securitisation)

Template UK PV1 – Prudent valuation adjustments (PVA)

This template has been omitted from this set of disclosures as this is only applicable for the core approach for determining additional valuation adjustment for prudent valuation. The Society has adopted the simplified approach.

2. Key Metrics

Template UK KM1 details the Society's key metrics as at 31 December 2022.

Template UK KM1 – Key metrics table as at 31 December 2022

		Transitional	End point	Transitional	End point	Transitional	End point	Transitional	End point	Transitional	End point
		a	a	b	b	c	c	d	d	e	e
		T	T	T-1	T-1	T-2	T-2	T-3	T-3	T-4	T-4
	Available own funds (amounts)										
1	Common Equity Tier 1 (CET1) capital (£m)	239.3	238.0			213.5	212.0			221.0	219.1
2	Tier 1 capital (£m)	239.3	238.0			213.5	212.0			223.0	221.2
3	Total capital (£m)	259.3	258.0			233.6	232.1			241.1	239.2
	Risk-weighted exposure amounts										
4	Total risk-weighted exposure amount (£m)	1,909.9	1,909.9			1,703.5	1,703.5			1,601.1	1,601.1
	Capital ratios (as a percentage of risk-weighted exposure amount)										
5	Common Equity Tier 1 ratio (%)	12.5%	12.5%			12.5%	12.5%			13.8%	13.7%
6	Tier 1 ratio (%)	12.5%	12.5%			12.5%	12.5%			13.9%	13.8%
7	Total capital ratio (%)	13.6%	13.5%			13.7%	13.7%			15.1%	14.9%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)										
UK 7a	Additional CET1 SREP requirements (%)	0.3%	0.3%			0.3%	0.3%			0.6%	0.6%
UK 7b	Additional AT1 SREP requirements (%)	0.1%	0.1%			0.1%	0.1%			0.2%	0.2%
UK 7c	Additional T2 SREP requirements (%)	0.2%	0.2%			0.2%	0.2%			0.2%	0.2%
UK 7d	Total SREP own funds requirements (%)	8.6%	8.6%			8.6%	8.6%			9.0%	9.0%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)										
8	Capital conservation buffer (%)	2.5%	2.5%			2.5%	2.5%			2.5%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-			-	-			-	-
9	Institution specific countercyclical capital buffer (%)	1.0%	1.0%			-	-			-	-
UK 9a	Systemic risk buffer (%)	-	-			-	-			-	-

10	Global Systemically Important Institution buffer (%)	-	-			-	-			-	-
UK 10a	Other Systemically Important Institution buffer (%)	-	-			-	-			-	-
11	Combined buffer requirement (%)	3.5%	3.5%			2.5%	2.5%			2.5%	2.5%
UK 11a	Overall capital requirements (%)	12.1%	12.1%			11.1%	11.1%			11.1%	11.1%
12	CET1 available after meeting the total SREP own funds requirements (%)	5.0%	5.0%			5.1%	5.0%			6.0%	5.9%
Leverage ratio											
13	Total exposure measure excluding claims on central banks (£m)	4,941.8	4,941.8			4,658.5	4,658.5			4,563.3	4,563.3
14	Leverage ratio excluding claims on central banks (%)	4.84%	4.82%			4.6%	4.5%			4.89%	4.85%
Additional leverage ratio disclosure requirements											
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	-	-			-	-			-	-
14b	Leverage ratio including claims on central banks (%)	-	-			-	-			-	-
14c	Average leverage ratio excluding claims on central banks (%)	-	-			-	-			-	-
14d	Average leverage ratio including claims on central banks (%)	-	-			-	-			-	-
14e	Countercyclical leverage ratio buffer (%)	-	-			-	-			-	-
Liquidity Coverage Ratio											
15	Total high-quality liquid assets (HQLA) (Weighted value - average) (£m)	793.4	793.4			765.0	765.0			688.8	688.8
UK 16a	Cash outflows - Total weighted value (£m)	449.4	449.4			379.2	379.2			337.8	337.8
UK 16b	Cash inflows - Total weighted value (£m)	29.4	29.4			34.3	34.3			19.4	19.4
16	Total net cash outflows (adjusted value) (£m)	420.0	420.0			344.9	344.9			318.5	318.5
17	Liquidity coverage ratio (%)	189%	189%			222%	222%			216%	216%
Net Stable Funding Ratio											
18	Total available stable funding (£m)	4,851.7	4,851.7			4,520.7	4,520.7			4,347.0	4,347.0
19	Total required stable funding (£m)	3,353.7	3,353.7			3,075.1	3,075.1			3,200.6	3,200.6
20	NSFR ratio (%)	145%	145%			147%	147%			136%	136%

¹Disclosure of prior periods also included. T-2 is June 2022 and T- 4 is December 2021.

²The Society calculates risk weighted assets using the standardised approach.

³Additional leverage ratio disclosure is only reportable by financial institutions with deposits equal to or greater than £50bn. These rows have been left blank as they are not applicable to the Society.

The CRR was amended in December 2017 to introduce transitional arrangements that reduce the capital impact of increased IFRS 9 provisions throughout a 5 year transitional period (2018 – 2022). During 2020, the transitional arrangement was amended to provide further relief on expected credit losses booked in 2020 and 2021 through a further transitional period (2020 – 2024) as a result of the economic impact of Covid-19. The Society continues to adopt these provisions as required by the CRR amendments.

3. Risk management objectives and policies

3.1 Risk management approach

The following information is a summary of the Society's risk management approach, set out in accordance with Table UK OVA.

Concise Risk statement approved by the Board

The Society's Purpose is to "Connect our communities with a better financial future". To enable the Newcastle Building Society Group to achieve its strategic objectives as a purpose led organisation, the Board ensures that systems and controls are in place so that risks are suitably identified, quantified, managed and reported.

The Board categorises the key risks in operating as a going concern as 'Principal Risks'. The current principal risks the Newcastle Building Society Group face are:

- Credit Risk
 - Residential Credit Risk
 - Commercial Credit Risk
 - Investment Credit Risk
- Climate Change Risk
- Liquidity Risk
- Capital Risk
- Interest Rate Risk
- Macro-Economic Risk
- Pension Fund Obligation Risk
- Operational Risk
- Conduct Risk

The Group maintains risk management policies that cover each principal risk area, setting out how risk is managed across the Group. Risk appetite statements outline the appetite for each principal risk and are approved by the Board and set out the appetite for risk in pursuit of the Society's business strategy. Performance against risk appetite, including early warning indicators are reported by the sub risk committees, into the Group Risk Committee (GRC) and the Board.

Although the Board are responsible for the Society's risk appetites, GRC oversees the management of risk across the Group. The monitoring and implementation of the risk management framework is overseen by the second line Group Risk function in line with our three lines of defence framework.

Declaration

I confirm that, to the best of my knowledge, the Society has maintained effective risk management arrangements in accordance with risk appetite. The Group's risk management framework is based on a sound understanding of the Group's risk profile and aligned to the Group's strategic objectives. It is designed to comply with regulatory obligations. – Chief Risk Officer

Risk Management Framework and Governance Structure

Newcastle Building Society operates under a three lines of defence model as the basis of its risk management framework.

First Line - Business Areas	Second Line - Group Risk	Third Line - Internal Audit Service
<ul style="list-style-type: none"> The first line of defence consists of core business units, which ultimately hold the responsibility for identifying and managing risk while adhering to corporate risk appetite, policies and standards. The first line also hold responsibility for implementing and maintaining regulatory compliance. 	<ul style="list-style-type: none"> The second line Group Risk function facilitates and monitors the implementation of effective risk management while developing and maintaining risk management policies and methodologies. The second line reports primarily to senior management and risk governance committees. 	<ul style="list-style-type: none"> The third line of defence consists of Internal Audit Services. The third line of defence provide independent assurance to the Board and senior management on the adequacy of the design and operational effectiveness of internal control systems and measures across the business.

The Group operates a comprehensive policy framework, where the key business critical policies and standards are embedded across the organisation. The framework sets out how the Group conducts its business, as well as regulatory and legal obligations.

Governance arrangements covering the Group's principal risks are summarised below:

Subsidiary Board Committees

Newcastle Strategic Solutions Limited (NSSL) – The NSSL Board is chaired by the NSSL Chair who is a Non-Executive Director of the Society. The Board evaluates and monitors the financial and operational performance of NSSL against predetermined objectives, which includes assessing performance in terms of contract contribution, profitability, efficiencies, risk, compliance and development of the savings management proposition. The Board meets at least six times annually. The Board met six times during 2022.

Newcastle Financial Advisers Limited (NFAL) – The NFAL Board is chaired by a Non-Executive Director of the Society. The NFAL Board monitors the performance of NFAL against the objectives set. This includes assessing performance in terms of sales quality, customer satisfaction and outcomes, complaints and risk and compliance oversight. The Board meets at least six times annually. The Board met seven times during 2022.

Newcastle Mortgage Loans (Jersey) Limited ("NML(J)L") – The NML(J)L Board is chaired by a Director of NML(J)L. NML(J)L is a wholly owned subsidiary of NBS incorporated in Jersey and regulated by the Jersey Financial Services Commission (JFSC). The NML(J)L Board oversees the operation of the business and compliance with JFSC regulation. The Board meets at least six times annually. The Board met six times during 2022.

Board Committees

Group Risk Committee (GRC) - The GRC is chaired by a Non-Executive Director fulfilling the SMF10 role. The GRC oversees the Society's risk management and governance framework and the Society's overall risk profile. The membership of the Committee is made up of 4 Non-Executive Directors. The GRC has 4 sub-committees, Enterprise Risk Committee, Credit Risk Committee, Model Risk Committee and Assets and Liabilities Committee, which are detailed below. The Committee meets at least quarterly and more frequently when required. The Committee met six times during 2022.

Audit Committee – The Audit Committee is chaired by a Non-Executive Director fulfilling the Society's SMF 11 role. The Audit Committee is a sub-committee of the Board assisting in fulfilling its assurance responsibilities, specifically the ongoing review, monitoring and assessment of financial and regulatory reporting, internal control and risk management, internal audit, external audit and whistleblowing. The Committee meets on a quarterly basis. The committee met six times during 2022.

Nominations Committee (NomCo) – The Chair of the Group Board chairs NomCo fulfilling the SMF 13 role. NomCo reports to the Board and its overarching purpose is to assist the Chair in keeping the composition of the Board under review and leading the appointments process for nominations to the Board. The Committee meets at least twice per year. The committee met four times during 2022.

Remuneration Committee (RemCo) – RemCo is chaired by a Non-Executive Director fulfilling the SMF12 role. RemCo reports to the Board and its overarching purpose is to consider, agree and recommend to the Board an overall Remuneration Policy and approach that is aligned to the Society's long term business strategy, business objectives, risk appetite and the long term interests of its members and other stakeholders. The Committee meets at least three times per year. The committee met eight times during 2022.

First line Committees

Executive Committee (ExCo) – ExCo is chaired by the Chief Executive fulfilling the SMF role. ExCo ensures the Society has a risk and control framework (in the 1st line) which is fit for purpose. Matters can be raised from the risk sub-committees to ExCo for approval and reporting into GRC and/or Board. ExCo meets weekly with a formal meeting in the third week of the month to review the output of the risk sub-committees ahead of either the GRC or Board. ExCo also holds a standalone meeting quarterly to discuss environment and sustainability matters and how they relate to the Society.

Mortgage and Savings Committee (MaSC) – MaSC is chaired by the Chief Customer Officer. MaSC reviews retail funding and lending strategies and ensures these are consistent with the strategic objectives of the Society and aligned with capital and liquidity plans.

Second Line – Group Risk Sub Committees

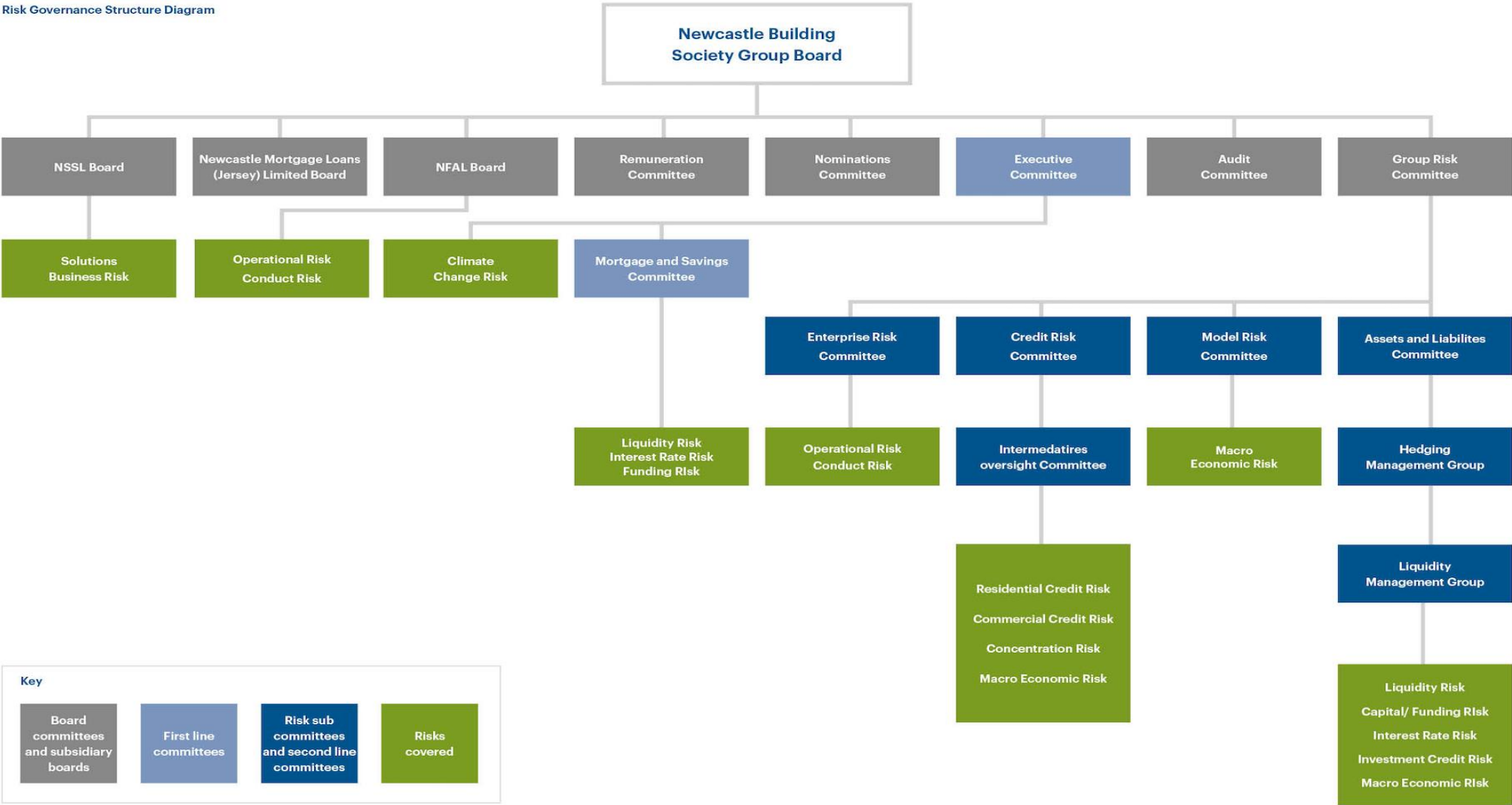
Enterprise Risk Committee (ERC) – ERC is chaired by the Chief Risk Officer. ERC has responsibility for overseeing the risk framework for operational risk, conduct risk, IT risk, people risk and operational resilience. ERC also has the responsibility for key Group-wide policies to ensure they are appropriate for the business before they are submitted to GRC for final ratification. All relevant operational risk management information is reported to the ERC on a monthly basis to assess compliance with overall limits and corporate risk appetites. The ERC meets at least 10 times per year.

Credit Risk Committee (CRC) – CRC is chaired by the Chief Risk Officer. CRC is responsible for the oversight of the retail and commercial credit risk framework. This Committee acts under the authority of the GRC and has delegated authority to make decisions and recommendations in accordance with the agreed terms of reference. The CRC ensures the use of regular stress testing and scenario modelling that are reflective of the nature of the associated risk. The CRC meets at least 10 times per year.

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

Assets and Liabilities Committee (ALCO) – ALCO is chaired by the Chief Financial Officer. ALCO sets the risk framework for the Society's balance sheet, including liquidity risk, funding risk, interest rate risk and basis risk. The tools available to ALCO include risk limits and guidelines, return on capital employed benchmarks and funds transfer pricing for all aspects of treasury risk management. The ALCO meets monthly.

Risk Governance Structure Diagram



How the Society manages principal risks

Principal Risk	How NBS manages the risk
Residential Credit Risk	Loans are underwritten individually based on affordability, credit score and history, acceptable collateral (including loan to value), and the Society's lending criteria. The Society does not undertake sub-prime or self-certification lending. The Society's Lending Policy has been actively reviewed and enhanced throughout 2022 to ensure the Society responds appropriately to the macro economic environment and market challenges. The residential book is subject to monthly reporting to the Credit Risk Committee (CRC) in relation to its credit risk characteristics (including loan to value, loan to income, arrears, credit score profile, early delinquencies and arrears arising from cohorts of lending). The Society's risk appetite is expressed in terms of losses arising in a stressed scenario and stress testing is used to ensure that the portfolio is within the Society's risk appetite.
Commercial Credit Risk	The commercial loan book is being actively managed down. All commercial loans over £500k are subject to annual reviews, with summary reporting of outcomes to CRC. Quarterly Lending MI provides CRC with high level detail for all >£500k loans and reports on key areas of both risk and wind-down progress. In the event of a covenant breach, a report is provided to relevant mandate holder to seek strategy approval.
Investment Credit Risk	Investments are subject to a Group Risk Committee (GRC) approved policy, which sets out what instruments, countries and counterparties investments can be made in and sets limits on exposures to instruments, countries and counterparties. Investments are monitored and reported daily to management and monthly to the Assets and Liabilities Committee (ALCO), including compliance with the policy. The credit default swap rates for the Society's counterparties are monitored and alerts raised if certain criteria are met in relation to those spreads. The mark to market value of the Society's investments in gilts, residential mortgage backed securities and covered bonds are monitored daily and reported to ALCO monthly.
Climate Change Risk	The Group has robust operational resilience processes and responses to manage the impact of any transient localised climate change events. The Society has developed climate change scenarios which have been used in the Society's capital modelling and stress testing. This risk is monitored by ExCo. The Group actively engages with the industry as a whole to consider the potential impacts and longer term scenarios of climate changes and resulting risks.

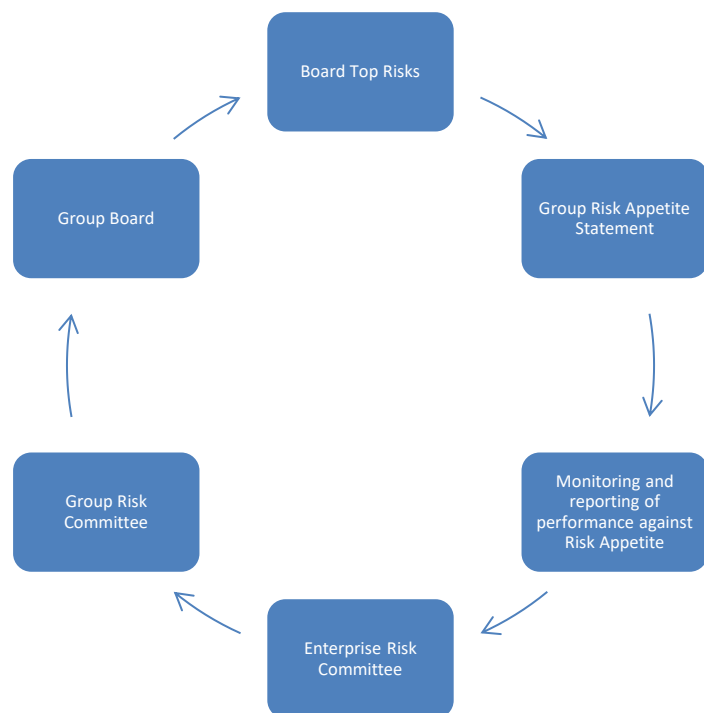
Principal Risk	How NBS manages the risk
Liquidity Risk	<p>Liquidity risk is monitored, managed and mitigated through the Society's GRC approved Treasury Policy, accompanying ALCO approved Treasury Standards and an annual Internal Liquidity Adequacy Assessment Process (ILAAP), which is subject to both ALCO and GRC approval. Should a liquidity emergency arise, the Society has a prepared Liquidity Contingency Plan (LCP) which forms part of the wider reaching Recovery Plan (RP). Management of liquidity risk occurs daily as part of 'business as usual' activities completed by the Treasury departments; weekly through the Society's Liquidity Management Group (LMG) and monthly by the ALCO. The GRC are provided liquidity management information on an ad-hoc basis where appropriate.</p> <p>The Society utilises forward-looking management information to forecast liquidity risks which enable management to take pre-emptive action in a timely manner. The Society also operates with a comprehensive suite of metrics which act as both key risk indicators and early warning indicators.</p> <p>Additionally, the Society completes regular stress testing analysis to assess liquidity risk. These scenarios address a range of scenarios and duration.</p>
Interest Rate Risk	<p>Interest Rate Risk (IRR) exists in the Society's Banking Book only. The Society does not operate with a Trading Book.</p> <p>IRR is monitored, managed and mitigated through the Society's GRC approved IRR Policy and accompanying IRR Standards document, approved by ALCO.</p> <p>Management of IRR risks is primarily the responsibility of the Balance Sheet Management and Treasury departments with support and oversight provided by the Treasury Risk department whom act as second line of defence. This forms part of their daily responsibilities. Monthly oversight and reporting of IRR is to the ALCO.</p> <p>The Society uses a suite of metrics to manage IRR within the risk appetite. These metrics are designed to address all sub-components of IRR which include basis risk, earnings risks, economic value risks, credit spread risks, duration and optionality risks. Where appropriate, forward-looking management information is made available to forecast IRR and provide the necessary insight for management to take corrective/pre-emptive action in a timely manner.</p> <p>The Society completes regular stress testing analysis to ensure that IRR remains within appetite should such scenarios arise.</p>
Macroeconomic Risk	<p>The Group actively monitors and responds to the key macroeconomic indicators. The pandemic impacts across 2020 and 2021 have been managed. However the increase in Consumer Price Index, the rise in the Bank of England base rate throughout 2022 and the impact on consumers of increased domestic energy costs, represent an increased risk. The Group continues to monitor and engage in wider industry economic forecasting to ensure management understand the range of possible outcomes. The Group continue to use outcomes based scenario modelling, to inform the Group's strategic decisions and risk profiles. The Group considers a variety of scenarios and sensitivities to reflect outcomes and to ensure there are appropriate mitigation strategies in place. This risk is managed through multiple disciplines throughout the Society with associated metrics reported at CRC and ALCO.</p>

Principle Risk	How NBS manages the risk
Pension Fund Obligation Risk	The Group has funding obligations for a defined benefit pension scheme, which is closed to new entrants. The pension fund is overseen by the Trustees of the pension scheme, within an agreed Investment Strategy. Reports prepared by the pension scheme's independent actuary are reviewed by the Trustees quarterly and, if appropriate, management action is taken. The Group performs stress testing on the pension scheme liabilities and assets at least annually.
Capital Risk	As a deposit taking institution, the Society's capital is highly regulated and the Group submits regular capital returns to regulators. The Group's capital position is forecast monthly and its adequacy monitored by the Board and senior management. The Group uses stress testing at least annually to assess whether its capital buffers and limits are sufficient to withstand even very severe economic and idiosyncratic conditions. The Group also maintains a recovery plan with detailed measures that could be used to rebuild the Group's capital if this was necessary. The Group maintains its capital at a level in excess of its regulatory total capital and buffer requirements and internal limits.
Operational Risk	Operational risk is subject to a GRC approved policy, which covers the framework for operational risk, including the measurement and management of risk, operational risk appetite, operational resilience, the use of scenario testing for operational risk, tracking of risk events and operational losses, timescales for implementation of action plans and escalation procedures for more serious risk events that require immediate action to mitigate loss. Key risks and controls are identified for all areas of the business. Risk assessments remain the responsibility of the relevant departmental managers and line Executives and are updated regularly for new risks, the results of risk events and following internal audit reviews. Corporate Insurance policies are negotiated with regard to the key risks within the Group requiring greater mitigation.
Conduct Risk	The Society maintains a risk appetite statement relating to customer outcomes and measures performance against this monthly, reporting to the Enterprise Risk Committee (ERC) with oversight from the GRC. All new products are approved by a Mortgage and Savings Committee, which includes consideration of an assessment of risks to customer outcomes. The Society maintains a Customer Outcomes dashboard, which looks at evidence supporting good customer outcomes (or suggesting poor outcomes) and this is reviewed monthly and reported to ERC. The Society maintains quarterly Conduct Risk monitoring plans, which are risk based, reporting to ERC with oversight from the GRC.

How the Society measures and reports risk

Risk is managed by all colleagues at NBS across the three lines of defence. The measurement and reporting of risk is primarily completed by the Group Risk Function. Principal risks are tracked via the Board's top risks which is updated to reflect the Group's risk appetite statements, any movement or exceptions are reported to the ERC and the Board.

The below diagram summarises the governance cycle for risk management reviews and reporting, to include regular management information and scheduled oversight monitoring.



3.2 Governance arrangements

The following information is a summary of the Group's governance arrangements, set out in accordance with Table UK OVB.

Directors' other Directorships

Name	Number of other Directorships within the Group	Number of other Directorships outside of the Group
GEORGE ADAM BENNETT	1	2
MICHELE JEAN FAULL	0	3
BRYCE PAUL GLOVER	0	4
ANDREW SCOTT HAIGH	0	2
KAREN INGHAM	1	2
STUART LESLIE LYNN	1	2
STUART MILLER	1	0
JAMES DAVID ALEXANDER RAMSBOTHAM	2	3
DAVID ALAN SAMPER	1	0
ANNE SHIELS	1	2
MICHAEL ROGER THOMPSON	0	5

Board Member Selection Policy

The Nominations Committee (NomCo) is responsible for oversight of the composition of the Board and to lead the process for Board appointments and make recommendations to the Board. As part of the Committee's responsibilities it will review the structure, size, diversity and composition (including the skills, knowledge and experience) of the committees. When it is deemed that a new board member is required, in identifying suitable candidates, NomCo will coordinate the use of open advertising or the use of external advisers to facilitate the search. The Committee will consider candidates from a wide range of backgrounds and judge candidates on merit against objective criteria.

Board Members' Knowledge, skills and expertise

Information regarding the knowledge, skills and expertise of individual Board members can be found in the Annual Report and Accounts 2022.

4. Own funds

The following information is a summary of the Society's regulatory own funds.

Template UK CC1 – Composition of regulatory own funds

		(a)	(b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves		£m	
1	Capital instruments and the related share premium accounts	-	-
	of which: Instrument type 1	-	-
	of which: Instrument type 2	-	-
	of which: Instrument type 3	-	-
2	Retained earnings	248.2	E1
3	Accumulated other comprehensive income (and other reserves)	(2.3)	E1
UK-3a	Funds for general banking risk	-	-
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	-
5	Minority interests (amount allowed in consolidated CET1)	-	-
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	245.9	E1

Common Equity Tier 1 (CET1) capital: regulatory adjustments		£m	
7	Additional value adjustments (negative amount)	(0.5)	-
8	Intangible assets (net of related tax liability) (negative amount)	(8.3)	A9
9	Empty set in the UK	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(1.8)	A11
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	2.7	E1
12	Negative amounts resulting from the calculation of expected loss amounts	-	-
13	Any increase in equity that results from securitised assets (negative amount)	-	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
15	Defined-benefit pension fund assets (negative amount)	-	-
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	-
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-

19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
20	Empty set in the UK	-	-
UK-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-
UK-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-
UK-20c	of which: securitisation positions (negative amount)	-	-
UK-20d	of which: free deliveries (negative amount)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	-
22	Amount exceeding the 17.65% threshold (negative amount)	-	-
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-
24	Empty set in the UK	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
UK-25a	Losses for the current financial year (negative amount)	-	-
UK-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	-
26	Empty set in the UK	-	-
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	-
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	1.3	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(6.6)	-
29	Common Equity Tier 1 (CET1) capital	239.3	-

Additional Tier 1 (AT1) capital: instruments		£m	
30	Capital instruments and the related share premium accounts	-	-
31	of which: classified as equity under applicable accounting standards	-	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	-	-
UK-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	-
UK-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	-
Additional Tier 1 (AT1) capital: regulatory adjustments		£m	
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	-
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-

39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-
41	Empty set in the UK	-	-
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	-
42a	Other regulatory adjustments to AT1 capital	-	-
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-
44	Additional Tier 1 (AT1) capital	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	-	-
Tier 2 (T2) capital: instruments		£m	
46	Capital instruments and the related share premium accounts	20.0	L8
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	-
UK-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-	-
UK-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	-
50	Credit risk adjustments	-	-
51	Tier 2 (T2) capital before regulatory adjustments	20.0	L8

Tier 2 (T2) capital: regulatory adjustments		£m	
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
54a	Empty set in the UK	-	-
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-
56	Empty set in the UK	-	-
UK-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	-
UK-56b	Other regulatory adjustments to T2 capital	-	-
57	Total regulatory adjustments to Tier 2 (T2) capital	-	-
58	Tier 2 (T2) capital	20.0	-
59	Total capital (TC = T1 + T2)	259.3	-
60	Total Risk exposure amount	1,909.9	-
	Capital ratios and buffers	-	-
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	12.5%	-
62	Tier 1 (as a percentage of total risk exposure amount)	12.5%	-
63	Total capital (as a percentage of total risk exposure amount)	13.6%	-

64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	8.31%	-
65	of which: capital conservation buffer requirement	2.50%	-
66	of which: countercyclical buffer requirement	1.00%	-
67	of which: systemic risk buffer requirement	-	-
UK-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.0%	-
69	[non relevant in UK]	-	-
70	[non relevant in UK]	-	-
71	[non relevant in UK]	-	-
Amounts below the thresholds for deduction (before risk weighting)		£m	
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	-
74	Empty set in the UK	-	-
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	3.2	A11

Applicable caps on the inclusion of provisions in Tier 2		£m	
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		£m	
80	Current cap on CET1 instruments subject to phase out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase out arrangements	-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

¹There are no restrictions applied to the calculation of own funds in accordance with the CRR.

²Capital ratios are calculated on the basis laid down in the CRR with no exceptions.

³No capital floors are applied in the calculation of own funds and risk-weighted exposure amounts.

Template UK CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
		As at period end	As at period end	
Assets - Breakdown by asset class according to the balance sheet in the published financial statements				
		£m	£m	
1	Cash and balances with the Bank of England	421.9	421.9	A1
2	Loans and advances to credit institutions	104.8	104.8	A2
3	Debt securities	433.0	433.0	A3
4	Derivative financial instruments	90.4	90.4	A4
5	Loans and advances to customers	4,259.5	4,259.5	A5
6	Fair value adjustments for hedged risk	(60.9)	(60.9)	A6
7	Non-current assets available for sale	0.2	0.2	A7
8	Investments	2.1	2.1	A8
9	Intangible assets	10.2	10.2	A9
10	Property, plant and equipment	29.1	29.1	A10
11	Deferred tax assets	5.0	5.0	A11
12	Current tax assets	0.1	0.1	A12
13	Other assets	17.1	17.1	A13
	Total assets	5,312.5	5,312.5	

		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
		As at period end	As at period end	
Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements				
		£m	£m	
1	Due to members	4,220.8	4,220.8	L1
2	Fair value adjustments for hedged risk	0.3	0.3	L2
3	Due to other customers	175.8	175.8	L3
4	Deposits from credit institutions	577.1	577.1	L4
5	Derivative financial instruments	52.5	52.5	L5
6	Other liabilities	18.9	18.9	L6
7	Deferred tax liabilities	1.2	1.2	L7
8	Subscribed capital	20.0	20.0	L8
	Total liabilities	5,066.6	5,066.6	
Shareholders' Equity				
		£m	£m	
1	Reserves	245.9	245.9	E1
	Total shareholders' equity	245.9	245.9	

Template UK CCA – Main features of regulatory own funds instruments and eligible liabilities instruments

The Society has two current PIBS issuances. The detail of these is the following table.

		a	
		Permanent Interest Bearing Shares (PIBS)	
1	Issuer	Newcastle Building Society	Newcastle Building Society
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB0006361371	GB0006371529
2a	Public or private placement	Public Placement	Public Placement
3	Governing law(s) of the instrument	English	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	No	No
Regulatory treatment			
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	(Sub-) Consolidated	(Sub-) Consolidated
7	Instrument type (types to be specified by each jurisdiction)	PIBS	PIBS
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	£10m	£10m
9	Nominal amount of instrument	£10m	£10m
UK-9a	Issue price	100.32	100.45
UK-9b	Redemption price	N/A	N/A
10	Accounting classification	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	22/06/1993	15/09/1992
12	Perpetual or dated	Perpetual	Perpetual

13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No issuer call	No issuer call
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	10.75%	12.63%
19	Existence of a dividend stopper	Yes	Yes
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A

Pillar 3 Disclosures

31 December 2022

30	Write-down features	Yes – None contractual – statutory via bail-in	Yes – None contractual – statutory via bail-in
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	N/A	N/A

UK-34b	Ranking of the instrument in normal insolvency proceedings	Junior Subordinated debt	Junior Subordinated debt
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	Subordinated debt
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	Investor Relations (newcastle.co.uk)	Investor Relations (newcastle.co.uk)

5. Capital requirements

5.1 Internal Capital Adequacy Assessment information

The following information is a summary of the Group's Internal Capital Adequacy Assessment Process (ICAAP), set out in accordance with Table UK OVC.

Approach to assessing the adequacy of capital internally

A financial firm must at all times maintain adequate financial resources to ensure there is no significant risk that its liabilities cannot be met as they fall due. This includes assessing whether the firm's own funds are sufficient to cover any losses arising from existing risks and from risks to its ability to execute its business plan. This assessment is set out within the ICAAP.

The PRA expects all firms to carry out an ICAAP and as such require firms "to assess on an ongoing basis the amounts, types and distribution of capital that it considers adequate to cover the level and nature of the risks to which it is or might be exposed. This assessment should cover the major sources of risks to the firm's ability to meet its liabilities as they fall due and should incorporate stress testing and scenario analysis."

Taking into account the Group's risk and control framework and governance structure, the ICAAP supports this assessment by performing the following assessments:

- To assess the Group's total capital requirement, each material asset class, as well as off-balance sheet risks, are considered separately as to the amount of capital that could be lost in a plausible, but highly unlikely stress;

- The Group also uses the PRA's published methodology to assess for each asset class and off balance sheet risk the capital requirement the PRA would determine. In addition to being a regulatory requirement, this services as a benchmark for the Group's own assessment;
- To assess the adequacy of the Group's capital buffer requirements, a severe but plausible stress scenario is applied to the Society's business plan over the following 5 years. The scenario combines a macroeconomic stress with idiosyncratic stresses tailored to the Group's specific vulnerabilities. The macroeconomic scenario is benchmarked against guidance from the Bank of England;
- To determine the Group's most significant vulnerabilities, the ICAAP includes reverse stress testing. Reverse stress testing considers how severe a stress is required for the Society to fail; and
- In addition, the ICAAP shows the Group's current and forecast capital position under current regulatory capital and buffer requirements and under the requirements determined in the ICAAP to assess to what extent the Group is well capitalised and expected to remain so.

Material risks

The Society operates a Risk Management Framework that incorporates risk appetites for all areas of the business. The Board Risk Appetite is reviewed and formally approved annually. Any breaches of the risk appetite are reported to the Board in a timely manner.

Risk Management governance is overseen by the Group Risk Committee ("GRC"), with support from the Assets and Liabilities Committee ("ALCO"), Credit Risk Committee ("CRC"), Model Risk Committee ("MRC") and Enterprise Risk Committee ("ERC"). Each of these committees has formal Terms of Reference.

The material risks and related controls are set out in Section 3 of this document.

Material risks include;

- **Capital risk**
The risk that the Society is or becomes inadequately capitalised to address the risks to which it is exposed;
- **Climate change risk**
The risk 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. Climate risk is similarly relevant to Solutions' clients, and the Group may be impacted by their exposure;
- **Conduct risk**
The risk of customer detriment arising from the Society's activities. It is an operational risk particularly significant to the Society. Examples include products that do not perform as customers expected them to, or products being sold to customers for whom they are not suitable. Conduct risk and operational risk are closely aligned where the operational risk results in customer detriment;
- **Credit risk**
The risk of loss from residential or commercial lending or credit losses on assets held for liquidity management purposes;
- **Interest rate risk**
The risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates. Basis risk is the risk that net interest income falls because of a change in the relationship between two market rates;
- **Investment credit risk**
The risk wholesale counterparties the Society lends to default, or the value of the investment falls and the Society is obliged to crystallise that fall in value. This risk arises in relation to the treasury investments made by the Group in order to meet liquidity requirements. The risk is sensitive to market volatility and credit spreads (both general credit spreads and name specific credit spreads);

- **Liquidity risk**
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;
- **Macro-economic risk**
The risk that a deterioration of the economic environment in the UK could negatively impact the Group's operations and performance. This includes the impact of increased risks, such as credit risk, and market risk (e.g. margin compression). There is a risk of adverse impact on consumer demand and behaviour. The overall macro-economic risk gives rise to uncertainty and reduces the predictability of outcomes. This risk applies to both the Society and the services provided to our Newcastle Strategic Solutions Limited clients who may also be impacted;
- **Operational risk**
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;
- **Pension Obligation risk**
The risk that the Society has to fund a material shortfall in the defined benefit pension scheme.

The ICAAP also considers other risks, as required in the PRA handbook, that are less material to the Society's capital requirements, including residual risk, risk of excessive leverage, taxation risk and insurance risk.

Pillar 1 and 2A Capital requirements

Pillar 1 capital requirements are universal for all firms following the Standardised Approach.

Pillar 2A capital requirements are determined by considering the individual material risks applicable to the Group, using a variety of methodologies, including stress testing and scenario analysis. The ICAAP also considers the extent to which the Society and Group activities are well diversified on a consolidated basis and whether there are any offsetting features within the ICAAP that would reduce the overall capital requirement when considering risk and capital requirements on a holistic basis.

Capital buffers

The Group's capital buffers are calculated as a percentage of risk weighted assets and are in place to cover capital consumption in a severe but plausible stress.

The Group's capital buffer requirement is comprised of:

- Capital conservation buffer
- PRA firm specific buffer
- Countercyclical buffer

Total Capital Requirement (TCR)

The Group's total capital requirement is communicated periodically by the Prudential Regulation Authority and consists of minimum regulatory capital requirements (Pillar 1) plus additional, Society specific capital requirements for credit, market, operational, counterparty, credit concentration, interest rate and pension obligation risk (Pillar 2A).

The Society assesses its capital position and risks through the annual Internal Capital Adequacy Assessment Process (ICAAP) in line with the regulatory requirements. The ICAAP considers the key capital risks and the amount of capital the Society should retain. These requirements are assessed against the current position and throughout any forward planning. Capital adequacy is measured by comparing both current and forecast capital resources to capital requirements. Capital stress testing is performed as part of the ICAAP and makes sure that the Group is resilient to a range of stresses, assessing whether capital requirements would be met under severe but plausible stress scenarios and considers what mitigating actions are available to management. The stress scenarios are benchmarked to the Bank of England's concurrent stress testing scenarios, but tailored to address the Society's unique circumstances and vulnerabilities. The most significant stress scenario considered included an increase in unemployment to 9.2% and residential house price falls of 33% over the period 2022 to 2024 in addition to unrelated idiosyncratic stresses across the Group's main income streams, including lending, financial advice and savings management. Management were satisfied that the Group held adequate levels of Capital to survive these stresses.

The Society has concluded that the total regulatory capital requirement at 31 December 2021 of £189.2m was sufficient based on the capital adequacy testing performed. The ICAAP process is performed in the first half of each year using the previous year end position as a reference date.

5.2 Overview of risk weighted exposure amounts

The following table details the Society's composition of risk weighted exposure amounts.

Template UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		T	T-1	T
		£m	£m	£m
1	Credit risk (excluding CCR)	1,653.4	1,444.6	132.3
2	Of which the standardised approach	-	-	-
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
UK 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	Counterparty credit risk - CCR	94.9	14.6	7.6
7	Of which the standardised approach	94.9	14.6	7.6
8	Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a CCP	17.2	3.2	1.4
UK 8b	Of which credit valuation adjustment - CVA	45.3	7.6	3.6
9	Of which other CCR	-	-	-
10	<i>Empty set in the UK</i>			
11	<i>Empty set in the UK</i>			
12	<i>Empty set in the UK</i>			
13	<i>Empty set in the UK</i>			
14	<i>Empty set in the UK</i>			
15	Settlement risk	-	-	-

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		T	T-1	T
		£m	£m	£m
16	Securitisation exposures in the non-trading book (after the cap)	13.5	18.5	1.1
18	Of which SEC-ERBA (including IAA)	13.5	18.5	1.1
19	Of which SEC-SA approach	-	-	-
UK 19a	Of which 1250%/ deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
UK 22a	Large exposures	-	-	-
23	Operational risk	148.1	125.2	11.9
UK 23a	Of which basic indicator approach	-	-	-
UK 23b	Of which standardised approach	148.1	125.2	11.9
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
25	<i>Empty set in the UK</i>			
26	<i>Empty set in the UK</i>			
27	<i>Empty set in the UK</i>			
28	<i>Empty set in the UK</i>			
29	Total	1,909.9	1,602.9	152.9

Template UK INS1 – Insurance participations

This template has been omitted from this set of disclosures as the Society does not have any own funds instruments held in insurance or re-insurance undertakings or insurance holding company not deducted from own funds.

Template UK INS2 – Financial conglomerates information on own funds and capital adequacy ratio

This template has been omitted from this set of disclosures as the Society is not defined as a financial conglomerate.

5.3 Countercyclical capital buffers

The Society is subject to the United Kingdom countercyclical buffer only. The exposure information is listed in the two tables below.

Template UK CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

		a	b	c	d	e	f	g	h	i	j	k	l	m
		General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures Exposure value for non-trading book	Total exposure value	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights	Countercyclical buffer rate
		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models			Relevant credit risk exposures – Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
010	Breakdown by country:	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%
	United Kingdom	5,480.7	-	-	-	118.9	5,599.6	136.2	-	1.1	137.3	1,716.5	100.0	1.0
020	Total	5,480.7	-	-	-	118.9	5,599.6	136.2	-	1.1	137.3	1,716.5	100.0	

Template UK CCyB2 – Amount of institution-specific countercyclical capital buffer

		a
1	Total risk exposure amount (£m)	1,909.9
2	Institution specific countercyclical capital buffer rate (%)	1.0
3	Institution specific countercyclical capital buffer requirement (£m)	19.1

6. Leverage ratio

The following information is a summary of the Society's Leverage Ratio, set out in accordance with Table UK LRA.

Processes used to manage the risk of excessive leverage

The risk of excessive leverage is that the Society may not be able to withstand a significant reduction of its own funds, as a result of investing or lending too high a multiple of its capital.

As a mutual organisation, the Society primarily aims to be a stable organisation and whilst this includes being profitable, there is no appetite to maximise profits by taking significant risks. The Board's risk appetite with respect to Capital is to maintain across both point in time and forecast positions capital in excess of its capital requirements (including buffers) at all times.

The Society monitors the leverage ratio on an ongoing basis including forecast leverage ratio, as part of standard regular regulatory capital reporting. The leverage ratio is monitored by ALCO on a monthly basis. The impact of business stresses on the leverage ratio is tested annually as part of the Society's Recovery Plan.

Factors that had an impact on the leverage ratio

The leverage ratio has remained stable throughout the year, starting and ending the year at 4.5%. However, the numerator and denominator have both changed during this time. An increase in tier 1 capital has been driven by increased profits and total exposures have also increased, driven by additional lending, lending commitments and additional counterparty credit risk.

Template UK LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		a
		Applicable amount
		£m
1	Total assets as per published financial statements	5,312.5
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for exemption of exposures to central banks)	(408.0)
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) of the CRR)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustment for derivative financial instruments	(16.3)
9	Adjustment for securities financing transactions (SFTs)	-
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	53.5
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	-
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-
UK-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) of the CRR)	-
12	Other adjustments	-
13	Total exposure measure	4,941.8

Template UK LR2 - LRCom: Leverage ratio common disclosure

		Leverage ratio exposures	
		a	b
		T	T-1
On-balance sheet exposures (excluding derivatives and SFTs)		£m	£m
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	5,222.1	4,880.3
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining tier 1 capital (leverage))	-	-
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	5,222.1	4,880.3
Derivative exposures		£m	£m
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	-	-
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	24.5	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	-	-
UK-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	49.6	7.1
UK-9b	Exposure determined under the original exposure method	-	-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-

		Leverage ratio exposures	
		a	b
		T	T-1
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	Total derivatives exposures	74.1	7.1
Securities financing transaction (SFT) exposures		£m	£m
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
UK-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of the CRR	-	-
17	Agent transaction exposures	-	-
UK-17a	(Exempted CCP leg of client-cleared SFT exposures)	-	-
18	Total securities financing transaction exposures	-	-
Other off-balance sheet exposures		£m	£m
19	Off-balance sheet exposures at gross notional amount	53.5	45.7
20	(Adjustments for conversion to credit equivalent amounts)	-	-
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	-	-
22	Off-balance sheet exposures	53.5	45.7
Excluded exposures		£m	£m
UK-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-	-
UK-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) of the CRR (on- and off- balance sheet))	-	-
UK-22g	(Excluded excess collateral deposited at triparty agents)	-	-
UK-22k	(Total exempted exposures)	-	-

		Leverage ratio exposures	
		a	b
		T	T-1
Capital and total exposure measure		£m	£m
23	Tier 1 capital (leverage)	239.3	223.0
24	Total exposure measure including claims on central banks	5,349.8	4,933.0
UK-24a	(-) Claims on central banks excluded	(408.0)	(369.7)
UK-24b	Total exposure measure excluding claims on central banks	4,941.8	4,563.3
Leverage ratio			
25	Leverage ratio excluding claims on central banks (%)	4.8%	4.9%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	4.8%	4.9%
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	4.8%	4.9%
UK-25c	Leverage ratio including claims on central banks (%)	4.5%	4.5%
26	Regulatory minimum leverage ratio requirement (%)	3.5%	3.5%
Additional leverage ratio disclosure requirements - leverage ratio buffers		£m	£m
27	Leverage ratio buffer (%)	-	-
UK-27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)	-	-
UK-27b	Of which: countercyclical leverage ratio buffer (%)	-	-
Additional leverage ratio disclosure requirements - disclosure of mean values		£m	£m
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	-	-
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-	-
UK-31	Average total exposure measure including claims on central banks	-	-
UK-32	Average total exposure measure excluding claims on central banks	-	-
UK-33	Average leverage ratio including claims on central banks	-	-
UK-34	Average leverage ratio excluding claims on central banks	-	-

Template UK LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		a
		Leverage ratio exposures
UK-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	5,222.1
UK-2	Trading book exposures	-
UK-3	Banking book exposures, of which:	733.6
UK-4	Covered bonds	199.4
UK-5	Exposures treated as sovereigns	534.2
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
UK-7	Institutions	91.8
UK-8	Secured by mortgages of immovable properties	4,214.8
UK-9	Retail exposures	16.5
UK-10	Corporates	-
UK-11	Exposures in default	29.0
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	136.4

7. Asset encumbrance

The following information is a summary of the Society's asset encumbrance, set out in accordance with Table UK AE4.

The PRA defines encumbrance as "assets which are subject to any legal, contractual, regulatory or other restriction preventing the institution from liquidating, selling, transferring, assigning or, generally, disposing of those assets via an outright sale or a repurchase agreement".

The Society makes use of interest rate swaps to mitigate its exposure to interest rate risk as detailed in section 14 of this report. Cash collateral is pledged to counterparties against the Society's derivative liabilities to reduce the counterparty's exposure to the Society. Similarly, cash collateral is received by the Society against its derivative assets to reduce the Society's exposure to counterparties. Offsetting collateral is pledged in line with underlying Credit Support Annexes with the Society's financial counterparties. Cash collateral pledged is considered to be encumbered as it is no longer under the legal ownership or control of the Society. Collateral posted is measured against counterparty mark to market values and may not reflect the Society's internal valuation of its financial instruments.

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

There were no debt securities pledged as collateral under repurchase agreements with banks that were considered to be encumbered at 31 December 2022 (2021: £nil).

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

The Society has also retained Buy to Let Residential Mortgage Backed Securities (RMBS) issued in December 2021 that is held as contingent liquidity for use through the Bank of England facilities or with other banks in order to access funding. The notes were not drawn as at 31 December 2022.

Template UK AE1 – Encumbered and unencumbered assets

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
		£m	£m	£m	£m	£m	£m	£m	£m
010	Assets of the reporting institution	1,187.2	-			4,125.3	839.0		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	-	-	-	-	433.0	431.0	433.0	431.0
050	of which: covered bonds	-	-	-	-	199.4	199.4	199.4	199.4
060	of which: securitisations	-	-	-	-	118.9	116.9	118.9	116.9
070	of which: issued by general governments	-	-	-	-	88.2	88.2	88.2	88.2
080	of which: issued by financial corporations	-	-	-	-	26.5	26.5	26.5	26.5
090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	1,187.2	-			3,692.3	408.0		

Template UK AE2 – Collateral received and own debt securities issued

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
		£m	£m	£m	£m
130	Collateral received by the reporting institution	-	-	-	-
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by general governments	-	-	-	-
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	Own debt securities issued other than own covered bonds or securitisations	-	-	-	-
241	Own covered bonds and asset-backed securities issued and not yet pledged	-	-	-	-
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	1,187.2	1,088.2	-	-

Template UK AE3 – Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
		£m	£m
010	Carrying amount of selected financial liabilities	515.0	1,175.8

8. Liquidity requirements

8.1 Liquidity risk management

The following information is a summary of the Group's liquidity risk management, set out in accordance with Table UK LIQA.

Strategies and processes in the management of liquidity risk

The Society manages liquidity and funding risk within a comprehensive risk framework. A Liquidity Policy and risk appetite is in place with regular monitoring against risk limits, underpinned by a robust three lines of defence governance process.

The Society ensures that at all times obligations are met with sufficient liquid assets, both as to amount and quality, even during episodes of stress.

This is achieved through the monitoring, management and timely mitigating actions taken by the Society under 'business-as-usual' and stressed conditions.

Structure and organisation of liquidity risk management

The Board has overall responsibility for setting liquidity and funding risk appetite. These risks are managed at a consolidated Group level. The Board has delegated the day-to-day management of liquidity risk to the Assets and Liabilities Committee (ALCO) with oversight from the Group Risk Committee (GRC).

The Society operates a three lines of defence approach where Treasury Front Office, Treasury Back Office and Balance Sheet Management form the first line of defence. They are responsible for the day-to-day operations relating to liquidity risk. Treasury Risk forms the second line of defence and is responsible for independent oversight, challenge and support to the first line. Finally, the third line is performed by internal audit who provide independent assurance to the Board.

The Society monitors, forecasts and reports on funding and liquidity on a weekly basis through the Liquidity Management Group (LMG) with monthly reporting made to ALCO.

Liquidity management on a Group basis

Liquidity risk is monitored and managed on a consolidated Group basis. The Treasury function is responsible for effective liquidity management across the Group.

Liquidity risk reporting and measurement systems

The Society employs skilled staff with the appropriate depth and breadth of knowledge to appropriately manage liquidity and other Treasury-related risks.

The Society uses a Treasury Management System to support effective monitoring and record keeping of liquidity related matters.

A suite of management information is produced by the first line which is typically forward-looking and includes cash-flow forecasting. This is discussed daily within the appropriate teams, weekly at the Liquidity Management Group and monthly at the Assets and Liabilities Committee.

Liquidity Risk Mitigation

The Society operates with a number of policies which set out the minimum acceptable liquidity levels the Society should operate with under both business as usual and stressed situations. These policies include:

- a Treasury Policy - which details the process by which the Society monitors, manages and mitigates, funding risks, liquidity risks, credit risks and approach to hedging;
- a Recovery Plan - which details conditions where contingent actions could be taken and explaining those actions in relation to a number of stressed situations the Society may face (including liquidity);
- a Liquidity Contingency Plan - which details how the Society monitors and manages liquidity under contingent and stressed situations; and
- an annual Internal Liquidity Adequacy Assessment Process (ILAAP) - which fully evaluates the Society's approach to liquidity management, including survivability under a number of internally determined stressed scenarios.

Contingency funding plans

The Society has an established suite of contingent funding facilities which include:

- a long-standing ability to attract well diversified retail funding from UK depositors;
- access to the Central Bank's Sterling Monetary Framework (SMF);
- securitisation capabilities demonstrated by the Society's Tyne Funding programme; and
- a long standing presence in short-term wholesale markets managed by the Society's Treasury function.

A number of management actions form the basis of the Society's contingent funding plans. These are documented within the Society's Recovery Plan and Liquidity Contingency Plan and are evaluated as part of the annually updated ILAAP.

The Recovery Plan and Liquidity Contingency Plan detail policies, procedures, escalation processes and action plans in the event of a liquidity (or other) stress on the Society.

Liquidity stress testing

Stress testing scenarios are designed to capture a range of different circumstances lasting for different durations which would put severe but plausible stress on the Society to adequately meet its obligations when they fall due. This includes annual reverse stress tests over several scenarios.

All of the scenarios and results are reviewed and challenged for appropriateness by a number of subject matter experts within the Society before being reviewed by ALCO, GRC and being ratified by the Board. This process takes place at least annually and forms part of the ILAAP. In the event of a material change to the Society's business model or market, these stresses may be reviewed and approved on a more frequent basis.

ALCO also regularly review the stresses and scenarios tested to ensure that their nature and severity remain appropriate and relevant.

Liquidity stress testing is performed and reported on at least weekly by the Balance Sheet Management department.

Declaration approved by the management body

Through the ILAAP process, the Board attests to the adequacy of the Group's liquidity position and risk management processes.

Through approving the ILAAP, the Board demonstrates that stress testing is robust in terms of the qualitative liquidity management processes and that the Society's liquidity stress testing and liquidity holdings are appropriate and sufficiently prudent, particularly given the low-risk business model of a building society.

Liquidity risk statement

The Society will maintain sufficient liquid assets based on its Liquidity Coverage Ratio and internally defined Internal Liquidity Requirement (ILR) ratios in order to meet its obligations in the event of severe but plausible stress events. In addition to the above key liquidity risk statement, the Society must also:

- Ensure its liquidity resources contain an adequate buffer of high quality, unencumbered assets;
- Ensure sufficient credible contingent management actions remain in place to protect the Society against unforeseen liquidity risks; and
- Ensure that liquidity adequacy reflects any Pillar 2 add-on (where applicable) set by the PRA.

The ILR 30 is calculated on a weekly basis and is the Society's most severe liquidity monitoring metric. The parameters of the stress are refreshed as part of the annual ILAAP process. Since the adoption of this metric in April 2022 our average ILR 30 is 155% and as at 31st December was 159% against a limit of 100%.

The average Net Stable Funding Ratio, which assesses the stability of funding relative to the liquidity of assets, was 145% for 2022 (2021: 140%), in excess of the 100% minimum requirement.

The Society monitors the proportion of funding not in the form of shares held by individuals and remained well within the Building Societies Act 50% funding limit throughout the year.

8.2 Liquidity Coverage Ratio (LCR)

The following information is a summary of the Society's LCR, set out in accordance with Table UK LIQB.

Main drivers of LCR

As a Building Society the main drivers of the requirements in the LCR are potential outflows relating to customer deposits, off balance sheet commitments in the form of post-offer mortgages as we aim to support customers into their own homes and, to a lesser extent, wholesale funding maturities and potential collateral outflows resulting from adverse movements in interest rates.

During the year, the Society maintained high levels of high quality liquid assets (HQLA), resulting in its LCR being well in excess of regulatory and internal limits.

Changes in LCR over time

Overall, the LCR has remained materially stable and above 150% throughout 2022, with an average LCR of 217% as of 31st December 2022 (2021: 219%). The small change is driven by an increase in HQLA resulting from higher levels of customer deposits, offset by increased net lending versus 31st December 2021.

Actual concentration of funding sources

The Society's composition of funding remain broadly unchanged throughout the year, aligning with our strategy as a mutual organisation. Retail deposits in a number of differing account types and tenors continue to provide the vast majority of our funding which has proven to be stable and remains core to our purpose.

In addition to retail funding, the Society also operates with wholesale funding, both secured and unsecured, to help maintain a well diversified funding base.

Composition of liquidity buffer

The majority of the Society's liquidity buffer is made up of balances with the Bank of England. The Society also holds a material amount of Covered Bonds and UK RMBS which are well diversified across issuers. The Society is also a holder of supranational debt and UK Sovereign debt.

Derivative exposures and potential collateral calls

The Society only transacts derivatives to mitigate interest rate risk and therefore is not a market maker. Exposures are calculated by taking the fair value of the derivatives, less any collateral posted/received. Potential collateral outflows use a 24 month historical lookback approach. As the Society does not currently operate with a credit rating, the effect of downgrades by external credit rating agencies do not apply.

Currency mismatch in the LCR

The Society only transacts in pounds sterling and, as such, is not exposed to any currency mismatch in its LCR calculations.

Other items in the LCR calculation not captured in the template

There are no other items that the Society considers relevant.

Template UK LIQ1 – Quantitative information of LCR

		a	b	c	d	e	f	g	h
		Total unweighted value				Total weighted value			
UK 1a	Quarter ending on	31 Dec 22	30 Sep 22	30 Jun 22	31 Mar 22	31 Dec 22	30 Sep 22	30 Jun 22	31 Mar 22
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS (£m)									
1	Total high-quality liquid assets (HQLA)					776.3	750.0	733.7	701.3
CASH – OUTFLOWS (£m)									
2	Retail deposits and deposits from small business customers, of which:	4,005.2	3,875.9	3,808.3	3,780.3	220.0	212.0	206.3	206.6
3	Stable deposits	3,400.5	3,336.1	3,303.2	3,278.5	142.4	141.1	139.2	137.5
4	Less stable deposits	604.8	539.8	505.1	501.8	77.6	70.9	67.1	69.1
5	Unsecured wholesale funding	-	-	-	-	-	-	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	47.6	48.8	50.8	43.5	19.3	17.6	17.2	14.4
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding								
10	Additional requirements	36.2	25.4	28.0	32.3	36.2	25.0	27.8	32.5
11	Outflows related to derivative exposures and other collateral requirements	0.8	1.2	1.5	1.8	0.8	1.1	1.5	1.8
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	-	-	-	-	-	-	-	-
14	Other contractual funding obligations	-	-	-	-	-	-	-	-
15	Other contingent funding obligations	305.9	287.6	253.1	230.1	110.3	105.7	93.0	84.7
16	TOTAL CASH OUTFLOWS					386.6	361.4	345.8	340.0
CASH – INFLOWS (£m)									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	31.8	29.5	26.5	23.7	28.7	27.5	24.0	20.2
19	Other cash inflows	2.0	1.7	1.7	1.9	0.3	-	-	-
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	33.8	31.2	28.2	25.6	29.0	27.6	24.0	20.2

		a	b	c	d	e	f	g	h
		Total unweighted value				Total weighted value			
UK 1a	Quarter ending on	31 Dec 22	30 Sep 22	30 Jun 22	31 Mar 22	31 Dec 22	30 Sep 22	30 Jun 22	31 Mar 22
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
UK-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
UK-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
UK-20c	Inflows subject to 75% cap	-	-	-	-	-	-	-	-
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER (£m)					776.3	750.0	733.7	701.3
22	TOTAL NET CASH OUTFLOWS (£m)					357.5	333.8	321.8	319.8
23	LIQUIDITY COVERAGE RATIO (%)					217%	225%	228%	219%

8.3 Net Stable Funding Ratio (NSFR)

The following table summarises the Society's NSFR information.

Template UK LIQ2 – Net Stable Funding Ratio

		a	b	c	d	e
(in currency amount)		Unweighted value by residual maturity (average)				Weighted value (average)
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items (£m)						
1	Capital items and instruments	-	-	-	232.0	232.0
2	Own funds	-	-	-	-	-
3	Other capital instruments	-	-	-	-	-
4	Retail deposits	-	3,620.7	155.9	257.6	3,813.0
5	Stable deposits	-	2,988.4	141.7	224.8	3,198.4
6	Less stable deposits	-	632.3	14.2	32.8	614.6
7	Wholesale funding:	-	107.5	17.5	516.9	574.5
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	107.5	17.5	516.9	574.5
10	Interdependent liabilities	-	-	-	-	-
11	Other liabilities:	-	-	90.9	-	0.5
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and capital instruments not included in the above categories	-	-	-	-	-
14	Total available stable funding (ASF)	-	-	-	-	4,620.1
Required stable funding (RSF) Items (£m)						
15	Total high-quality liquid assets (HQLA)	-	-	-	-	44.0
UK-15a	Assets encumbered for more than 12m in cover pool	-	-	-	-	-
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities:	-	65.1	59.7	3,814.7	2,929.9
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut	-	-	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions	-	-	-	-	-

		a	b	c	d	e
(in currency amount)		Unweighted value by residual maturity (average)				Weighted value (average)
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:	-	5.3	2.7	31.3	31.4
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	59.8	57.0	3,783.3	2,898.4
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	59.8	57.0	3,783.3	2,898.4
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products	-	-	-	-	-
25	Interdependent assets	-	-	-	-	-
26	Other assets:	-	57.4	1.5	159.4	197.8
27	Physical traded commodities	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	44.3	-	-	37.6
29	NSFR derivative assets	-	-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	13.1	1.5	159.4	160.2
32	Off-balance sheet items	-	277.6	11.1	0.2	14.4
33	Total RSF					3,186.1
34	Net Stable Funding Ratio (%)					145%

9. Credit risk, Dilution risk and Credit quality

The following information is a summary of the Group's Credit risk management, set out in accordance with Table UK CRA and Table UK CRB.

To enable the Group to achieve its strategic objectives as a purpose led organisation, the Board ensures that systems and controls are in place so that credit risks are suitably identified, quantified, managed and reported. Risk Appetite Statements are approved by the Board, inclusive of the appetite for credit risk in pursuit of the Society's business strategy.

In terms of credit risk, the current principal risks the Newcastle Building Society Group face relate to:

- Residential Credit Risk – active lending; and
- Commercial Credit Risk – legacy book in wind-down.

Operating under the Limited approach, Newcastle manages credit risk within a comprehensive risk framework, compliant with the requirements of SS20/15 in terms of both risk management policy and the setting of limits.

A credit risk focused Residential Lending Policy is in place for active lending (Non-Standard Lending Policy relating to the Commercial legacy book), as is a board approved credit risk appetite, with regular monitoring against risk limits - underpinned by a robust three lines of defence governance process.

The Board has overall responsibility for setting credit risk appetite. These risks are managed at a consolidated Group level. The Board has delegated the day-to-day management of credit risk to the Credit Risk Committee (CRC) with oversight from the Group Risk Committee (GRC).

The Society operates a three lines of defence approach where Mortgage Operations form the first line of defence in relation to active lending (Commercial Lending relating to the Commercial legacy book). They are responsible for the day-to-day operations relating to credit risk. Credit Risk and Model Risk form the second line of defence and are responsible for independent oversight, challenge and support to the first line. Finally, the third line is performed by Internal Audit Services who provide independent assurance to the Board.

The Society monitors, forecasts and reports on credit risk on a monthly basis through monthly reporting made to the CRC.

Past-due and impaired exposures

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

Default is defined using a range of qualitative and quantitative criteria. A borrower who has fallen into greater than three months in arrears is automatically classed as in default.

The definition of default is aligned to the definition of impairment and to the accounting definition of Stage three under IFRS 9.

Methods used for determining general and specific credit risk adjustments

Under IFRS 9, the Group conducts a forward looking assessment of impairment. Expected credit losses are recognised across applicable financial assets based on whether there has been a significant increase in credit risk since the asset's origination. Assets with no significant increase in credit risk since origination are denoted as 'stage 1 assets', assets which have suffered a significant increase in credit risk but have not defaulted are denoted as 'stage 2 assets' and assets that have defaulted are denoted as 'stage 3 assets'.

When assessing movement in credit risk, it is the change in the risk of default occurring that is key, not the change in the amount of any expected credit loss.

Assets are assessed on an individual basis with a forward looking assessment undertaken to support the recognition 'now' of future potential losses. While losses are provided for, assets are only formally written off when the Society no longer holds any expectation of subsequent receipt, typically at the conclusion of a negotiation or sale.

Implementation and ongoing administration of high quality IFRS 9 impairment models requires significant management experience and judgement, both in assessing historic performance trends and factors and in projecting these into uncertain future economic environments. External professional modelling assistance has been coupled with the Society's extensive internal expertise to facilitate a robust and compliant implementation. Best practice guidance issued by consolidated professional audit and accountancy firms, IFRS 9 implementation guidance and banking centric governance and modelling guidance from European and domestic authorities form the foundation of the Society's IFRS 9 impairment response.

Detailed descriptions of the application to individual books can be found in Note 41 of the Group's Annual Report and Accounts.

In line with the approach taken within our IFRS 9 modelling, the definition of a restructured exposure is considered to be all forbearance, including both temporary and permanent term extension and interest only conversion.

Template UK CR1 – Performing and non-performing exposures and related provisions

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3				
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
005	Cash balances at central banks and other demand deposits	421.9	421.9	-	-	-	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	4,336.8	3,733.8	603.0	34.1	-	34.1	(3.5)	(0.6)	(2.9)	(3.1)	-	(3.1)	-	4,076.1	31.3
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	104.8	104.8	-	-	-	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
060	Non-financial corporations	289.5	286.8	2.7	6.1	-	6.1	(1.1)	(0.1)	(1.0)	(2.1)	-	(2.1)	-	288.4	4.1
070	Of which SMEs	289.5	286.8	2.7	6.1	-	6.1	(1.1)	(0.1)	(1.0)	(2.1)	-	(2.1)	-	288.4	4.1
080	Households	3,942.5	3,342.2	600.3	28.0	-	28.0	(2.4)	(0.5)	(1.9)	(1.0)	-	(1.0)	-	3,787.7	27.2
090	Debt securities	433.0	433.0	-	-	-	-	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	112.3	112.3	-	-	-	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	320.7	320.7	-	-	-	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	267.6	267.6	-	-	-	-	-	-	-	-	-	-	-	-	-
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170	General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
180	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
190	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
200	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
210	Households	267.6	267.6	-	-	-	-	-	-	-	-	-	-	-	-	-
220	Total	5,459.3	4,856.3	603.0	34.1	-	34.1	(3.5)	(0.6)	(2.9)	(3.1)	-	(3.1)	-	4,076.1	31.3

Template UK CR1-A – Maturity of exposures

		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
		£m	£m	£m	£m	£m	£m
1	Loans and advances	20.3	209.1	469.2	3,499.4	166.3	4,364.3
2	Debt securities	1.6	156.9	268.6	5.9	0.0	433.0
3	Total	21.9	366.0	737.8	3,505.3	166.3	4,797.3

Template UK CR2 – Changes in the stock of non-performing loans and advances

		a
		Gross carrying amount
		£m
010	Initial stock of non-performing loans and advances	46.1
020	Inflows to non-performing portfolios	0.6
030	Outflows from non-performing portfolios	(9.5)
040	Outflows due to write-offs	-
050	Outflow due to other situations	(3.1)
060	Final stock of non-performing loans and advances	34.1

Template UK CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries

This template has been omitted from this set of disclosures as the disclosure is applicable for large institutions only.

Template UK CQ1 – Credit quality of forborne exposures

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
		£m	£m	£m	£m	£m	£m	£m	£m
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	-	1.3	1.3	1.3	-	-	2.9	2.9
020	Central banks	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-
050	Other financial corporations	-	-	-	-	-	-	-	-
060	Non-financial corporations	-	-	-	-	-	-	-	-
070	Households	-	1.3	1.3	1.3	-	-	2.9	2.9
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	-	-	-	-	-	-	-	-
100	Total	-	1.3	1.3	1.3	-	-	2.9	2.9

Template UK CQ2 – Quality of forbearance

This template has been omitted from this set of disclosures as the disclosure is applicable for large institutions only.

Template UK CQ3 – Credit quality of performing and non-performing exposures by past due days

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures				Non-performing exposures							
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
005	Cash balances at central banks and other demand deposits	421.9	421.9	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	4,336.8	4,031.0	305.7	34.1	16.1	5.5	2.9	8.2	1.4	-	-	34.1
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	104.8	104.8	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
060	Non-financial corporations	289.5	-	289.5	6.1	-	-	-	6.1	-	-	-	6.1
070	Of which SMEs	289.5	-	289.5	6.1	-	-	-	6.1	-	-	-	6.1
080	Households	3,942.5	3,926.2	16.2	28.0	16.1	5.5	2.9	2.1	1.4	-	-	28.0
090	Debt securities	433.0	433.0	-	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	112.3	112.3	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	320.7	320.7	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	267.6	-	-	-	-	-	-	-	-	-	-	-
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
170	General governments	-	-	-	-	-	-	-	-	-	-	-	-
180	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
190	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
200	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
210	Households	267.6	-	-	-	-	-	-	-	-	-	-	-
220	Total	5,459.3	4,885.9	305.7	34.1	16.1	5.5	2.9	8.2	1.4	-	-	34.1

Template UK CQ4 – Quality of non-performing exposures by geography

This template has been omitted from this set of disclosures as the Society does not have any non-domestic original exposures equal or higher than 10% of the total original exposures.

Template UK CQ5 – Credit quality of loans and advances to non-financial corporations by industry

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
			£m	£m	£m		
010	Agriculture, forestry and fishing	-	-	-	-	-	-
020	Mining and quarrying	-	-	-	-	-	-
030	Manufacturing	-	-	-	-	-	-
040	Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-
050	Water supply	-	-	-	-	-	-
060	Construction	0.9	-	-	-	-	-
070	Wholesale and retail trade	-	-	-	-	-	-
080	Transport and storage	-	-	-	-	-	-
090	Accommodation and food service activities	-	-	-	-	-	-
100	Information and communication	-	-	-	-	-	-
110	Financial and insurance activities	-	-	-	-	-	-
120	Real estate activities	294.7	6.1	6.1	6.1	(3.2)	-
130	Professional, scientific and technical activities	-	-	-	-	-	-
140	Administrative and support service activities	-	-	-	-	-	-
150	Public administration and defence, compulsory social security	-	-	-	-	-	-
160	Education	-	-	-	-	-	-
170	Human health services and social work activities	-	-	-	-	-	-
180	Arts, entertainment and recreation	-	-	-	-	-	-
190	Other services	-	-	-	-	-	-
200	Total	295.6	6.1	6.1	6.1	(3.2)	-

Template UK CQ6 – Collateral valuation - loans and advances

This template has been omitted from this set of disclosures as the disclosure is applicable for large institutions only.

Template UK CQ7 – Collateral obtained by taking possession and execution processes

This template has been omitted from this set of disclosures as no collateral was obtained through repossession.

Template UK CQ8 – Collateral obtained by taking possession and execution processes – vintage breakdown

This template has been omitted from this set of disclosures as the disclosure is applicable for large institutions only.

9.1 Credit risk mitigation

The following information is a summary of the Group's approach to credit risk mitigation, set out in accordance with Table UK CRC.

Investment Credit Risk

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

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

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

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

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

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

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

The Group's policies and standards outline escalation paths and management actions required to remediate, as well actions required to be taken, should a counterparty's credit rating deteriorate, protecting the Society against material credit losses. The Group's treasury risk department monitors forthcoming regulatory standards closely to assess any impact to the Group along with subsequent actions which ensure the Group remains compliant.

For further information around Counterparty Credit Risk, see Section 10.

Eligible Collateral evaluation and management

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

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

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

The key areas covered in the Lending Policy are:

- Limits on loan to value based on types of lending;
- Limits on higher loan to value lending;
- Approved broker requirements;
- Valuation requirements, including use of approved valuers;
- Use of approved solicitor panels;

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

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

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

Collateral taken to mitigate credit risk

Residential property is the Group's main source of collateral and means of mitigating credit risk inherent in its residential mortgage portfolio. All mortgage lending activities are supported by an appropriate form of valuation from the Society's approved panel of valuers. All residential property must be insured to cover property risks and this may be done via a third party. Additional protection is also afforded to borrowers through optional income protection insurance.

The Society has smaller legacy books where the collateral is land, policies or cash flows from serviced apartments.

Guarantees and credit derivatives used as credit protection

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

Deposit Unlock scheme which covers mortgages within the scheme that have an LTV of 90%-95%, which is also not included as mitigation within capital calculations.

Market or credit risk concentrations

The Society offers mortgages in the United Kingdom only and therefore has concentration risk to the UK. However, the Society mitigates regional concentration risk by diversifying lending across regions.

For residential lending, book limits are in place to control concentration risk, by limiting the proportion of lending permitted to be on book with particular characteristics, such as lending types (e.g. residential, but-to-let, interest only); borrower types (e.g. lending into retirement or lending in retirement); property types (e.g. self-build or new build) and property location (regional spread). These limits adhere to requirements under SS20/15 (Limited Approach) and the related position is reported to Credit Risk Committee on a monthly basis and Group Risk Committee on a quarterly basis.

For commercial lending (inclusive of social housing lending), the Society is no longer engaged in new lending. As a result there is no additional exposure being generated and the books are being actively wound-down.

Template UK CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
		a	b	c	d	e
		£m	£m	£m	£m	£m
1	Loans and advances	256.9	4,107.4	4,107.4	-	-
2	Debt securities	433.0	-	-	-	-
3	Total	689.9	4,107.4	4,107.4	-	-
4	<i>Of which non-performing exposures</i>	-	34.1	34.1	-	-
5	<i>Of which defaulted</i>	-	34.1			

9.2 Use of the Standardised approach

The following information is a summary of the Society's use of External Credit Assessment Institutions (ECAI's), set out in accordance with Table UK CRD.

In order to manage liquidity requirements the Society continues to invest its treasury portfolio in high quality, UK centric, cash and securities (including UK securitisations and UK covered bonds).

The Society applies The Standardised Approach (TSA) to assess credit risk in relation to this portfolio. In accordance with TSA and internal risk policies, the Society uses credit ratings published by Moody's, Standard and Poor's and Fitch to assist in the assessment of credit risk.

Under TSA, each exposure is allocated a risk weight specific to the credit quality of the specific underlying exposure (considering both class and residual maturity).

There has been no change in the Society's use of ECAs during this reporting period.

For any types of exposure where ECAI assessments are not applicable, risk weightings are allocated in accordance with other CRR regulation.

Template UK CR4 – Standardised approach – Credit risk exposure and CRM effects

Exposure classes		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
		£m	£m	£m	£m	£m	£m
1	Central governments or central banks	507.6	-	507.6	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	26.6	-	26.6	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	91.8	49.6	91.8	49.6	61.8	44%
7	Corporates	-	-	-	-	-	-
8	Retail	16.4	0.1	16.4	0.1	9.4	57%
9	Secured by mortgages on immovable property	4,214.8	267.4	4,214.8	53.5	1,524.9	34%
10	Exposures in default	29.0	-	29.0	-	29.5	102%
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	199.4	-	199.4	-	19.9	10%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	77.9	-	77.9	-	57.4	74%
17	TOTAL	5,163.5	317.2	5,163.5	103.2	1,702.9	31%

Template UK CR5 – Standardised approach

Exposure classes		Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o		
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		
1	Central governments or central banks	507.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	507.6	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	26.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26.6	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	31.0	-	-	-	60.8	-	-	-	-	49.6	-	-	-	-	-	141.4	-
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail exposures	-	-	-	-	-	-	-	-	16.5	-	-	-	-	-	-	16.5	-
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	4,191.6	-	-	67.9	8.8	-	-	-	-	-	4,268.3	-
10	Exposures in default	-	-	-	-	-	-	-	-	-	27.9	1.1	-	-	-	-	29.0	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	199.4	-	-	-	-	-	-	-	-	-	-	-	199.4	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Other items	25.2	-	-	-	-	-	-	-	-	49.5	-	3.2	-	-	-	77.9	-
17	TOTAL	590.4	-	-	199.4	60.8	4,191.6	-	-	84.4	135.8	1.1	3.2	-	-	-	5,266.7	-

10. Counterparty credit risk

The following information is a summary of the Group's counterparty credit risk, set out in accordance with Table UK CCRA.

Counterparty credit risk management, mitigants and policies

Counterparty Credit Risk is the risk that a counterparty to a transaction could default before final settlement of the transaction. For the Society this risk arises from transacting interest rate risk swaps to manage interest rate risk exposure. Counterparty credit risk would also arise when using repurchase agreement transactions for liquidity management purposes, but the Society does not currently have any Securities Financing Transaction (SFT) exposure.

The Society uses a Central Clearing Counterparty (CCP) for the majority of the interest rate risk swaps that it transacts in order to mitigate counterparty credit risk. The Society places initial margin with the CCP and the transactions are valued daily in order for netted daily variation margin to be settled. For non-centrally cleared counterparties the Society enters into ISDA agreements and two-way daily margined CSA agreements where possible, which enables the Society to settle variation margin on a daily basis and manage potential exposure to these counterparties.

The Society has adopted the Simplified SA-CCR approach to calculating counterparty credit risk exposure. This methodology is comprised of a replacement cost and interest rate risk add on for each netting set to calculate the total exposure at default. The Society also calculates a Credit Valuation Adjustment (CVA) under the standardised method for all deals that are not centrally cleared.

Wrong way risk may arise when a future exposure to a counterparty is positively correlated with the counterparty's probability of default due to the nature of the transactions with the counterparty. The Society does not enter into any wrong way risk transactions or have any appetite to do so.

The Society does not have a rating and therefore is not exposed to any potential collateral impacts from a downgrade.

The tables below summarise the Group's counterparty credit risk exposures.

Template UK CCR1 – Analysis of CCR exposure by approach

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
		£m	£m	£m	£m	£m	£m	£m	£m
UK1	Original Exposure Method (for derivatives)	-	-	-	1.4	-	-	-	-
UK2	Simplified SA-CCR (for derivatives)	17.5	18.0		1.4	49.6	49.6	49.6	49.6
1	SA-CCR (for derivatives)	-	-	-	1.4	-	-	-	-
2	IMM (for derivatives and SFTs)	-	-	-	-	-	-	-	-
2a	Of which securities financing transactions netting sets	-	-	-	-	-	-	-	-
2b	Of which derivatives and long settlement transactions netting sets	-	-	-	-	-	-	-	-
2c	Of which from contractual cross-product netting sets	-	-	-	-	-	-	-	-
3	Financial collateral simple method (for SFTs)	-	-	-	-	-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	Total					49.6	49.6	49.6	49.6

Template UK CCR2 – Transactions subject to own funds requirements for CVA risk

		a	b
		Exposure value	RWEA
		£m	£m
1	Total transactions subject to the Advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the Standardised method	45.3	45.3
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	Total transactions subject to own funds requirements for CVA risk	45.3	45.3

Template UK CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

Exposure classes		Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	-	-	-	-	49.6	-	-	49.6
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-
11	Total exposure value	-	-	-	-	-	-	-	-	49.6	-	-	49.6

Template UK CCR4 – IRB approach – CCR exposures by exposure class and PD scale

This template has been omitted from this set of disclosures as the Society has not adopted the IRB approach.

Template UK CCR5 – Composition of collateral for CCR exposures

Collateral type		a	b	c	d	e	f
		Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
		Fair value of collateral received (£m)		Fair value of collateral posted (£m)		Fair value of collateral received (£m)	Fair value of collateral posted (£m)
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash	48.7	-	56.5	29.2	-	-
2	Debt	-	-	-	-	-	-
3	Equity	-	-	-	-	-	-
4	Other	-	-	-	-	-	-
5	Total	48.7	0.0	56.5	29.2	-	-

Template UK CCR6 – Credit derivatives exposures

This template has been omitted from this set of disclosures as the Society does not have any credit derivatives exposures.

Template UK CCR7 – RWEA flow statements of CCR exposures under the IMM

This template has been omitted from this set of disclosures as the Society has not adopted IMM methodology.

Template UK CCR8 – Exposures to CCPs

		a	b
		Exposure value	RWEA
		£m	£m
1	Exposures to QCCPs (total)		17.2
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	17.2	17.2
3	(i) OTC derivatives	17.2	17.2
4	(ii) Exchange-traded derivatives	-	-
5	(iii) SFTs	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	56.5	
8	Non-segregated initial margin	-	-
9	Prefunded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	Exposures to non-QCCPs (total)		-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	(i) OTC derivatives	-	-
14	(ii) Exchange-traded derivatives	-	-
15	(iii) SFTs	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

11. Securitisation positions

The following information is a summary of the Society's Securitisation positions set out in accordance with Table UK-SECA.

Overview

To date the Society has issued one, fully retained, standalone pass through securitisation. The issuance does not satisfy STS requirements under the UK Securitisation regulation and there has not been any significant transfer of credit risk away from the Society. The listed notes issued are rated by Moody's and Standard and Poor's as Aaa(sf)/AAA(sf) respectively. The purpose of this issue was to create collateral for use in sale and repurchase agreements or central bank operations.

The Society also purchases securitisations originated by other parties (Please refer to Section 9.2)

Originated Securitisations

The Society has securitised a portfolio of buy-to-let mortgage loans by pooling them together and transferring the loans to a Special Purpose Vehicle (SPV), Tyne Funding No.1 PLC.

A total of £241.7m of mortgage loans are pledged to the Tyne Funding programme as at 31 December 2022.

The transfer of the mortgage loans to the SPV are not treated as sales by the Society and therefore no gains or losses are recognised. As this structure was not intended to achieve significant transfer of credit risk away from the Society, the Society continues to recognise the mortgage loans on its own balance sheet after the transfer. The mortgage assets are held at amortised cost and the SPV is fully consolidated into the Society's accounts.

There are no specific capital requirements for the securitisation vehicle and these continue to be calculated in line with capital requirements applied to the underlying mortgage assets.

The Society takes the role of servicer, originator (where the Society originates the assets being securitised), seller and retention holder as defined in the prospectus for Tyne Funding No. 1 PLC.

Accounting policies for Securitisation activities

A summary of the relevant Accounting Policy for Securitisations can be found in the Annual Reports and Accounts 2022, note 1 – Significant Accounting Policies.

Template UK-SEC1 – Securitisation exposures in the non-trading book

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		£m							£m				£m			
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS		Non-STs			of which SRT		STS	Non-STs		STS	Non-STs			
			of which SRT		of which SRT											
1	Total exposures	-	-	-	-	-	-	-	-	-	-	-	103.0	15.9	-	118.9
2	Retail (total)	-	-	-	-	-	-	-	-	-	-	-	103.0	15.9	-	118.9
3	residential mortgage	-	-	-	-	-	-	-	-	-	-	-	103.0	15.9	-	118.9
4	credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Wholesale (total)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	loans to corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	commercial mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Template UK-SEC2 – Securitisation exposures in the trading book

This table has been omitted from this set of disclosures as the Society does not have a trading book.

Template UK-SEC3 – Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor

This table has been omitted from this set of disclosures as the Society has a fully retained internal Securitisation which is not reportable at a Group level for regulatory purposes.

Template UK-SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		£m					£m				£m				£m			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC- IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC- IRBA	SEC-ERBA (including IAA)	SEC- SA	1250% / deductions	SEC- IRBA	SEC-ERBA (including IAA)	SEC- SA	1250% / deductions
1	Total exposures	118.9	-	-	-	-	-	118.9	-	-	-	13.5	-	-	-	1.1	-	-
2	Traditional securitisation	118.9	-	-	-	-	-	118.9	-	-	-	13.5	-	-	-	1.1	-	-
3	Securitisation	118.9	-	-	-	-	-	118.9	-	-	-	13.5	-	-	-	1.1	-	-
4	Retail underlying	118.9	-	-	-	-	-	118.9	-	-	-	13.5	-	-	-	1.1	-	-
5	Of which STS	103.0	-	-	-	-	-	103.0	-	-	-	10.3	-	-	-	0.8	-	-
6	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Template UK-SEC5 – Exposures securitised by the institution - Exposures in default and specific credit risk adjustments

This table has been omitted from this set of disclosures as the Society has a fully retained internal Securitisation which is not reportable at a Group level for regulatory purposes.

12. Market risk

Market risk is the risk that the Group's business is negatively impacted by external market factors that affect the overall performance of investments in financial markets. The principal market risk to which the Group is exposed is interest rate risk. As the Group does not have a trading book the interest rate risk that the Group is exposed to is covered in Section 14 of these disclosures – Interest rate risk on the banking book.

Therefore Table UK MRA, Template UK MR1, Table UK MRB, Template UK MR2-A, Template UK MR2-B, Template UK MR3 and Template UK MR4 have been omitted from this set of disclosures.

13. Operational risk

The following commentary details the Group's approach to Operational Risk, set out in accordance with Table UK ORA.

Operational Risk is defined as:

The risk of loss and/or negative impact to the Society resulting from inadequate or failed internal processes, people, systems as well as from external incidents.

The Group is exposed to Operational Risk in all activities it undertakes. Exposure includes risk of direct or indirect losses or damaged reputation due to failure associated with technology, employees, processes, procedures or physical arrangements, including external incidents.

The Group's Operational Risk exposure relates to Newcastle Building Society (NBS), Newcastle Strategic Solutions Limited (NSSL), Newcastle Mortgage Loans (Jersey) Limited (NML(J)L) and Newcastle Financial Advisers Limited (NFAL).

Regulatory Obligations

As a Building Society, we are required to adhere to rules and regulations set out by many regulators, including the Bank of England, Prudential Regulation Authority and the Financial Conduct Authority. These rules and regulations ensure we operate in a transparent and responsible manner.

Operational Risk is a fundamental pillar of our business and one where we must demonstrate to the Regulators that we have developed and maintain robust systems and controls as set out under rules SYSC 3.1 and 7 of the FCA handbook.

Chapter 12 of the Internal Capital Adequacy Assessment rules in the PRA Rulebook outlines how the Prudential Regulation Authority expects firms to undertake scenario testing, stress testing; and capital planning, rules which apply to the Group in relation to Operational Risk.

Operational Risk Management Overview

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

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

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

Operational Risk Policy

The Operational Risk Policy is a core component of the Society's Operational Risk Management Framework and sets out the requirements for the identification and assessment of operational risks inherent in the Society's products, activities, processes and systems and for the evaluation, monitoring and testing of control effectiveness. Oversight and governance arrangements for the setting and management of a robust Operational Risk Management Policy and framework are the responsibility of the Board.

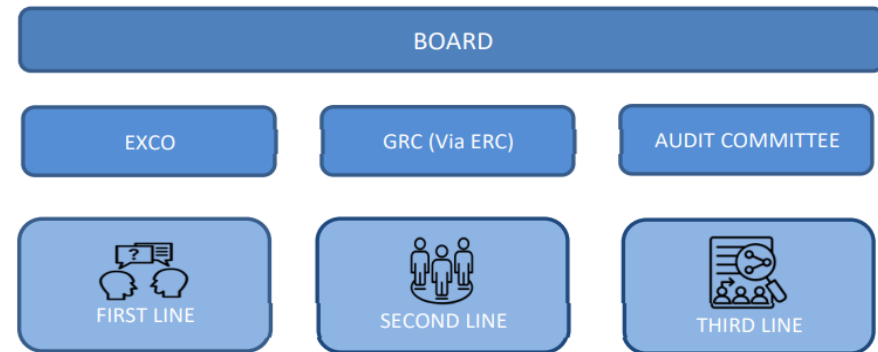
Risk Framework

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

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

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

The Group's Operational Risk Governance Framework is illustrated as follows: -



Operational risk measurements and control

Operational Risk is further classified into sub-categories, each of which is overseen by a Business Leader. Each category has a documented strategy, updated annually, which sets out the approach to managing the risk. Each strategy is based on the following principles:

- A Board approved risk definition;
- A Three Lines of Defence Model, with clearly articulated responsibilities for the management of each risk;
- Appropriate policies, processes, systems and controls throughout the Society; and
- A defined governance structure.

Second Line oversight is conducted in accordance with the plan agreed by the GRC.

Operational risk reporting

Operational Risk attend regular risk and control forums, which are led by senior leaders across the Group. Core discussion focuses around top risks, control performance, risk incidents, actions, project risk and horizon planning.

On a monthly basis Operational Risk produce a dashboard for ERC, which highlights current risks, risk acceptances, incidents performance and costs, as well as outstanding action plans and culture.

A Risk Profiling report is submitted to ERC on a quarterly basis, which provides the Committee with an oversight of the quality and accuracy of risk profiles as documented within the risk map. The objective of this report is to demonstrate that the oversight provided by Operational Risk is driving improvement and capability of risk management across the business. The report also shows that risk maps are being managed effectively, measuring risk accurately against appetite and the moving landscape.

Reporting includes but is not limited to:

- A summary of operational risk events, including potential/actual losses;
- Risk event analysis, highlighting trends, root causes and control weaknesses;
- Overdue and revised actions linked to risk events, risks and controls;
- The aggregate operational risk profile for the Society against Board defined risk appetite, including a review of accepted risks;

Operational risk appetite

The Board accepts that it is exposed to Operational Risk in relation to its core business activities. The Board considers that robust risk management processes are in operation for the risks it carries. This includes a clearly articulated risk appetite statement which defines the amount of risk the Board is willing to accept, qualitative and quantitative statements along with metrics to measure exposure. Adequate tracking enables reporting to be produced to provide comfort that risks are being managed in line with the risk appetite.

In accepting risk, the Board seeks to achieve an adequate return for the risk taken.

Adequate Operational Risk is validated by using a residual risk score acceptance criteria for all risks recorded on to each risk register. The scoring applied to each risk highlights the level of treatment and oversight the risk requires to ensure it does not crystallise.

Risk Management System

All risks, controls, testing results, risk incidents, internal audit recommendations and action plans are logged centrally and tracked via a risk management software package.

Data logged within the system allows us to:

- Track risk incident operational losses and outstanding potential losses;
- Record and track both inherent and residual risk scores;
- Track action plans, risk acceptances and audit recommendations;
- Track Risk Challenge actions;
- Track top risks which we report to the Board and other committees;
- Track risk control performance; and
- Work collaboratively across 3 lines of defence.

The system is owned and maintained by the second line Operational Risk team. Each business unit has at least one licence for the system with access being restricted to their individual business unit risk map only.

All Risks are subject to Inherent scoring before mitigating controls are in place and Residual scoring. The robustness of mitigating controls is assessed, with the adoption of a scoring matrix.

Any residual risk will falls outside the Operational Risk appetite will be referred to Operational Risk who will support with the most appropriate treatment plan. Should risk acceptance be the most appropriate treatment then a formal risk acceptance request would be submitted to ERC.

Operational Resilience overview

Operational Risk supports the Group's regulatory and operational expectations regarding Operational Resilience through the inclusion of reporting markers within the risk management system. This enables the identification and development of Operational Resilience-related risks within department risk maps plus identification of impacts to Important Business Services (IBS) through the incident reporting process.

This data will be used to inform regulatory reporting and as well as allowing the correct response to be applied ensuring that we remain compliant with the Operational Resilience Regulations as set out in the Operational Resilience Policy.

Approach for assessment of minimum own funds requirements

The Group uses the Standardised Approach for assessing its Operational Risk Capital Requirement (ORCR) to calculate the Pillar 1 capital requirement for operational risk. The requirement is calculated using the average of the last three years of income. This income is split out into relevant business line which then have a regulatory prescribed percentage assigned to them. For the Society the two business lines that drive the requirement are retail lending by the Society and asset management undertaken by NSSL.

Template UK OR1 – Operational risk own funds requirements and risk-weighted exposure amounts

Banking activities		a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
		£m	£m	£m	£m	£m
1	Banking activities subject to basic indicator approach (BIA)	-	-	-	-	-
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	79.4	95.3	120.8	11.9	148.1
3	<i>Subject to TSA:</i>	79.4	95.3	120.8		
4	<i>Subject to ASA:</i>	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

14. Interest rate risk on the banking book

The following commentary details the Group's approach to Interest Rate Risk in the Banking Book (IRRBB), set out in accordance with Table UK IRRBBA.

Introduction

The Society defines IRRBB as interest rate risks resultant of adverse movements in interest rates. It does not have a trading book and therefore all interest rate risk is confined to the banking book. It is the only material market risk that the Society is exposed to. IRRBB is measured against its impact on both NII and market value.

IRRBB is managed in line with the Board's risk appetite; that management should take only those interest rate risks that are essential to its core business activities, employing risk management strategies designed to provide stability to earnings. The Assets and Liabilities Committee (ALCO) has delegated responsibility for managing IRRBB within this appetite. This is achieved through a comprehensive framework of policies, risk metrics, triggers and limits, regular monitoring and governance controls. Risk metrics are reported to ALCO on a monthly basis and escalated to Board as required. The Society operates a 'three lines of defence' model to enable it to separate risk management activities. Second Line provides oversight and challenge, whilst the Third Line provides independent review of processes. Key models are also captured under the Model Governance framework.

The Society is exposed to the following key interest rate risks:

- Yield Curve Risk - The risk arising from differences between the interest rate repricing dates of assets and liabilities.
- Basis Risk - The risk that offsetting instruments in the Society's balance sheet may not experience price changes in an entirely equal fashion and thus drives a potential for excess gains or losses.
- Swap Spread Risk - The difference between the fixed component of a given swap and the yield on a sovereign debt with a similar maturity.
- Optionality Risk - The risk that customer behaviour materially changes, driving an adverse impact on NII. This is predominantly focused on fixed rate mortgage pipeline conversion and prepayment and fixed rate ISA early transfers.

IRRBB management and mitigation strategies

The Society uses structural hedging, allocating reserves to time buckets and offsetting exposures where possible. Remaining exposures are hedged with derivatives where necessary.

A suite of prescribed and idiosyncratic stress scenarios are performed on a regular basis to assess vulnerability to Net Interest Income (NII) and Economic Value of Equity (EVE). Outcomes are reported to ALCO along with any mitigating management actions.

IRRBB components are included in Funds Transfer Pricing (FTP) when considering product pricing. Product proposals also consider risks such as basis risk and maturity concentrations.

Customer optionality is regularly reviewed and stressed to capture changes in customer behaviour.

IRRBB risk measures

EVE sensitivities, NII sensitivities and Basis Risk positions are monitored against a suite of triggers and limits aligned to Board risk appetite. These are presented to ALCO monthly. The Society also monitors Gap positions and EVE sensitivities on a twice-weekly basis. Key assumptions used in the calculations are reviewed on a semi-annual basis. The annual Internal Capital Adequacy Assessment Process includes an assessment of credit spread risk.

Interest rate risk shock and stress testing scenarios

The EVE and NII sensitivity shocks are primarily based on the six PRA prescribed shocks:

- Parallel shock up;
- Parallel shock down;
- Steepener shock;
- Flatteners shock;
- Short rates shock up; and
- Short rates shock down.

The Society also calculates the impact of smaller shocks on NII (10bps, 50bps and 100bps) and a PV01 assessment for EVE.

Modelling and parametric assumptions for Δ EVE and Δ NII in Template UK IRRBB1

The EVE sensitivity results below use the following assumptions:

- Cash flows are discounted using the appropriate interest rate curve.
- Commercial margins are not applied.
- The balance sheet is assumed to be in runoff, although pipeline offers and forward starting swaps are included.
- Non-maturing deposits (NMDs) are all assumed to reprice overnight, in line with the Extended approach to IRRBB.
- Equity (reserves) is not included.
- Prepayment and other optionality remain static.
- No mitigating management actions which would be undertaken in the event of a stress are included in the results.

The NII sensitivity results below use the following assumptions:

- Flat balance sheet; maturities are reinvested on a like for like basis.
- Instantaneous shock of +/-200bps held for the full 12 months.
- NMDs are assumed to reprice with a delay to reflect management decision-making and subsequent customer notification of pass-through.
- Floors are applied such that retail savings floor before SONIA / Bank Base Rate.
- Prepayment and other optionality remain static.

Modelling assumptions used in the institution's internal measurement systems (IMS)

For IMS the Society includes equity in allocated time buckets for the EVE sensitivity shocks. This captures a key element of risk management whereby volatility in earnings is mitigated by offsetting equity against fixed assets. The impact is reduced EVE sensitivity.

The Society also considers the impact of an NII shock over 24 and 36 months, in order to better assess the impact on the duration of the existing book.

Hedging and accounting treatment for IRRBB

IRRBB is hedged through matching and offsetting fixed rate assets and liabilities of the same duration and the use of derivatives where appropriate.

General Reserves, which are non-interest bearing and have no set maturity date, are also offset against assets to minimise earnings volatility.

Derivative financial instruments, including interest rate swaps, are held at fair value, which changes when market interest rates change; and this change is reflected in the income statement. However, most of the mortgages that are used to hedge are held at amortised cost and thus their value on the Society's balance sheet does not change in line with market interest rates.

The Society applies fair value hedge accounting to address this mismatch. Fair value hedge accounting allows to post an adjustment for the value change in the hedged risk; and the movement of this adjustment is reflected in the income statement. If the hedge is effective, the adjustment in relation to swaps' fair value change and the hedged risks' fair value change net off. The Society makes use of two different types of fair value accounting hedges: The hedged instrument in a micro hedge is a specific mortgage contract or a specific group of such contracts. The hedged instrument in a macro hedge is a defined portion of a mortgage or savings portfolio, but this portion is re-designated on a regular basis to reflect changes in the hedged portfolio, such as mortgage prepayments or new mortgage contracts.

The Society enters into derivative contracts for hedging purposes only. However, not all interest rate swaps may be designated in accounting hedge relationships. This could be the case if the hedged instrument is held at fair value and there is therefore no mismatch to be addressed by hedge accounting, or if the restrictive accounting rules do not allow for a hedge to be designated or make it impractical to do so.

Where interest rate swaps have been traded to hedge the mortgage pipeline, fair value hedge accounting is not applicable as the mortgage balances are not on balance sheet. In this case the derivatives are placed into a cash flow hedge relationship with highly probable forecast floating rate liabilities. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The cash flow hedge reserve is adjusted to the lesser of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception of the hedge. Any remaining gain or loss on the hedging instrument is recognised in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Additional information

The most severe EVE shock is the parallel shock up, with a reduction in market value of £11.7m. This is 5% of Tier 1 capital, which is within the Supervisory Outlier Test regulatory threshold of 15%.

The majority of this is driven by the structural hedging of the Society's general reserves (which is excluded from the EVE results below). The Society maintains

this structural hedge to manage interest income volatility and to protect against margin compression as rates fall. The remainder of the reduction is due to timing differences of hedging fixed rate mortgages and savings at a tranche level.

Conversely, the biggest reduction in NII comes from a parallel shock down. This is driven by basis risk positions and timing differences in rate pass-on to administered rates vs external market indices. Also, in an extreme fall in rates, floors on retail savings will create margin compression.

Template UK IRRBB1 – Quantitative information on IRRBB

	In reporting currency	a	b	c	d	e	f
		ΔEVE		ΔNII		Tier 1 capital	
		T	T-1	T	T-1	T	T-1
	Period	£m	£m	£m	£m	£m	£m
010	Parallel shock up	(11.7)	(14.7)	3.6	3.3		
020	Parallel shock down	10.0	13.1	(3.7)	(3.3)		
030	Steepener shock	2.4	2.6				
040	Flattener shock	(5.1)	(5.8)				
050	Short rates shock up	(7.8)	(9.5)				
060	Short rates shock down	8.4	10.2				
070	Maximum	(11.7)	(14.7)	(3.7)	(3.3)		
080	Tier 1 capital					225.9	225.9

The average repricing maturity assigned to non-maturing deposits is one month. The longest repricing maturity assigned to NMDs is one month. Tier 1 capital figures updated twice per year for IRRBB calculations.

15. Remuneration

The following commentary details the Group's approach to Remuneration, set out in accordance with Table UK REMA.

The Remuneration Committee (RemCo)

The Remuneration Committee is a committee of the Board and is responsible for the overall governance of remuneration and ensuring that our approach to remuneration supports a high performance culture, is focussed on our customers' needs and is compliant with the FCA's Remuneration Code.

The Remuneration Committee comprises three Non-Executive Directors:-

Anne Shiels	Non-Executive Director (Chair)
Bryce Glover	Non-Executive Director and Chair of Group Risk Committee
Mick Thompson	Non-Executive Director and Chair of Audit Committee

The Chair of the Board, Chief Executive and Chief People Officer (except for items relating to their own remuneration) also attend meetings but are not members of the Committee.

The Committee met eight times during 2022. The terms of reference state that the meeting should be held no less than 3 times per year.

External advice

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

Scope of Remuneration Policy

This policy sets out and covers all forms of remuneration and rewards currently utilised by the Group.

Code colleagues

The Society identifies colleagues whose professional activities have a material impact on the institution's risk profile; also identified as Code colleagues.

Remuneration Code Colleagues are

Senior Managers Regime (SMR)

- Chief Executive
- Chief Financial Officer
- Chief Customer Officer
- Chief Information Officer
- Chief People Officer
- Chief Risk Officer
- Chief Transformation Officer
- Managing Director of NSSL
- Managing Director of NFAL

Some senior colleagues within the following Control Functions are also listed as code colleagues

- Balance Sheet Management
- Compliance
- Customer Outcomes
- Internal Audit
- IT Services
- Product Development
- Risk
- Treasury
- Underwriting

The following have been purposely omitted from the above list for the stated reasons

- Non-Executive Directors (NEDs) – although some NED roles fall under the Senior Managers Regime, their remuneration is in relation to their base fee and fees for the committees on which they sit. Variable remuneration is not operated for NEDs;
- Treasury Dealers – due to the dealing mandates and controls in operation;
- Mortgage Underwriters – due to the mandates set by the Lending Policy and controls in operation; and
- Business Leaders (other than those listed), as all ‘risk related’ decisions lie with the Executive Directors and the Executive Committee.

Key features and objectives of the Remuneration Policy

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

The Remuneration Policy is designed to promote appropriate behaviours of all colleagues and to ensure that all operate with customers’ best interests at heart and within the Group’s risk appetite.

The policy is also designed to ensure that the Society and its subsidiary companies comply with the Financial Conduct Authority and Prudential Regulation Authority (PRA) Remuneration Code (‘the Code’).

The Society operates in a highly regulated environment and therefore the Remuneration Policy must promote:

- compliance with all relevant regulations;
- sound and effective risk management;
- our financial strength;
- the long term interests of members, shareholders and stakeholders including our colleagues; and
- a culture of “treating customers fairly”.

Remuneration and risk adjustment

In order to help manage risk and allow scope for appropriate risk adjustments, Executive bonus schemes are deferred into future years. As an example, in the 2021 bonus year, 50% of the payment was paid in February 2022, with the remaining 50% deferred over two years to be split equally across 2023 and 2024. These deferred payments are subject to Remuneration Committee discretion and consideration is made of risk issues, in particular whether any risk adjustment should apply following advice received from the Chief Risk Officer. Any such decision would be made by RemCo following advice from the Chief Executive Officer.

The Executive Bonus Scheme combines financial and non-financial metrics which are used to measure performance against agreed targets.

The variable remuneration schemes for colleagues below Executive level are not subject to any deferrals, however RemCo approves the design of these schemes, ensuring that an appropriate level of Risk is taken into account and will approve all payments before they are made.

Review of Remuneration Policy and updates

The Remuneration Policy is reviewed and approved annually, most recently in September 2022. Changes implemented at the most recent review are:

- reference to the PRA Rulebook included as Newcastle Building Society is dual-regulated;
- updated death in service benefit to reflect all colleagues now qualify for 4 times salary;
- enhanced the malus and clawback clarification to align with Credit Regulation Directive (CRD)
- adoption of 4-year deferral period; and
- broadening scope of code staff definition to recognise the PRA's criteria.

Internal control functions colleagues and remuneration

Key control functions report into the Chief Executive Officer or the Chief Risk Officer to ensure their independence. They also have direct access to/attend Board committees such as Audit Committee and Group Risk Committee which supports them having the appropriate authorities to undertake their functions.

Remuneration of key control functions is independent of financial performance and is monitored by RemCo.

Policies and criteria applied for guaranteed variable remuneration and severance payments

There are no guaranteed variable remuneration schemes operating in the Society, all are subject to approval by RemCo each year.

The Group's severance payments comprise statutory redundancy pay and an enhanced element of redundancy pay based on weeks per year of service, with a minimum floor attached. This is dictated and described in the Job Security/Redundancy Policy.

Risks and the remuneration process

The Remuneration Policy is written with significant consideration to the Society's risk appetite and policies and the Group Risk function is responsible for oversight and challenge in the development of the reward and remuneration strategy.

There are three main risks around remuneration:

Risk	Description
The risk that the Group's remuneration structure incentivises colleagues to act maliciously, unlawfully or irresponsibly.	<p>The main risk around remuneration is that the Group inadvertently incentivises poor or unlawful behaviour. The Group intentionally does not separately incentivise mortgage sales team based on targets, commission or sales volumes. Instead, they are part of the standard colleague bonus scheme.</p> <p>Business Performance does not count towards the bonus of control function colleagues, thereby removing the risk that colleagues could influence policy or risk appetite in order to ensure remuneration targets are met.</p>
The risk that the Group does not pay an adequate salary to remain competitive in the market, thereby losing in-house talent and/or being unable to attract new people to the business.	All roles are benchmarked annually against the market rate for each role, to ensure that the Group is paying in line with competitors. Should markets move significantly between the benchmarking exercises and if there is a significant need to amend ranges for a role, this can be approved outside the annual cycle by the Executive Committee and in line with the Group's Scheme of Delegated Authorities.

Risk	Description
The risk that internal process for remuneration is not equitable, leading to disengagement and ill-feeling amongst colleagues.	The Performance Related Pay structure is designed to ensure that colleagues' salary will ultimately stay in line with market moves, however the model has safeguards in place to ensure that colleagues with the same performance grades do not overtake each other due to differences in their place in band. This ensures that equity is maintained, along with the fact that all colleagues are subject to the same process (exception being Executives).

Ratio between fixed and variable remuneration

Any variable remuneration that exceeds 30% of Total Remuneration is subject to additional scrutiny. Monitoring reports are submitted to RemCo.

Remuneration and Performance

Executive pay increases are set annually by the Chief Executive Officer with approval from RemCo. They take into account market benchmarking data for the role, along with the performance of the individual during the previous performance year.

Colleagues below Executive level are subject to the Society's Performance Related Pay scheme. Salary bands are moved each year following approval from RemCo. Willis Towers Watson are engaged annually to provide an opinion, based on their research and observations, on the expectations for a percentage salary increase in our sector, this is then used to inform the salary increase.

Once the bands have been moved, colleagues are then assessed based on their full year performance rating and their position within these updated bands, which gives them a percentage salary increase for the next year. The system is designed to increase colleagues' salaries faster where they are paid below market and slow the increases of people paid above market – the intention being to bring everyone in line with (as closely as possible) the market rate for that particular role.

The Society also undertakes a benchmarking exercise each year when the annual salary benchmarking data is released by Willis Towers Watson. This matches all internal job roles to the market rate for that particular role and any needed amends are made to roles for which the market rate has moved significantly (this would involve moving that role on to a more appropriate salary scale, for example).

The annual pay increases are made in April each year for colleagues who have been in their role longer than 3 months at the point of the annual performance review (6 months for colleagues who are new to the Society). If a colleague has been in the role for less time, their pay increase will be deferred to the following October and will be based on their half year rating. This is to allow for fair and adequate assessment of performance.

Newcastle Financial Advisers Limited (NFAL) operates a separate variable remuneration scheme, which is developed annually by the Managing Director of NFAL, approved by the Openwork Partnership giving regulatory responsibility and then is ultimately approved by RemCo.

Remuneration and long-term performance

Due to the nature of the Group's business, there is no long-term incentive plan (LTIP) or share scheme. The Society is based on a one-member, one vote approach meaning that no one currently receives shares or equity as part of any remuneration.

As mentioned above, the Executive bonus scheme has worked on a deferral basis in previous years.

Variable components scheme and other non-cash benefits

In addition to the variable remuneration schemes outlined above, the Society offers the following non-cash benefits. These are provided to all colleagues in the Society unless noted otherwise:

- private medical insurance (management grade and above);
- healthcare cash plan;
- employee assistance programme;
- partnered local discount scheme;
- online discount portal provided by BenefitHub; and
- Christmas Shopping Vouchers.

Requests for information

The Society shall share the total remuneration for each member of executive management or senior management upon request from a relevant authority.

Derogations

There are no benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) Article 450(1) CRR.

Template UK REM1 – Remuneration awarded for the financial year

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
			£000's			
1	Fixed remuneration	Number of identified staff	9	3	6	10
2		Total fixed remuneration	567	1,125	1,103	1,057
3		Of which: cash-based	567	1,125	1,103	1,057
4		(Not applicable in the UK)				
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the UK)				
7		Of which: other forms	-	-	-	-
8		(Not applicable in the UK)				
9	Variable remuneration	Number of identified staff	9	3	6	10
10		Total variable remuneration	-	482	315	261
11		Of which: cash-based	-	482	315	261
12		Of which: deferred	-	241	148	-
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-14b		Of which: deferred	-	-	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)		567	1,607	1,418	1,318

Template UK REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

This template has been omitted from this set of disclosures as there have been no special payments to staff whose professional activities have a material impact on the institutions' risk profile.

Template UK REM3 – Deferred remuneration

Deferred and retained remuneration		a	b	c	d	e	f	UK - g	UK - h
		Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
1	MB Supervisory function	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	MB Management function	185	92	93	-	-	-	261	-
8	Cash-based	185	92	93	-	-	-	261	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	Other senior management	156	78	78	-	-	-	183	-
14	Cash-based	156	78	78	-	-	-	183	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-

Pillar 3 Disclosures

31 December 2022

19	Other identified staff	-	-	-	-	-	-	-	-
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	Total amount	341	170	171	-	-	-	444	-

Template UK REM4 - Remuneration of 1 million EUR or more per year

This template has been omitted from this set of disclosures as there are no identified staff earning above 1 million EUR per year.

Template UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions’ risk profile (identified staff)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										28
2	Of which: members of the MB	9	3	12							
3	Of which: other senior management				-	2	-	3	1	-	
4	Of which: other identified staff				-	3	-	4	3	-	
		£000's									
5	Total remuneration of identified staff	567	1,607	2,174	-	725	-	1,223	788	-	
6	Of which: variable remuneration	-	482	482	-	93	-	302	181	-	
7	Of which: fixed remuneration	567	1,125	1,692	-	632	-	921	607	-	

Glossary of Terms

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

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

Central Clearing Counterparty (CCP) – Defined by the Bank of England as financial market infrastructures that can reduce and mutualise counterparty credit risk in the markets in which they operate.

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

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

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

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

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

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

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

Tier 1 Capital – Tier 1 capital is divided into Common Equity Tier 1 and Additional Tier 1 capital. Common Equity Tier 1 capital is defined above. Additional Tier 1 capital includes certain qualifying instruments. The Society does not currently hold any such instruments.

Tier 2 Capital – Comprises the Group's collective impairment allowance and Permanent Interest Bearing Shares (PIBS) under Basel III rules.