Connecting our communities with a better financial future

Newcastle Building Society Group
Half-Yearly Financial Information 2023

Newcastle Building Society

Performance Highlights

£17.8m
(HY 2022: £13.9m)
Operating profit before impairments

£15.0m
(HY 2022: £14.2m)
Underlying operating profit

£16.2m
(HY 2022: £14.2m)
Profit before tax

£4.7bn
(YE 2022: £4.2bn)
Savings balance

12.4%
(YE 2022: 12.5%)
Common Equity Tier 1

1,630+
(YE 2022: 1,450+)
Colleagues

£660m
(HY 2022: £448m)
Gross residential lending

1st July
Merged with Manchester Building Society

95%
(YE 2022: 95%)
Overall customer satisfaction

650+
(HY 2022: 300+)
Colleague volunteering days

+63
(YE 2022: +58)
Colleague engagement score

Chief Executive's Review

> "In a challenging period, the Society has performed well and continued to deliver for Members and our communities. Our growing business remains resilient and we have demonstrated the positive difference we can make for all our stakeholders. Despite the uncertain economic outlook, we are well positioned to meet our further growth ambitions and look forward to continued progress in the second half of the year."

Andrew Haigh | Chief Executive

Chief Executive's Review

Stubborn inflation and the rising cost of living present ongoing and difficult challenges for our customers, communities and the wider North East region, whilst the unpredictability of wider market conditions continues to create a complex trading environment.

We believe that during these difficult times, the potential difference we can make as a customer-owned, purpose-led, community focused business is more significant than ever. Our response as the North East's biggest building society has been to find ways to better serve our Members through value, quality, consistency and choice, and to support all customers wherever we can, taking into account individual circumstances, whilst offering additional help for those in need.

During such a difficult period, I am proud that by continuing to make a positive impact in the communities we serve, offering consistently good value for borrowers and savers, and attracting new Members to the Society, we've been able to deliver another robust set of results, with continued growth through the first half of the year, all whilst being present in and actively contributing to our communities.

Performance

I am pleased to announce that even against the troubled economic backdrop, the Society's strong performance in the first half of 2023, continues to demonstrate our resilience and core strength of the underlying operating model.

The underlying financial performance remains strong with increased profitability. Group profit before tax was £16.2m for the period ended 30 June 2023, compared to £14.2m for the period ended 30 June 2022. In addition to these strong financial results, we continue to operate with appropriate levels of capital and liquidity. Please see the business review section for further details of our half yearly financial performance.

Key highlights for the six months to 30 June 2023 include:

- Profit before taxation of £16.2m (Half year 2022: £14.2m);
- Underlying operating profit of £15.0m (Half year 2022: £14.2m), see the business review for further information;
- Good value for savers, increasing rates on our variable rate savings book on five different occasions during the first half of the year, offering an average savings rate of 2.49% across the first five months of the year which is 0.62% higher than the market average, equating to £11m more interest for our Members [source: CACI];
- Grown our savings balances by £458m from £4.2bn at December 2022 to £4.7bn at 30 June 2023;
- Good value for borrowers, with a Standard Variable Rate (SVR) for mortgages at the end of June of 5.19% against a market average of 7.63%, saving our Members almost £336k in interest payments for the month alone;
- Gross mortgage lending was £660m (Half year 2022: £448m), and net core residential lending of £408m (Half year 2022: £181m);
- Maintained the highest levels of customer service, with customer satisfaction scores of 95% (Half year 2022: 95%);
- Continued to offer all Members additional support through Helping Hand, a unique service delivered with Citizens Advice Gateshead helping customers address a range of problems and access quick advice and support;
- Announced support for the Mortgage Charter, which introduces extra measures of support for those experiencing mortgage payment difficulties;
- Gained approval for the merger with Manchester Building Society by way of a transfer of Manchester's engagements to Newcastle with the merger taking effect on July 1st.
- Donated £179,000 to the Newcastle Building Society Community Fund at the Community Foundation to support ongoing donations to charities across the region. Grants were made from the Fund to 27 charities tackling issues in debt management, employability, food poverty, and the environment;
- Supported our communities with more than 650 days of colleague volunteering, helping a range of good causes;
- Created nearly 150 new jobs, supporting the region through new and high quality employment opportunities; and
- Engaged with over 350 members at our listening events across the region, and grew our Connected Communities network to more than 700.

Powered by Purpose - Supporting Members

Our Purpose, 'Connecting our communities with a better financial future', continues to be at the heart of all that we do, guiding our organisation and shaping our decision-making. The alignment between the delivery of purpose for our principal stakeholders, our Members, and the successful delivery of our business model has led us to say that the Society is 'Powered by Purpose'.

The many challenges in recent months of rising cost of living, increasing interest rates for borrowers, continued uncertainty at a global level from the impact of issues such as the war in Ukraine and climate change have emphasised still further our responsibility to our Members, our communities, and our wider stakeholders.

We have experienced multiple increases in bank base rate in the first half of 2023, which in turn has led markets to respond, driving rapid increases in fixed rate mortgage pricing and an upward trend in variable rate savings and mortgages. We are mindful of the need to find a fair, equitable and consistent approach in balancing increases in variable savings and variable mortgage rates, for all of our customers, including those who may have closed products or relatively low balances. We have therefore continued to increase the rates applied to all our savings products, not just our headline rates.

We continue to offer good value to borrowers. Our Standard Variable Rate (SVR) for mortgages at the end of June of 5.19% against a market average of 7.63%, saving our Members almost £336k in interest payments for the month alone.

We continue to encourage savers and promote positive savings habits through good value and high quality service. In the first five months of 2023, we paid an average savings rate 0.62% higher than the market average equating to £11m more interest for our Members.

Our subsidiary Newcastle Strategic Solutions, which manages savings accounts for providers across the UK, plays an important role in providing essential capital for the wider Society through the profits it generates. It remains one of the region's leading fintech businesses and has played a pivotal role in bringing new savings banks to market and supporting their continued growth.

The Solutions business has had another extremely busy period helping clients respond to the rapidly evolving market conditions, with focus continuing to be on new product offerings and swifter routes to market. Funds under management have grown by 4.9% over the first 6 months of the year as clients and their customers look to take opportunities to grow their savings books following the Bank of England rate changes.

As a reflection of the continuing success of the business, it is encouraging to report that Solutions has signed a new 5 year contract renewal with one of its key clients and expects to announce similar renewals through the second half of the year. The business has a healthy pipeline of new clients with strong interest in its services from a variety of noteworthy prospects.

As a Member-owned organisation, increasing Member value drives our plans and growth ambitions. A vital part of that planning is shaped by Members and I'd like to acknowledge and thank everyone who takes time to engage with the Society, whether through surveys, customer feedback or attendance at events.

This feedback includes participation in our satisfaction surveys, and I'm pleased to report that customer satisfaction remains high at 95% (2022: 95%). For the seventh consecutive year we were thrilled to be named Best Regional Building Society at the What Mortgage Awards, as voted for by What Mortgage readers. This level of consistent recognition reflects the commitment to customer service demonstrated at all levels of the organisation.

The input and encouragement we receive is critical in understanding how we continue to shape the strategy for the benefit of Members in a way that accurately reflects the views and needs of our communities.

I was delighted by the interest in the series of Member engagement events we hosted during the Spring, and grateful that more than 350 Members took the time to join us to share their passion for the Society and provide valuable insight as we aim to deliver on our Purpose.

Our 'Connected Communities' Member discussion portal continues to help provide meaningful feedback, including insight on savings habits, product needs, customer understanding and help in shaping our Diversity, Equity and Inclusion strategy. The community is now 700 members strong and we celebrated its second birthday by donating £2 on behalf of each member to food poverty charities.

Given the ongoing impact of inflation, energy bills and rising living costs, one way we provide support to all Members is through our continued partnership with Citizens Advice Gateshead. The Helping Hand service provides free, independent and rapid access to advice and information on a wide range of topics and issues, as well as emergency financial support for those struggling with the cost of living.

For mortgage customers coming to the end of a fixed rate period, the increase in interest rates can be a cause of great concern. We always encourage customers who are worried about their mortgage payments to speak to us as soon as possible to discuss the tailored support we can provide. We were also amongst the first group of lenders to sign up to the Government's Mortgage Charter, which provides an additional layer of support and reassurance for people concerned about their mortgage repayment.

We continue to invest in the Society, bringing new capability and growing our colleague cohort. Following completion of the legal and regulatory processes, the merger with Manchester Building Society was confirmed with a completion date of July 1st, which means the accounts of Manchester Building Society are not consolidated into these financial statements but will be included in our full year reporting.

We see the coming together as an opportunity to explore how we might breathe new life into the Manchester Building Society brand. We will be inviting Members who were Manchester Building Society savers and borrowers to tell us about what will be important to them as we consider any plans for the future of the Manchester Building Society brand in Greater Manchester and the wider North West region.

Accessible financial services

The growing pressure on household budgets also increases the importance of accessible face-to-face financial services, support, and advice in our communities. At a time when the use of cash has been growing and people need the quick support and reassurance that can only be achieved by visiting a branch, it is concerning to see that banks continue to announce branch closures.

Our commitment to our high streets and the provision of face-to-face financial services has not waivered and we're leading innovation in branches through our programme of co-location and our continued pilot with OneBanx, trialing their multi-bank kiosk in two of our locations.

The trend for bank branch closures shows little sign of reversing and continues to damage communities across the UK. Members have made clear to me how much they value the provision of accessible in-person financial services and how much they want their branch to stay.

I'm always happy to reassure Members that our branch network will remain open for business and remind customers of the investment we're making to create a modern and sustainable network, which includes plans to enhance and expand our branch presence.

Providing accessible financial services is not just about maintaining our presence on high streets and in our communities. It's vital that we continue to explore news way to improve the digital experience and make dealing with us as inclusive as possible, giving Members a choice how to manage their money. Earlier this year we improved the accessibility of our website by adding a range of tools, including on-screen reading aids, customisable styling, as well as live translation and interpreting features.

The enhancement of the user experience was also top of the agenda when we proudly hosted a TechNExt fringe event at our Cobalt Head Office. Supported by Newcastle Strategic Solutions, TechNExt is a new event on the North East tech and digital calendar, providing new opportunities for regional collaboration within this growing sector.

Our involvement helps ensure that we remain at the forefront of fintech innovation for the benefit of our clients and their customers.

In a period of such economic uncertainty, continuing to provide access to personalised financial advice remains vitally important, especially considering the potential implications around the Personal Savings Allowance, Personal Tax Allowances and the Inheritance Tax threshold.

Our financial advice subsidiary, Newcastle Financial Advisers Limited (NFAL), which provides regulated financial advice across our communities and locations has continued to deliver strong performance and customer advocacy over the course of the first half of 2023.

The need and demand for accessible advice, both face to face and where required via video, remains strong with over 3,400 customer advice appointments delivered over the first half of the year and over £54m invested on behalf of our customers. The team again achieved Top Rated firm status from VouchedFor, the UK's leading review site for financial advisers, for the second year in succession. We have now received over 1,700 feedback reviews with an overall rating of 4.8/5. Achieving this recognition requires excellent customer feedback by continuing to deliver on our purpose and commitments, and providing real value and benefit to our customers.

Our role in the region

We see part of our role in the region as providing direct help for the issues many people face today, such as food poverty, homelessness, and debt management, whilst helping to find longer-term answers to the social and economic health of the region. We can play our part through the creation of employment opportunities and by helping to address the skills gap that exists between those looking for work and the requirement of employers, especially those recruiting more specialised roles. As that skills gap grows, so do challenges around unemployment, child poverty and food insecurity, and it is an issue of utmost importance that employers and education providers must work together to address.

One of the ways we aim to promote social mobility and accelerate under-utilised talent in the region is through our skills partnerships with Newcastle United Foundation and The Prince's Trust. Through these relationships we're able to unlock employment opportunities for young people from a range of backgrounds and our Early Talent programme continues to make good progress on our ambitions to fill 50% of new entry level roles through apprenticeships by 2025.

We continue to work with Walking With The Wounded, exploring opportunities to help veterans and their families access employment and career development opportunities.

In addition to employability, the grant-giving programme from the Newcastle Building Society Community Fund at the Community Foundation continues to focus support on the key themes of food poverty, debt management, homelessness, and the environment.

These are areas where we feel funding will have the greatest impact in our communities and in March we announced record support for local charities with the largest ever single allocation of small grants from the Newcastle Building Society Community Fund. In all, 27 charities received a total of £91,931. We donated £179,000 to the Community Foundation to support the ongoing programme of grant making from the Newcastle Building Society Community Fund.

We also supported those impacted by the tragic earthquakes in Syria and Turkey, with a donation of £20,000 to the Disasters Emergency Committee, helping to provide urgent aid to DEC charities.

Another way we support our communities is through colleague volunteering and it has been rewarding to see the variety of volunteering opportunities that colleagues have undertaken so far this year. Since January, more than 650 days have been spent volunteering, including conservation, sports coaching, fundraising, and trusteeships.

In the first half of 2023, we continued to work on actions aligned with our climate ambitions and targets, so that we can make the biggest impact for our Members whilst improving the carbon footprint of our business. One of our early successes has been the creation of a Carbon Literacy Programme, which is designed to upskill and educate colleagues so that critical business areas have a clearer understanding of types of changes they can make to contribute to the bigger goals.

Six colleagues have completed Carbon Literacy training and are now accredited trainers, and we plan to roll out training over the coming months to more colleagues. Our Internal Environment Taskforce has grown in numbers over the last six months, focused on driving operational change. In June we hosted our first Earth Week, a week-long series of activities for colleagues to increase awareness and knowledge around the impact that climate change has both globally and from a personal perspective.

Although our Cobalt Head Office is powered by 100% hydro renewable electricity, we are actively exploring additional options to further reduce our carbon footprint, such as switching our fleet of vehicles to electric, and how we can continue to improve the energy efficiency of our working environments.

A great place to work

As the organisation continues to grow, so does our investment in colleagues and the colleague experience as we aim to make the Society a great place to work. Since the start of 2023, the total number of colleagues has increased from just under 1,500 to over 1,630. A further 44 colleagues joined from Manchester following the merger on July 1st.

With such growth in colleague numbers, we were pleased to receive re-accreditation as Investors in People Platinum, which demonstrates our investment in colleagues and their opportunities to develop meaningful careers. The Society is one of a handful of employers with Platinum status, which has only been awarded to the top 6% of firms assessed under the scheme and was first received by the Society in 2020.

In February we joined nearly 1,000 other employers in the UK by signing up to the Race at Work Charter, which makes visible our commitment to improve equal opportunities for people from ethnically diverse backgrounds. This follows our decision in 2020 to adopt the Women in Finance Charter, which has already helped deliver positive impact across our business. In March we marked International Women's Day with a series of events through our Women in Leadership Network, helping to recognise the progress we've made and highlighting our plans and ambitions to do much more.

Another colleague-led network which has helped the organisation move forward this year is the LGBTQ+ Network, supporting colleagues and helping to create an inclusive work environment. This includes our biggest-ever programme of activity in celebration of Pride.

In addition to helping Members, the Helping Hand service delivered by Citizens Advice Gateshead is also available for colleagues who need additional support, and we're a proud real Living Wage employer. Our employee net promoter score (eNPS) which measures how likely our colleagues are to recommend the Society as a place to work has increased from +58 at the end of 2022 to +63 at the end of June 2023, putting us in the top 5% of the finance sector of our provider's client database.

Summary

In a challenging period, the Society has performed well and continued to deliver for Members and our communities. Our growing business remains resilient and we have demonstrated the positive difference we can make for all our stakeholders. Despite the uncertain economic outlook, we are well positioned to meet our further growth ambitions and look forward to continued progress in the second half of the year.

Finally, I'd like to thank Members for their ongoing input and encouragement, as well as each and every colleague for their hard work and continued commitment to the Group and the delivery of our Purpose.

Andrew Haigh | Chief Executive
1 August 2023

Business review

Our financial performance

Newcastle Building Society is the largest building society based in the North East of England with assets of £5.9 billion (2022: £5.3 billion). Profitability is one of the key performance measures the Board monitors closely. The Society seeks to make sufficient profit in order to invest in and grow the business for the benefit of its current and future Members.

Summary Group Income Statement	Unaudited 6 months to 30 Jun 23 £m	Unaudited 6 months to 30 Jun 22 £m	Audited 12 months to 31 Dec 22 £m
Net interest income	40.1	35.4	75.4
Other income and charges	25.0	21.9	45.4
Fair value gains less losses	3.2	(3.4)	(1.1)
Total operating income	68.3	53.9	119.7
Administration expenses and depreciation	(50.5)	(40.0)	(89.2)
Operating profit before impairments and provisions	17.8	13.9	30.5
Impairments and provisions (charges) / reversals	(1.6)	0.3	1.2
Profit before taxation	**16.2**	**14.2**	**31.7**

The Group's 2023 half yearly financial results demonstrate the core strength of the Group's underlying operating model. Group profit before taxation was £16.2m for the six months ended 30 June 2023 compared to £14.2m for the first half of 2022.

Operating profit before impairment and provisions is considered an important reflection of the operating strength of the Group's business and increased by £3.9m to £17.8m from £13.9m at half year 2022.

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

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

Underlying Operating Profit	30 Jun 23 £m	30 Jun 22 £m	31 Dec 22 £m
Operating profit before impairment and provisions	17.8	13.9	30.5
(Gains) / loss in fair value of equity release mortgages	(3.0)	0.5	2.2
Hedge ineffectiveness on accounting hedges	0.3	(2.1)	(8.8)
Revaluation of investments	(0.1)	2.0	2.1
Gains crystallised on sale of assets	-	(0.1)	(0.1)
Transactional costs	1.1	-	0.8
Gains on loan modifications	(1.1)	-	-
Underlying operating profit	**15.0**	**14.2**	**26.7**

Underlying operating profit before impairment and provisions for the six months to 30 June 2023 was £15.0m (30 June 2022: £14.2m, 31 December 2022 £26.7m), a reduction of £2.8m to reported operating profit before impairment and provisions (30 June 2022: increase of £0.3m). The key non-underlying adjustments in the half year include the gains in the fair value of the equity release mortgage book of £3.0m (Half year 2022: loss of £0.5m), gains on loan modifications of £1.1m (Half year 2022: £nil) and £1.1m in merger related transactions costs (Half year 2022: £nil).

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

Net interest income

Net interest income was £40.1m (Half year 2022: £35.4m, 31 December 2022: £75.4m) and our net interest margin remained unchanged at 1.45% at 30 June 2023 (30 June 2022: 1.45% and 31 December 2022: 1.48%). The increase in net interest income was thus driven by the growth of the Society's lending book.

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

Interest rate swaps are held at fair value and therefore the value of the swap changes when market interest rates move. As a result of changing interest rates, net derivative values of the interest rate swaps have increased by £48.4m in the 6 months period to June 2023. This was largely offset by reductions in the Society's hedge adjustments and the value of mortgages held at fair value, resulting in a net gain of £2.7m. Additional information on derivative and fair value movements is provided in notes 10 and 11 to the financial information.

Other income and charges

Other income and charges, which includes income from Newcastle Strategic Solutions and Newcastle Financial Advisers, were £25.0m for the six months ended 30 June 2023 compared to £21.9m for the first half of 2022. Newcastle Strategic Solutions continued to see growth in its underlying business in the first half of 2023 as balances under management continue to increase and existing clients are adding new services to their savings proposition. Newcastle Financial Advisers delivered a strong performance over the first half of the year with regulated sales and funds invested both outperforming original targets.

Administration expenses and depreciation

Administration expenses and depreciation increased by £10.5m from £40.0m in half year 2022 to £50.5m at the end of June 2023. Both increases related to the investment in colleagues and IT infrastructure and are in line with expectations.
The Board considers the cost to income ratio to be a simple measure of financial progress against internal targets and the return achieved on investment in the business. Our cost to income ratio reduced to 73.9% for the half year to June 2023 (30 June 2022: 74.2%, 31 December 2022: 75.0%).

Impairments and provisions

Impairment charges on loans and advances to customers were £1.1m for the half year to June 2023 (30 June 2022: write-back of £0.5m, 31 December 2022: write-back of £1.6m). During 2023, we have seen further commercial redemptions which have reduced provisions in respect to our legacy books by £0.7m since December 2022. Provisions against residential and buy to let mortgages have increased in 2023 as a result of the macro economic environment. The fall in UK house prices and the on-going cost of living pressure in the UK are key drivers in the increase in provisions on residential and buy to let mortgages of £1.5m during the 6 months to June 2023, alongside the growth of the mortgage book. The write-back in 2022 relates primarily to the legacy book following continuation of our strategy to wind down the book whilst provisions on residential and buy to let mortgages remained flat. Other provisions increased by £0.5m (30 June 2022: £0.2m, 31 December 2022: £0.4m) during the period.

Balance Sheet

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

Summary Balance sheet	Unaudited 30 Jun 23 £m	Unaudited 30 Jun 22 £m	Audited 31 Dec 22 £m
Assets			
Liquid assets	1,144.1	950.9	959.7
Derivatives and hedged risk adjustments	43.9	53.3	29.5
Loans and advances to customers	4,619.5	3,870.5	4,259.5
Other assets	63.0	64.3	63.8
Total assets	**5,870.5**	**4,939.0**	**5,312.5**
Liabilities			
Shares	4,678.8	3,908.6	4,220.8
Deposits and debt securities	846.2	665.0	752.9
Derivatives and hedged risk adjustments	42.0	91.0	52.8
Other liabilities	16.8	18.8	20.1
Capital and reserves	286.7	255.6	265.9
Total liabilities and equity	**5,870.5**	**4,939.0**	**5,312.5**

Liquid assets

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

Liquid assets as a percentage of Shares, Deposits and Liabilities at 30 June 2023 were 20.7% (30 Jun 2022: 20.8%, 31 December 2022: 19.3%). This is in excess of the Society's minimum operating level.

The Liquidity Coverage Ratio (LCR) measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30 day stress period. The LCR at 30 June 2023 was 191% (30 Jun 2022: 222%, 31 December 2022: 189%), comfortably in excess of the minimum regulatory limit of 100%.

Shares, deposits and debt securities

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

Retail savings balances increased by £458m during the first half of 2023 to £4.7bn (31 December 2022: £4.2bn). Wholesale funding, including drawdown on Bank of England Funding Schemes, increased by £93m during the first half of the year to £846m (31 December 2022: £753m).

The ratio of shares and deposits to wholesale balances has moved to 85%/15% at 30 June 2023, from 85%/15% and 83%/17% at December 2022 and June 2022 respectively. Insured deposits (balances that are covered by the Financial Services Compensation Scheme) make up 94% of the Society's retail savings as at 30 June 23 (31 December 2022: 94%).

The Society currently utilises the Bank of England term funding scheme which is due to be repaid in 2024, and the Society has sufficient funding available to replace those funds when they fall due. The scheme makes up 72% (December 2022: 75%) of the wholesale funding mix with the remainder being made up with unsecured wholesale funding and funding collateral.

Loans and advances to customers

The net increase in loans and advances to customers after provisions was £360m for the first half of the year, which includes a £45m reduction in our exposure to the legacy lending book (Half year 2022: £52m), resulting in loans and advances to customers of £4.6bn at 30 June 2023 (31 December 2022: £4.3bn). Gross lending for the first half of the year was £660m (Half year 2022: £448m). The Society's core residential mortgage book grew by £408m during the first half of 2023 (Half year 2022: £181m).

Credit risk

The Group's credit risk in relation to its core residential mortgage portfolios is closely correlated with significant rises in unemployment rates and falls in property values. Provisions against residential exposures are based on the Society's provisioning model that considers a range of economic scenarios. Due to the extremely uncertain economic environment we continue to monitor the situation, in particular in relation to the cost of living and inflation pressures as we have not yet seen any significant change in credit risk outcomes.

The percentage of mortgages in arrears by 3 months or more remain at low levels at 0.37% (0.38%: 30 June 2022 and 0.35%: 31 December 2022). There were no properties in possession at the half year ended 30 June 2023 (30 June 2022 and 31December 2022: Nil).

Capital

Due to continued strong profitability, total capital resource increased from £259.3m to £272.0m in the 6 months to 30 June 2023. In the same period, risk weighted assets increased from £1,910m to £2,034m primarily as a result of strong net lending.

As a result, capital ratios decreased slightly, but remained at a robust level well in excess of regulatory limits. The merger with Manchester Building Society on 1 July 2023 had an overall positive effect on capital ratios.

Total Capital Ratio (Solvency) was 13.4% as at 31 June 2023 (31 December 2022: 13.6%) and Common Equity Tier 1 ratio 12.4% (31 December 2022: 12.5%). The regulatory minimum is 8.0% and 4.5% for Total Capital Ratio and Common Equity Tier 1 Ratio respectively. The Society's Basel III leverage ratio (transitional basis) was 4.3% at 30 June 2023 including central bank exposures and 4.8% excluding central bank exposures (31 December 2022: 4.5% and 4.8% respectively). The PRA expects UK firms to maintain their leverage ratio above 3.25%.

In late 2022, the PRA published draft rules for the UK's Basel 3.1 implementation, which resulted in a significant change in how capital requirements for larger banks and building societies will be determined from 2025 onwards compared to the current framework. Based on preliminary work, the Society's capital requirements would reduce slightly under the Basel 3.1 framework, improving the Society's capital ratios and headroom to regulatory requirements. However, the Society will be in scope of the Strong and Simple framework, a new regulatory framework for smaller firms. The capital rules for Strong and Simple have not yet been published, but are expected to be similar to the Basel 3.1 rules. Based on current regulatory communications, the Society would be able to opt out of the Strong and Simple framework and adopt Basel 3.1 instead if this was considered to be overall advantageous.

Key performance indicators

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

Please refer to the Strategic Report in the 2022 Annual Report and Accounts for further details on our Key Performance Indicators.

Key performance indicators	6 months to 30 Jun 23	6 months to 30 Jun 22	12 months to 31 Dec 22
Financial			
Sustainable business			
Profit before taxation	£16.2m	£14.2m	£31.7m
Operating profit before impairment and provisions	£17.8m	£13.9m	£30.5m
Underlying operating profit	£15.0m	£14.2m	£26.7m
Common Equity Tier 1 ratio	12.4%	13.3%	12.5%
Leverage ratio	4.3%	4.5%	4.5%
Liquidity coverage ratio	191%	222%	189%
Efficiency			
Cost to income ratio	74%	74%	75%
Lending and saving			
Net interest margin	1.45%	1.45%	1.48%
Lending			
Gross mortgage lending	£660m	£448m	£1,137m
Net core residential lending	£408m	£181m	£586m
Savings			
Savings balances	£4,679m	£3,908m	£4,221m
Non-financial measures			
Service quality and customer experience			
Customer satisfaction	95%	96%	95%
Customer engagement score (NPS)	+81	+81	+82
People, leadership and culture			
Colleague turnover	12.9%	16.3%	13.2%
Colleague engagement score (eNPS)	+63	+52	+58

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are detailed below. A more detailed explanation of the risks below and how the Group seeks to mitigate them can be found in the Risk Management report of the 2022 Annual Report and Accounts.

Category	Definition
Capital risk	Capital risk is the risk that the Society is or becomes inadequately capitalised to address the risks to which it is exposed.
Climate change risk (Emerging risk)	Climate change risk recognises 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. The most tangible financial risk to the Group from climate change relates to flooding risk in respect to properties held as securities for mortgage loans, and it has therefore been included in the credit risk section.
Conduct risk	Conduct risk is the risk of customer detriment arising from the Society's activities. It is an operational risk particularly significant to the Society. Examples include products that do not perform as customers expected them to, or products being sold to customers for whom they are not suitable. Conduct risk and operational risk are closely aligned where the operational risk results in customer detriment (e.g. a failure to protect customer data is an operational risk which may result in customer detriment).
Credit risk: residential	Retail borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to unemployment rates, house prices, interest rates and the application of underlying assumptions and data within our credit loss modelling.
Credit risk: commercial	Commercial borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to economic conditions that can impact the viability of tenants and commercial real estate values.
Interest rate risk	Interest rate risk is the risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates. Basis risk is the risk that net interest income falls because of a change in the relationship between two market rates.
Investment credit risk	Wholesale counterparties the Society lends to default, or the value of the investment falls and the Society is obliged to crystallise that fall in value. This risk arises in relation to the treasury investments made by the Group in order to meet liquidity requirements. The risk is sensitive to market volatility and credit spreads (both general credit spreads and name specific credit spreads).
Liquidity risk	Liquidity risk is the risk of loss or failure caused by the Group being unable to meet its liabilities or commitments as they fall due, or only being able to do so at excessive cost.
Macro-economic risk	Macro-economic risk is 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	Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. For the Group this definition includes legal risk, strategic risk and reputational risk.
Pension fund obligation risk	The Group has funding obligations for a defined benefit scheme, which is closed to new entrants. It was closed to future benefit accrual with effect from 30 November 2010. Pension fund obligation risk is the risk that the value of the Scheme's assets, together with any agreed employer contributions, will be insufficient to cover the projected obligations of the Scheme over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates.

Income Statements

Condensed Consolidated Income Statement

	Note	Unaudited 6 months to 30 Jun 23 £m	Unaudited 6 months to 30 Jun 22 £m	Audited 12 months to 31 Dec 22 £m
Interest receivable and similar income	7	108.0	54.4	130.8
Interest payable and similar charges		(67.9)	(19.0)	(55.4)
Net interest income		**40.1**	**35.4**	**75.4**
Other income and charges		25.0	21.9	45.4
Fair value gains less losses on financial instruments and hedge accounting	10	3.2	(3.4)	(1.1)
Total operating income		**68.3**	**53.9**	**119.7**
Administrative expenses		(47.5)	(37.3)	(83.5)
Depreciation and amortisation		(3.0)	(2.7)	(5.7)
Operating profit before impairments and provisions		**17.8**	**13.9**	**30.5**
Impairment (charges) / reversals on loans and advances to customers		(1.1)	0.5	1.6
Impairment charges on tangible and intangible assets		(0.1)	-	(0.3)
Provisions for liabilities and charges		(0.4)	(0.2)	(0.1)
Profit before taxation		**16.2**	**14.2**	**31.7**
Taxation expense	5	(3.9)	(1.7)	(5.7)
Profit after taxation for the financial period		**12.3**	**12.5**	**26.0**

The notes on pages 19 to 32 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Statement of Comprehensive Income

	Unaudited 6 months to 30 Jun 23 £m	Unaudited 6 months to 30 Jun 22 £m	Audited 12 months to 31 Dec 22 £m
Profit for the period	**12.3**	**12.5**	**26.0**
Other comprehensive income / (expense)			
Items that may be reclassified to income statement			
Cash flow hedges			
Fair value movements recognised in equity	10.3	-	(3.7)
Amounts transferred to income statement	0.3	-	0.1
Tax on net amounts recognised in equity	(2.7)	-	0.9
Financial assets measured at fair value through other comprehensive income			
Fair value movements recognised in equity	0.8	(1.3)	(2.1)
Amounts transferred to income statement	-	-	0.1
Income tax on items that may be reclassified to income statement	(0.2)	0.3	0.5
Total items that may be reclassified to income statement	**8.5**	**(1.0)**	**(4.2)**
Total other comprehensive income / (expense)	**8.5**	**(1.0)**	**(4.2)**
Total comprehensive income for the financial period	**20.8**	**11.5**	**21.8**

The notes on pages 19 to 32 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Balance Sheet

	Unaudited 30 Jun 23 £m	Unaudited 30 Jun 22 £m	Audited 31 Dec 22 £m
ASSETS			
Liquid assets	1,144.1	950.9	959.7
Derivative financial instruments	128.6	50.3	90.4
Loans and advances to customers	4,619.5	3,870.5	4,259.5
Fair value adjustments for hedged risk	(84.7)	3.0	(60.9)
Property, plant and equipment	27.9	30.9	29.1
Intangible assets	11.8	8.6	10.2
Other assets	23.3	24.8	24.5
TOTAL ASSETS	**5,870.5**	**4,939.0**	**5,312.5**

	Unaudited 30 Jun 23 £m	Unaudited 30 Jun 22 £m	Audited 31 Dec 22 £m
LIABILITIES AND EQUITY			
Shares	4,678.8	3,908.6	4,220.8
Fair value adjustments for hedged risk	(0.3)	-	0.3
Deposits and debt securities	846.2	665.0	752.9
Derivative financial instruments	42.3	91.0	52.5
Other liabilities	16.8	18.8	20.1
Subscribed capital	20.0	20.0	20.0
Reserves	266.7	235.6	245.9
TOTAL LIABILITIES AND EQUITY	**5,870.5**	**4,939.0**	**5,312.5**

The notes on pages 19 to 32 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Statement of Movement in Members' Interests

For the 6 months ended 30 June 2023 (Unaudited)

	General reserve	Fair Value through Other Comprehensive Income	Cash flow Hedge Reserve	Total
	£m	£m	£m	£m
At 1 January 2023	248.2	0.4	(2.7)	245.9
Reclassification*	0.4	(0.4)	-	-
Profit for the period	12.3	-	-	12.3
Net movement in fair value through other comprehensive income	-	0.6	-	0.6
Net movement in cash flow hedge reserve	-	-	7.9	7.9
At 30 June 2023	260.9	0.6	5.2	266.7

*The reclassification relates to historic tax amounts which have been previously realised in the income statement.

For the 6 months ended 30 June 2022 (Unaudited)

	General reserve	Fair Value through Other Comprehensive Income	Cash flow Hedge Reserve	Total
	£m	£m	£m	£m
At 1 January 2022	222.2	1.9	-	224.1
Profit for the period	12.5	-	-	12.5
Net movement in fair value through other comprehensive income	-	(1.0)	-	(1.0)
Net movement in cash flow hedge reserve	-	-	-	-
At 30 June 2022	234.7	0.9	-	235.6

For the year ended 31 December 2022 (Audited)

	General reserve	Fair Value through Other Comprehensive Income	Cash flow Hedge Reserve	Total
	£m	£m	£m	£m
At 1 January 2022	222.2	1.9	-	224.1
Profit for the period	26.0	-	-	26.0
Net movement in fair value through other comprehensive income	-	(1.5)	-	(1.5)
Net movement in cash flow hedge reserve	-	-	(2.7)	(2.7)
At 31 December 2022	248.2	0.4	(2.7)	245.9

The notes on pages 19 to 32 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Cash Flow Statement

	Note	Unaudited 6 months to 30 Jun 23 £m	Unaudited 6 months to 30 Jun 22 £m	Audited 12 months to 31 Dec 22 £m
Net cash flows from operating activities	15	195.0	92.4	102.6
Corporation tax paid		(4.0)	(2.5)	(4.6)
Cash inflows from operating activities		**191.0**	**89.9**	**98.0**
Purchases of property, plant and equipment		(1.2)	(1.8)	(2.1)
Purchase of intangible assets		(2.9)	(2.1)	(5.0)
Sales of property, plant and equipment		-	2.4	2.4
Purchase of equity investments		-	-	(0.3)
Purchase of investment securities		(132.1)	(147.9)	(275.1)
Sale and maturity of investment securities		165.2	50.0	229.8
Net cash inflows / (outflows) from investing activities		**29.0**	**(99.4)**	**(50.3)**
Interest paid on subscribed capital		(1.2)	(1.2)	(2.3)
Capital payment for finance lease arrangements		(0.6)	(0.6)	(1.1)
Net cash outflows from financing activities		**(1.8)**	**(1.8)**	**(3.4)**
Net increase / (decrease) in cash and cash equivalents		**218.2**	**(11.3)**	**44.3**
Cash and cash equivalents at the start of period	15	439.3	395.0	395.0
Cash and cash equivalents at the end of the period	15	**657.5**	**383.7**	**439.3**

The notes on pages 19 to 32 form an integral part of this condensed consolidated half-yearly financial information

Notes

1. General information

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

1.2. The financial information for the 12 months to 31 December 2022 has been extracted from the accounts for that year. The auditors gave an unqualified opinion on the accounts for the 12 months to 31 December 2022, and they have been filed with the Financial Conduct Authority and the Prudential Regulation Authority.

1.3. The half-yearly financial information for the 6 months to 30 June 2023 and the 6 months to 30 June 2022 is unaudited.

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

2. Basis of preparation

The condensed consolidated financial information for the half-year ended 30 June 2023 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as applicable in the United Kingdom. It does not include all the information required by International Financial Reporting Standards (IFRSs). The half-yearly financial information should be read in conjunction with the Group's Annual Report and Accounts for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as applicable in the United Kingdom.

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

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

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

3. Accounting policies

The half-yearly financial information has been prepared on the basis of the accounting policies adopted for the year ended 31 December 2022, as described in those financial statements except for Insurance Contracts. The Group's equity release mortgage assets were accounted for under IFRS 4, Insurance Contracts which was replaced by IFRS 17, Insurance Contracts on 1 January 2023.

On transition to IFRS 17, the Group had a choice to transition to IFRS 17 or re-designate assets under IFRS 9. The Society has re-designated its equity release mortgage assets as held at fair value through profit and loss (FVTPL) under IFRS 9, this has not led to any changes in the carrying amounts of those assets.

For these assets the contractual cash flows are not solely payments of principal and interest and are therefore classified as fair value through profit and loss. Assets classified as fair value through profit and loss are initially recognized at fair value with any subsequent changes in fair value recognized immediately in the Income Statement.

The fair value is the present value of the forecast portfolio cash flows less the value of the no-negative equity guarantee, which is calculated using an option pricing model, discounted using a suitable market rate at the reporting date. Where possible inputs are market driven or when no market driven data is available, based on management judgement informed by observable data to the extent possible. Interest on equity release mortgages is recognised in accordance with the effective interest rate method, based on contractual interest rates. Included in the equity release mortgage assets is a fixed reversion book. For this book, the repayment amount is determined at completion, but the timing of redemption is uncertain. Interest on fixed reversion loans is recognized based on the interest rate implicit in the mortgage contract. Please see note 12, Equity release mortgages for details.

4. Accounting Estimates and Judgements in Applying Accounting Policies

The Group has to make judgements in applying its accounting policies, which affect the amounts recognised in the half-yearly financial information. These judgements are based on management's best knowledge but the eventual outcome may differ from them. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following year. Whilst there have been no changes to the accounting areas where the most significant estimates and judgements are applied, an overview on the impact the changed economic situation has had on these is provided below.

Estimates

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

Impairment of Financial Assets
The impairment of mortgage assets is determined by a weighted average of the expected credit losses of 4 different economic scenarios. Each scenario is based on a range of assumptions, included property price growth rates and unemployment rates. The scenario weightings are based on management's current expectation about the future probability of each economic scenario. Economic scenarios and scenario weightings are outlined in note 13, Credit risk.

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

Judgements

Fair Value of Derivatives and Financial Assets
Fair Values are determined by the three tier valuation hierarchy as defined within IFRS 7. There have been no significant changes to valuation methodologies applied since the publication of the Group's 2022 Annual Report and Accounts.

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

Securitised assets
The mortgage assets sold to the Group's securitisation vehicle in December 2021 have not been de-recognised from the Society's balance sheet. As the Society continues to be exposed to the risks and rewards of cash flows associated with the mortgages, they do not meet the criteria for de-recognition.

5. Taxation

The effective tax rate for the six months ended 30 June 2023 was 23.5% (six months ended June 2022: 19%, year ended 31 December 2022: 19.0%). The tax charge has been calculated to approximate to the expected full year tax rate and includes an adjustment to deferred tax assets, and to current tax for changes in the enacted corporation tax rate.

6. Related Party Transactions

During the 6 months to 30 June 2023 the Society purchased £7.9m of Business Support Services and Managed IT and Property Services from Newcastle Strategic Solutions Limited (NSSL), a wholly owned subsidiary (In the same period in 2022, £6.1m was procured from NSSL). The Society received £5.5m from NSSL in the 6 months to 30 June 2023 for the provision of Financial and Administrative Services. (This compares to £5.2m from NSSL for the same period in 2022).

7. Interest receivable and similar income

	Unaudited 6 months to 30 Jun 23 £m	Unaudited 6 months to 30 Jun 22 £m	Audited 12 months to 31 Dec 22 £m
Interest income on assets held at amortised cost	87.6	50.7	116.6
Interest income on assets held at fair value through profit or loss	5.2	5.6	11.1
Net income / (expense) on derivatives used for hedging purposes	15.2	(1.9)	3.1
Total interest receivable and similar income	**108.0**	**54.4**	**130.8**

8. Revenue from contracts with customers

In accordance with IFRS 8, 'Operating Segments', the Group reports the following segments; Member business and Solutions business. When the Group prepares financial information for management, it disaggregates revenue by segment and service type.

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

	Unaudited 6 months to 30 Jun 23 £m	Unaudited 6 months to 30 Jun 22 £m	Audited 12 months to 31 Dec 22 £m
Revenue from contracts with customers			
Solutions business:			
Savings management services	19.6	17.1	35.4
Savings management project and change services	0.3	0.5	0.9
IT services	0.4	0.3	0.7
Member business:			
Regulated advice services	3.1	3.0	6.1
Third party services	1.0	0.7	1.4
Other services	0.1	-	0.1
Total revenue from contracts with customers	**24.5**	**21.6**	**44.6**

9. Segment information

The chief operating decision maker has been identified as the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors. The operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The 'Member business' segment provides mortgage, savings, investment and insurance products to Members and customers. The 'Solutions business' segment (also referred to as Newcastle Strategic Solutions Limited (NSSL)) provides business to business services through people, processes and technology. The Board assesses performance based on profit before tax after the allocation of all central costs. Operating profit before impairments and provisions is also assessed as this provides information on underlying business performance.

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

6 months to 30 June 2023 - Unaudited	Member Business £m	Solutions Business £m	Total £m
Net interest income / (expense)	40.8	(0.7)	40.1
Other income and (charges)	(3.6)	28.6	25.0
Fair value gains less losses on financial instruments and hedge accounting	3.2	-	3.2
Administrative expenses	(22.2)	(25.3)	(47.5)
Depreciation and amortisation	(1.1)	(1.9)	(3.0)
Operating profit before impairments and provisions	**17.1**	**0.7**	**17.8**
Impairment charges on loans and advances to customers	(1.1)	-	(1.1)
Provisions for liabilities and charges	(0.2)	(0.2)	(0.4)
	15.8	**0.5**	**16.3**
Impairment charges on tangible and intangible assets			(0.1)
Profit before taxation			**16.2**
Taxation expense			(3.9)
Profit after taxation for the financial period			**12.3**

6 months to 30 June 2022 - Unaudited	Member Business £m	Solutions Business £m	Total £m
Net interest income / (expense)	35.9	(0.5)	35.4
Other income and (charges)	(2.2)	24.1	21.9
Fair value gains less losses on financial instruments and hedge accounting	(3.4)	-	(3.4)
Administrative expenses	(16.3)	(21.0)	(37.3)
Depreciation and amortisation	(1.2)	(1.5)	(2.7)
Operating profit before impairments and provisions	**12.8**	**1.1**	**13.9**
Impairment reversals on loans and advances to customers	0.5	-	0.5
Provisions for liabilities and charges	(0.1)	(0.1)	(0.2)
Profit before taxation	**13.2**	**1.0**	**14.2**
Taxation expense			(1.7)
Profit after taxation for the financial period			**12.5**

Year to 31 December 2022 - Audited	Member Business £m	Solutions Business £m	Total £m
Net interest income / (expense)	76.4	(1.0)	75.4
Other income and (charges)	(5.3)	50.7	45.4
Fair value gains less losses on financial instruments and hedge accounting	(1.1)	-	(1.1)
Administrative expenses	(38.3)	(45.2)	(83.5)
Depreciation and amortisation	(2.4)	(3.3)	(5.7)
Operating profit before impairments and provisions	**29.3**	**1.2**	**30.5**
Impairment reversals on loans and advances to customers	1.6	-	1.6
Provisions for liabilities and charges	-	(0.1)	(0.1)
	30.9	**1.1**	**32.0**
Impairment charges on tangible and intangible assets			(0.3)
Profit before taxation			**31.7**
Taxation expense			(5.7)
Profit after taxation for the financial period			**26.0**

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

	Unaudited 6 months to 30 Jun 23 £m	Unaudited 6 months to 30 Jun 22 £m	Audited 12 months to 31 Dec 22 £m
Fair value movement on loans and advances to customers held at fair value through profit and loss	(4.8)	(31.5)	(57.8)
Fair value movement on derivatives financial instruments in economic but not in accounting hedge relationships	7.8	31.0	60.1
Economically offsetting fair value movements	3.0	(0.5)	2.3
Interest expense on derivatives in economic but not accounting hedge relationships	(0.7)	(3.1)	(5.6)
Amounts recycled to profit and loss from cashflow hedges	(0.3)	-	(0.1)
Fair value movement on equity instruments	0.1	(1.9)	(2.1)
Fair value movement on loan modification	1.1	-	-
Gains crystallised on sale of assets held at fair value through other comprehensive income	-	-	0.1
Hedge ineffectiveness on accounting hedges	-	2.1	4.3
Fair value gains less losses on financial instruments and hedge accounting	**3.2**	**(3.4)**	**(1.1)**

11. Fair value measurement

The following table summarises the fair value measurement basis used for assets and liabilities held on the Balance Sheet at fair value at 30 June 2023.

	Level	Unaudited 30 Jun 23 £m	Unaudited 30 Jun 22 £m	Audited 31 Dec 22 £m
Financial assets				
Debt securities – Fair value through other comprehensive income	1	400.8	488.0	433.0
Equity investments	1	0.2	0.1	0.1
Derivative financial instruments	2	128.6	50.3	90.4
Fair value adjustments for hedged risk	2	(84.7)	3.0	(60.9)
Equity investments	3	2.1	1.9	2.0
Loans and advances to customers held at fair value	3	157.8	198.1	166.3
Financial liabilities				
Derivative financial instruments	2	42.3	91.0	52.5
Fair value adjustments for hedged risk	2	(0.3)	-	0.3

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

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

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

Loans and advances to customers held at fair value

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

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

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

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

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

At 30 June 2023 the fair value of the mortgage assets held at fair value was £157.8m (Dec 2022: £166.3m).
The sensitivity of this value to the estimates shown above is as follows:

Assumption	Change in assumption	(Decrease) / Increase in fair value
		£m
Discount rate	+/-1.0%	(9.4) / 10.6
Long term property price growth	+/-2.0%	3.8 / (2.5)
Sales discount on collateral	+/-2.5%	(0.7) / 0.7
Property price volatility	+/-3.0%	(3.0) / 3.0

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

	Unaudited 6 months to 30 Jun 23 £m	Unaudited 6 months to 30 Jun 22 £m	Audited 12 months to 31 Dec 22 £m
As at 1 January	**166.3**	232.6	232.6
Interest accrued	4.8	5.6	11.1
Redemptions	(8.5)	(8.6)	(19.6)
Changes in property price assumptions – recorded in profit and loss	1.1	-	(2.0)
Changes in discount rate– recorded in profit and loss	(5.9)	(31.5)	(55.8)
As at 30 June / 31 December	**157.8**	**198.1**	**166.3**

Equity investments

The fair value of the Group's investment in Openwork units is calculated using a model which discounts the future expected cash flows from the investment. These cash flows relate primarily to the dividends receivable by the Group. These dividends are then discounted to their present value, using a discount rate that estimates the underlying risks associated with an unlisted equity instrument. The valuation uses a number of inputs which require estimation, such as future dividend payout ratios, discount rates, long term dividend growth and the underlying businesses performance, these estimates are made using listed peers as a benchmark and other publicly available information.

At 30 June 2023 the fair value of the investments held at fair value was £2.1m (December 2022: £2.0m). The sensitivity of this value to the estimates shown above is as follows:

Assumption	Change in assumption	30 Jun 2023 (Decrease) / Increase in fair value £m
Discount rate	+/- 1%	(0.2) / 0.2
Long term dividend growth rate	+/- 2%	0.4 / (0.3)

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

	Unaudited 6 months to 30 Jun 23 £m	Unaudited 6 months to 30 Jun 22 £m	Audited 12 months to 31 Dec 22 £m
As at 1 January	2.0	-	-
Transferred to / (from) Level 3	-	3.7	3.7
Units acquired	-	0.3	0.3
Changes in fair value recorded in profit and loss	0.1	(2.1)	(2.0)
As at June/December	**2.1**	**1.9**	**2.0**

12. Equity release mortgages

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

	Unaudited 30 Jun 2023 £m	Unaudited 30 Jun 2022 £m	Audited 31 Dec 2022 £m
Gross mortgage balances	156.9	166.1	160.6
Fair value uplift	0.9	32.0	5.7
Fair value presented on Balance Sheet	**157.8**	**198.1**	**166.3**

The gross mortgage balances above reflect the Group's maximum pre-collateral exposure to credit risk at the balance sheet date. The Group typically expects its equity release mortgages to be repaid through sale of the underlying properties. In all instances, the Group holds the contractual right to sale proceeds required to repay a borrower's mortgage at the time of sale. By their nature, equity release mortgages are not considered to hold a pre-determined maturity date.

The Group recognises interest income on a per asset basis using the effective interest rate method. For equity release mortgages, the effective interest rate is considered to be the contractual fixed rate of interest detailed in the mortgage contracts. The gross mortgage balances, as presented above, reflect both the amortised cost and contractual balance of the Group's equity release mortgages.

The fair value uplift has reduced by £4.8m during the six month period to 30 June 2023. The main source of the change in fair value was a change in market interest rates, which increased by 0.6%. The Society hedges fair value movements on the equity release portfolio due to market interest rate movements using interest rate swaps. The value of these swaps increased by £7.8m, resulting in a net movement of £3.0m in the period (see also note 10, Fair value gains less losses on financial instruments and hedge accounting).

13. Credit risk

Loans and advances to customers consist of the following balances:

Product	Unaudited 30 Jun 2023 £m	Unaudited 30 Jun 2022 £m	Audited 31 Dec 2022 £m
Prime residential	3,795.2	2,955.3	3,377.5
Buy to let	385.6	387.8	396.3
Legacy books:			
Legacy buy to let	9.7	23.5	14.0
Commercial	8.4	11.9	10.6
Housing association	253.8	282.7	283.3
Serviced apartments	15.3	17.2	16.6
Policy loans	1.4	1.5	1.5
Equity release mortgages	157.8	198.1	166.3
Provisions	(7.7)	(7.5)	(6.6)
Total	**4,619.5**	**3,870.5**	**4,259.5**

Loans and advances to customers are accounted for under *IFRS 9: Financial Instruments.* This note provides an overview of changes in credit risk since December 2022 for all books held at amortised cost.

In line with the trend from the previous year, the Society continues to grow its prime residential lending, and, in line with our risk appetite, we continue to see an increase in higher LTV lending as we optimise our portfolio. The changes in economic assumptions used to model expected credit losses in addition to these factors have resulted in an increase in the provision held against residential lending.

Residential and retail Buy to Let portfolios

Under IFRS 9, scenario analysis is used to assess and provide for expected credit losses. Please see the Group's 2022 Annual Report and Accounts for details of the Society's methodology of this assessment.

No changes were made to the provisioning methodology since the December 2022 accounts. However, scenarios have been updated to reflect the current economic outlook. A summary of each of the macroeconomic scenarios is as follows:

- Base scenario – uses as a reference the average HM Treasury short term forecast for the UK economy over the first two years and then the Medium term forecasts for 2024 onwards
- Upside scenario – uses as a reference the most positive HM Treasury short and medium term forecasts for the UK economy
- Downside scenario – uses the most negative short and medium term HM Treasury forecasts
- Stress scenario – uses guidance issued by the Bank of England for stress testing purposes.

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

Scenario		2023	2024	2025	2026	2027
Upside	Unemployment	4.3%	4.4%	3.7%	3.6%	3.6%
	House price growth	(4.0%)	3.8%	3.8%	4.7%	3.5%
Base	Unemployment	4.8%	5.5%	5.0%	5.0%	4.8%
	House price growth	(5.9%)	(0.8%)	1.3%	3.6%	3.0%
Downside	Unemployment	5.0%	6.2%	5.5%	5.4%	5.4%
	House price growth	(10.3%)	(6.6%)	(3.7%)	2.9%	2.5%
Stress	Unemployment	4.0%	5.2%	8.5%	8.0%	7.4%
	House price growth	(3.6%)	(14.1%)	(16.4%)	4.3%	6.8%
Weighted	Unemployment	4.8%	5.6%	5.4%	5.3%	5.2%
	House price growth	(7.2%)	(4.0%)	(2.2%)	3.5%	3.2%

Sensitivity

The 30 June 2023 provisions are sensitive to the likelihood factor applied to the different scenarios. The analysis below demonstrates the impact of a 100% weighting to each scenario.

	Upside	Base	Downside	Severe downside	Provision
Provision £m	2.9	3.9	6.2	7.1	5.0

Post model adjustments

Fire safety and cladding risk

The Society has a small number of loans secured on properties with unsuitable cladding or other fire safety risks. As the marketability of such properties is currently uncertain, a post model adjustment of £0.4m (December 2022: £0.5m) has been recognised

Affordability

The Society has not seen increases in non-performing loans in the first half of 2023. However, the high levels of inflation currently observed may have a negative impact on some borrowers' ability to service their loans, resulting in higher levels of default.

The Society's provisioning model indirectly reflects the impact of high inflation levels by linking increasing or increased base rates to higher probabilities of default, with higher base rates being correlated to high inflation. However, there is a lag between inflation rising and base rate increases, which is not reflected in the Society's model. In addition, the data used to train the Society's provisioning model does not include a period of inflation as high as that in 2022 and 2023 and expected for the remainder of the year and 2024. To reflect the risk from inflation in 2023 that is not already accommodated by the model a post model adjustment for £0.8m has been booked (December 2022: £0.2m).

Base rate is expected to peak and inflation to return to levels covered within the model in 2024 and, as result, management have concluded that the provisioning model will accommodate the issue then. The adjustment has been determined by classifying borrowers most at risk from increased mortgage interest rates as stage 2 resulting in higher probabilities of default and recognition of lifetime expected credit losses.

IFRS 9 staging and loss provisioning

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

IFRS 9 Gross Exposure

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
					£m					
Prime residential	3,050.7	-	-	695.2	15.8	-	16.6	4.2	12.7	3,795.2
Buy to Let	318.5	-	-	63.8	2.0	-	0.5	0.2	0.6	385.6
Total	**3,369.2**	**-**	**-**	**759.0**	**17.8**	**-**	**17.1**	**4.4**	**13.3**	**4,180.8**

Expected Credit Losses

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

The impact of IFRS 9's staging and loss provisioning to the Society's closing 30 June 2022 balance sheet was as follows (payment holidays are not considered to be arrears):

IFRS 9 Gross Exposure

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
				£m						
Prime residential	2,586.2	-	-	331.5	12.0	-	11.2	3.3	11.1	2,955.3
Buy to Let	359.1	-	-	25.3	0.6	-	1.4	0.1	1.3	387.8
Total	**2,945.3**	**-**	**-**	**356.8**	**12.6**		**12.6**	**3.4**	**12.4**	**3,343.1**

Expected Credit Losses

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
				£000						
Prime residential	472.5	-	-	916.9	49.0	-	60.6	11.7	650.8	2,161.5
Buy to Let	602.9	-	-	51.6	3.1	-	5.1	-	96.2	758.9
Total	**1,075.4**	**-**	**-**	**968.5**	**52.1**	**-**	**65.7**	**11.7**	**747.0**	**2,920.4**

The impact of IFRS 9's staging and loss provisioning to the Society's closing 31 December 2022 balance sheet was as follows (payment holidays are not considered to be arrears):

IFRS 9 Gross Exposure

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
				£m						
Prime residential	2,818.7	-	-	516.9	14.7	-	14.0	3.0	10.2	3,377.5
Buy to Let	328.7	-	-	63.7	1.5	-	0.5	0.2	1.7	396.3
Total	**3,147.4**	**-**	**-**	**580.6**	**16.2**	**-**	**14.5**	**3.2**	**11.9**	**3,773.8**

Expected Credit Losses

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
				£000						
Prime residential	441.2	-	-	1,590.4	90.1	-	798.6	21.0	53.9	2,995.2
Buy to Let	131.6	-	-	214.3	9.5	-	33.2	0.3	61.0	449.9
Total	**572.8**	**-**	**-**	**1,804.7**	**99.6**	**-**	**831.8**	**21.3**	**114.9**	**3,445.1**

Prime residential mortgage book

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

Loan to valued (indexed)	Jun 2023		Jun 2022		Dec 2022	
	£m	%	£m	%	£m	%
<70%	2,248.4	59.3	2,104.1	71.2	2,250.0	66.6
70% - <80%	656.1	17.3	513.7	17.3	493.0	14.6
80% - <90%	502.5	13.2	232.9	7.8	405.6	12.0
>90%	388.2	10.2	104.6	3.7	228.9	6.8
	3,795.2	**100.0**	**2,955.3**	**100.0**	**3,377.5**	**100.0**

The Society continued to experience a low level of possessions on residential loans and Law of Property Act receiver appointments. At the end of 2022 the Society had no possession property in relation to owner occupied loans.

Against past due cases, £69.1m (Dec 2022: £65.7m, June 2022: £58.0m) collateral is held. No loans that would be past due or impaired have had their terms renegotiated.

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

The Society granted forbearance against 115 residential loans in 2023 (December 2022: 91), with no alteration made to the contractual rates of interest and balances totalling £11.6m at 30 June 2023 (31 December 2022: £7.7m), this did not lead to any modification gain or loss a result of short-term forbearance granted. Provisions of £0.2m (December 2022: £0.1m) are held against residential mortgages that were granted forbearance during the year.

Gross lending during 2023 has the following LTV's as at 30 June 2023:

Loan to valued (indexed)	£m	%
<70%	255.3	39.0
70% - <80%	175.6	26.9
80% - <90%	119.8	18.3
>90%	103.8	15.8
	654.5	**100.0**

Retail buy to let mortgage book

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

Loan to valued (indexed)	Jun 2023		Jun 2022		Dec 2022	
	£m	%	£m	%	£m	%
<70%	326.7	84.7	367.1	94.6	363.7	91.8
70% - <80%	51.9	13.4	19.8	5.1	29.7	7.5
80% - <90%	6.8	1.8	0.6	0.2	2.9	0.7
>90%	0.2	0.1	0.3	0.1	-	-
	385.6	**100.0**	**387.8**	**100.0**	**396.3**	**100.0**

At the end of June 2023 the Society had no BTL possession properties (December 2022 and June 2022: None), whose exposure was being managed by a Law of Property Act receiver. Against past due cases, £6.1m (December 2023: £6.5m, June 2022: £3.4m) collateral is held. No loans that would be past due or impaired have had their terms renegotiated.

The Society offers a range of forbearance measures to customers such as payment breaks and reductions, transfers to interest only products and other support. There were new or on-going forbearance measures to retail buy to let customers during 2023. The Society had granted forbearance against 1 retail BTL loan in 2022. With no alteration made to the contractual rates of interest and balances totalling £0.3m at 31 December 2022 leading to no modification gain or loss recorded as a result of short-term forbearance granted. No provisions are held against BTL mortgages that were grated forbearance during the year.

Gross lending during 2023 has the following LTV's as at 30 June 2023:

Loan to valued (indexed)

	£m	%
<70%	3.1	55.4
70% - <80%	1.4	25.0
80% - <90%	1.1	19.6
	5.6	**100.0**

Geographical split of lending

The table below provides a breakdown of the geographic concentration of the Society's mortgage portfolio as at 30 June 2023. The Society's mortgage portfolio is diversified across the UK.

Region	Prime Residential £m	Buy to Let £m	Total £'m	Total %
Scotland	433.7	4.4	438.1	10.5%
North East	453.1	7.6	460.7	11.0%
Yorkshire and the Humber	328.5	11.3	339.8	8.1%
North West	409.1	13.0	422.1	10.1%
East Midlands	264.7	15.3	280.0	6.7%
West Midlands	261.8	16.4	278.2	6.7%
Wales	119.6	4.1	123.7	3.0%
East Anglia	316.5	7.0	323.5	7.7%
South West	292.4	22.3	314.7	7.5%
South East (Including London)	908.0	284.2	1,192.2	28.5%
Other	7.8	-	7.8	0.2%
Total	**3,795.2**	**385.6**	**4,180.8**	**100.0**

Legacy portfolios

The provisioning methodology for Commercial, Legacy Buy to Let, and Service Apartments exposures follows that outlined in the Group's 2022 Annual Report and Accounts. Economic scenarios have been updated to correspond with the scenarios used for residential mortgages and the same scenario weightings are used for these books as are used for the core books above. The following sector specific discounts and uplifts have been used, compared to current collateral valuations:

Sector	Upside	Base	Downside	Stress
Retail	90%	80%	70%	40%
Distribution	120%	100%	90%	80%
Leisure	60%	50%	45%	35%
Residential	103%	94%	86%	73%
Serviced Apartments	106%	85%	70%	40%

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

Product	30 Jun 2023		30 Jun 2022		31 Dec 2022	
	Exposure £m	Provision £m	Exposure £m	Provision £m	Exposure £m	Provision £m
Legacy Buy to Let	9.7	-	23.5	0.7	14.0	-
Commercial	8.4	1.8	11.9	3.2	10.6	2.4
Housing Associations	253.8	-	282.7	-	283.3	-
Serviced Apartments	15.3	0.9	17.2	0.7	16.6	0.8
Policy Loans	1.4	-	1.5	-	1.5	-
Total	**288.6**	**2.7**	**336.8**	**4.6**	**326.0**	**3.2**

Sensitivity

The 30 June 2023 provisions are sensitive to the likelihood factor applied to the different scenarios. The analysis below demonstrates the impact of a 100% weighting to each scenario.

	Upside	Base	Downside	Severe downside	Provision
Provision £m	0.8	2.1	3.0	4.7	2.7

As at 30 June 2023, 3 legacy borrowers were in arrears of 3 months or more with exposures of £1.1m (June 2022: 2 borrowers, £0.7m, December 2022: 2 borrowers, £0.9m). The Society did not grant forbearance against any legacy loans in the first six months of 2023 or 2022.

14. Post balance sheet events

On 1 July 2023, the Society merged with the Manchester Building Society ("MBS") by means of a transfer of engagements under section 42B(3)(b) of the Building Societies Act 1986 on the basis of resolutions by Manchester and Newcastle Building Societies' respective Boards. The merger was approved by both Boards on 23 March 2023 and subsequently confirmed by the PRA on 7 June 2023. MBS offered a range of savings and mortgage products including a Spanish equity release portfolio.

As MBS' regulatory capital had fallen below regulatory minimum requirements in 2013, MBS' strategy had been to reduce its risks and conserve regulatory capital. It was not able to undertake any further lending. Its Board identified that it was in the best interests of Members to merge with another building society so it is able to offer more choice and value to its Members especially during a period of increasing and volatile interest rates.

The merger enhances the Newcastle Building Society's growth strategy providing it with greater resilience and additional capital strength.

Control passed to Newcastle Building Society on 1 July 2023 as the trade, assets and liabilities were transferred. Given the time since the transaction, the Society has not yet completed its identification and valuation of the acquired assets and liabilities and therefore no disclosures are given in relation to these assets and liabilities. No consideration was transferred to MBS as part of the merger and there is no contingent consideration associated with it. Any transaction related costs have been expensed as incurred and are included within administrative expenses. Further financial information relating to MBS is available on its website at https://www.themanchester.co.uk/Main/FinancialInformation.

15. Notes to the Cashflow Statements

	Unaudited 30 Jun 23 £m	Unaudited 30 Jun 22 £m	Audited 31 Dec 22 £m
Reconciliation of profit before taxation to net cash inflow from operating activities			
Profit before taxation	16.2	14.2	31.7
Depreciation and amortisation	3.0	2.7	5.7
Interest on subscribed capital	1.2	1.2	2.3
Decrease in derivative financial instruments	(38.0)	(92.3)	(171.0)
Interest payment for finance lease arrangements	(0.1)	-	(0.1)
Other non-cash movements	(1.5)	(0.5)	(1.1)
Net cash outflow before changes in operating assets and liabilities	**(19.2)**	**(74.7)**	**(132.5)**
Increase in loans and advances to customers	(358.9)	(75.6)	(465.0)
Decrease in fair value adjustments for hedged risk	23.2	59.1	123.3
Decrease in cash collateral pledged	1.8	91.5	83.3
Increase in shares	458.0	176.8	489.0
Increase / (decrease) in amounts due to other customers and deposits from banks	93.3	(81.7)	6.2
Decrease in other assets	1.0	1.6	0.4
Decrease in other liabilities	(4.2)	(4.6)	(2.1)
Net cash inflow from operating activities	**195.0**	**92.4**	**102.6**
Cash and cash equivalents			
Cash and balances with the Bank of England	645.0	359.7	421.9
Loans and advances to banks repayable on demand	12.5	24.0	17.4
At 30 June / 31 December	**657.5**	**383.7**	**439.3**

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

Statement of Directors' responsibilities

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

The Directors of Newcastle Building Society are listed in the 2022 Annual Report and Accounts, other than Karen Ingham who retired as a Director on 26 April 2023 and Rory Campbell who joined the board as a Director on 17 June 2023.

On behalf of the Board

Andrew Haigh | Chief Executive
1 August 2023

Independent review report to Newcastle Building Society

Conclusion
We have been engaged by the Society to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in members' interests, the condensed consolidated statement of cash flows and related notes 1 to 15.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34.

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

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

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

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

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

Auditor's Responsibilities for the review of the financial information
In reviewing the half-yearly financial report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report
This report is made solely to the company in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Society those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP | Statutory Auditor
Manchester, United Kingdom
1 August 2023