

Your Branches

Summary Financial Statement 2011

England

Newcastle upon Tyne

3 Hood Street, NE1 6LZ
 136 Northumberland Street, NE1 7DQ
 22 Denton Park Centre, NE5 2RA
 240 Chillingham Road, NE6 5LP
 105/107 High Street, Gosforth, NE3 1HA

North East

ALNWICK
 28 Bondgate Within, NE66 1TD

ASHINGTON
 10 Station Road, NE63 9UJ

BERWICK UPON TWEED
 12 Hide Hill, TD15 1AB

CHESTER-LE-STREET
 45 Front Street, DH3 3BH

CONSETT
 19/21 Middle Street, DH8 5QP

CRAMLINGTON
 34/35 Craster Court, NE23 6UT

DARLINGTON
 87/88 Skinnergate, DL3 7LX

DURHAM
 25 Elvet Bridge, DH1 3AA

GATESHEAD
 221/223 High Street, NE8 1AS

HARTLEPOOL
 133/135 York Road, TS26 9DR

HEXHAM
 3 Beaumont Street, NE46 3LZ

LOW FELL
 574 Durham Road, NE9 6HX

MIDDLESBROUGH
 38 Linthorpe Road, TS1 1RD

	MORPETH	14 Market Place, NE61 1HG	Tel: (0191) 232 0505	Tel: (01670) 514 702
	NORTH SHIELDS	76 Bedford Street, NE29 0LD	Tel: (0191) 261 4940	Tel: (0191) 259 5286
	PONTELAND	23 Broadway, Darras Hall, NE20 9PW	Tel: (0191) 276 0330	Tel: (01661) 821 828
	SOUTH SHIELDS	67 Fowler Street, NE33 1NS	Tel: (01665) 603 344	Tel: (0191) 454 0407
	STOKESLEY	19 High Street, TS9 5AD	Tel: (01670) 815 919	Tel: (01642) 711 742
	SUNDERLAND	14 Waterloo Place, SR1 3HT	Tel: (01289) 306 417	Tel: (0191) 565 0464
	WALLSEND	12/14 High Street East, NE28 8PQ	Tel: (0191) 388 5266	Tel: (0191) 262 3496
	WHICKHAM	28 Front Street, NE16 4DT	Tel: (01207) 502 636	Tel: (0191) 488 1766
	WHITLEY BAY	78/84 Park View, NE26 2TH	Tel: (01670) 735 813	Tel: (0191) 252 0642
	North West			
	CARLISLE	2/4 English Street, CA3 8HX	Tel: (01325) 383 656	Tel: (01228) 524 518
	PENRITH	12 Market Square, CA11 7BX	Tel: (0191) 384 3182	Tel: (01768) 862 888
	Scotland			
	DUMFRIES	2/6 Queensberry Square, DG1 1BL	Tel: (01429) 233 014	Tel: (01387) 253 815
	Overseas			
	Gibraltar	197-201 Main Street	Tel: (0191) 487 2893	Tel: (00 350) 200 41143
			Tel: (01642) 243 617	



www.newcastle.co.uk



Jim Willens - Chief Executive

2 **At the Newcastle, we entered 2011 holding a view that recovery for the economy would be steady and slow and that further challenges were likely to emerge, influenced by uncertainty within the Eurozone. Set against that backdrop we needed to remain prudent, like many of you and your families.**

Our long-term strategic focus to return the Society to a traditional building society model supported by diversification through our Solutions business has meant the Society continues to build on the successes of 2010 and deliver results ahead of our medium-term plans. This includes our focus on long-term delivery to our members, employees, local communities and Solutions business customers.

Our Members

We have again enjoyed excellent support from our members. In excess of 25,000 new customers were attracted to the Society reflecting a year when we had excellent products available, such as our five year Fixed Rate Bonds, Online Easy Saver account and the popular Bonus ISA, as well as competitive mortgage products. I was particularly pleased that our first time buyer products were so well received, as it is important to encourage more activity amongst those seeking their first home. To help this market further we have recently launched a 95% LTV deal, which has, so far, proved very popular.

Our Penrith branch was reopened during 2011 after eight months operating from temporary premises following a flood as a result of the extreme cold weather spell in December 2010. Local needs and involvement of members in the area helped in developing plans for the re-launch; we are grateful to our members for their continuing support. This experience, combined with that gained when we launched our flagship branch in Newcastle city centre during 2010 means we have been able to develop a blueprint for future branch developments.

Customer satisfaction improved from 85% to 90% during 2011, which is itself a pleasing result. However, we will always welcome feedback and seek to develop ways in which both delivery of quality products and service levels are improved on a continual basis.

Staff Engagement

Our staff engagement programme, led by a group of staff representatives from across the business, aims to evaluate, develop and build on key areas of the organisation as we seek to make the Newcastle one of the most rewarding places to work in the region. We have made excellent progress thanks to the hard work and passion of our staff representatives.

We carried out our first annual employee satisfaction survey in December 2010 followed by a second in December 2011. Our staff responded magnificently in offering support and participation and that support has in turn produced a significant improvement in our staff satisfaction indicator to 84%.

In February 2011, the Society was re-accredited as an 'Investor in People' for the sixteenth year; in fact it was the first building society to be accredited with this. In 2011 we relaunched a programme to give undergraduates the chance to get hands-on work experience over a year-long work placement. We also plan to introduce a graduate training scheme in 2012.

Communities

We continue to support the communities we serve through our branch network's engagement with local good causes, the corporate sponsorships we are part of and the Society's corporate charity of the year, which in 2011 was Macmillan Cancer Support. In addition, we have a fund with the Community Foundation, which celebrated its 21st year and this enabled us to give Christmas presents in December to 17 good causes. Our branches also launched a Christmas art competition in local schools; more than 100 winners of which were rewarded with a trip to the theatre. A number of other successful fund raising events have taken place and more information about these is given on pages 4 to 7.

We launched a financial education programme with primary schools in Middlesbrough and Whitley Bay, with positive feedback from all involved, including the 200 pupils we presented to. The wider programme is in the process of being rolled out to other regional schools.

Strategic Solutions

Our Solutions business has had a very successful year in 2011 with 50% growth in the number of accounts under management. We enter 2012 with a healthy pipeline of new business, which presents the opportunity for further growth in this part of our operations. Following a review of key areas of the business, we concluded that our Prepaid Cards business was not a long-term strategic fit for the Society and this was sold in December 2011. As part of the sale, it was important to us to secure all the jobs and keep them within the North East. This is a significant and positive development for our Society.

Financial Performance

Our financial performance during 2011 was much improved particularly in relation to our underlying profitability. Management expenses continued to fall while operating income increased by 22% giving an improved cost:income ratio of 80% compared to 101% in 2010. Our solvency ratio has again improved to 15.0% from 14.1% at the end of 2010 and Tier 1 capital was up from 10.7% to 11.7%. Liquidity also continues to be strong at 29.2%.

Given the continuing challenges within the economy, we have completed an in depth review of the potential risk attached to legacy assets held by the Society. As a result, we have made substantial provisions amounting to £12.3m to protect the business in the years ahead.

We have also recognised a charge of £1.4m in 2011 in relation to the levy imposed by the Financial Services Compensation Scheme (FSCS). The charge reflects a higher funding cost, which is expected to arise from the negotiations currently ongoing between HM Treasury and the FSCS around the interest rate applied to the Scheme loans. This levy falls disproportionately on building societies, which are predominantly retail funded.

The Regulatory Landscape in 2012 and Beyond

There is a major change on the horizon in terms of regulation covering financial services. Recovery and Resolution Planning becomes a requirement from June 2012. 2013 will see the introduction of the 'twin peaks' style of firm-specific regulation when the Bank of England takes overarching responsibility for financial stability. The Prudential Regulatory Authority (PRA) will be established as a subsidiary of the Bank of England and combined with the Financial Conduct Authority (FCA) will replace the Financial Services Authority. 1st January 2013 will also see the introduction of the Retail Distribution Review (RDR). The Society is well advanced with its planning and seeks at all times to work effectively with the regulatory world in meeting new requirements, as well as the needs of our membership.

Summary

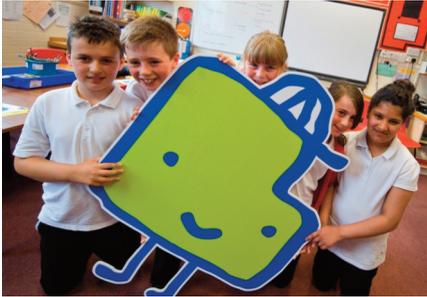
The Society made exceptional progress during the year towards our long-term objectives. Our approach continues to position the Society based on our cautious view of the outlook most likely to prevail in the years ahead. Any upside to this will be a bonus.

Our unrelenting focus will remain entirely fixed on ensuring we deliver the best value possible to our members. Solutions customers and employees, while supporting the communities we serve.

Yours sincerely

Jim Willens
Chief Executive
29th February 2012

The Society goes back to school to help improve financial education



Some of the children from Linthorpe Community Primary School with Bob Castle - Newcastle Building Society's savings character.

The Society teamed up with two schools in the region to give pupils lessons on how to look after their money as part of a new education initiative.

A branch team from the Society visited Marine Park First School in Whitley Bay and Linthorpe Community Primary School in Middlesbrough to work with around 200 pupils on a range of financial topics as part of its new financial education scheme.

These two presentations were part of an initial trial of a financial education initiative that will be extended to further schools in the North East region throughout 2012. Topics covered included history of money, your parents' budgeting, the economy and the importance of saving.

The school children also had the chance to take part in a competition to win piggy banks to help kick start their saving, which involved them telling the Society about the one thing they would save for and buy if they could.

The headmistress of Marine Park, Mrs Bickerdike, said: "Financial education is an important part of helping children to be financially independent. So, we were delighted when the Society took time out to visit all of the pupils in our Year three and give a presentation to help them understand a little more about money.

“ Many children think money happens to appear from a hole in the wall, but we cannot underestimate how important it is to help them understand the process of earning money, saving and then spending. ”

Runners go the distance to raise almost £6,000 for Macmillan Cancer Support

A team of super-fit runners representing the Society raised almost £6,000 for its Charity of the Year after meeting the challenge of the Great North Run.

The 12-strong running team took on the world's biggest half marathon to raise money for Macmillan Cancer Support. The team was drawn from the Society's branch network and head offices and also included friends of the Society.

It's the third time a team representing the Society has taken part in the Great North Run, with over £10,000 being raised through previous events.

Kelly Knighting-Wykes, Fundraising Manager for Macmillan Cancer Support, added: "Cancer is the toughest fight most people will ever face but support from companies like Newcastle Building Society means that nobody has to go through it alone."



Best foot forward - Newcastle Building Society runners raised cash for charity.

Christmas came early for 17 local good causes

The Society played Santa Claus last Christmas by surprising 17 good causes with festive grants from its Community Foundation fund ranging from £500 to £1500.

Newcastle Building Society approached its 30-strong branch network in the North East and Cumbria and asked them to nominate a group to which they would like to give an early Christmas present.

Following weeks of decision-making, a list of good causes was agreed, which ranged from a youth group and a children's football team to a community association to a hospice, as well as individuals that needed some crucial support.

Chief Executive, Jim Willens, said: "As a mutual building society it is in our fabric to be a part of and provide support to the communities in which we operate. We support a variety of charities throughout the year, but it was great to be able to help the ones specifically close to our branch network, in the heart of our operations."

Lisa Cappleman, from the Community Foundation, added: "We are delighted that the Society's Fund has made these grants during the Christmas period - local organisations are really feeling the pinch at the moment and a little boost, especially during the festive period, really goes a long way!"



Gateway into the Community - Fundraising Manager Fiona McDonald from the charity (far left) and Hexham Branch Manager, Alison Snaith holding the cheque (on right).

Hundreds of workers turn out to raise money to help people living with cancer

A charity family fun day in aid of Macmillan Cancer Support hosted by the Society at its Cobalt offices in North Tyneside has raised more than £2,400 for the charity.

More than 350 staff attended the event, which showcased the talents of the acclaimed Kingsmen Sword Dancers - a Northumbrian Rapper Sword Dancing group - and also included hip hop dance classes, a bungee run, a dog show, as well as many other fundraising activities.

However, one of the most popular events was the medieval style stocks where some Executives were brave enough to take a soaking.



Steve Urwin - Sales & Marketing Executive - was brave enough to face a good soaking in the stocks.

Gillian Tiplady, Head of CSR for the Society, was delighted with the turn out and the total raised she said: "We're thrilled that the event went so well. People relaxed around the lake taking in the glorious weather, while others took part in some of the physical events we had on offer. Most of the children had their faces painted and sat in the story time tepee where our friends from Seven Stories, the Centre for Children's Books, read popular children's books."

Kelly Knighting-Wykes at Macmillan Cancer Support added: "It was Newcastle Building Society's biggest turnout for its yearly fun day, which is testament to the amount of work the volunteers from the Society put into it."

Community 'Cornerstones' recognised at the Society's prestigious award ceremony

Penrith's community champions were honoured by the Society at a prestigious 'Cornerstones of the Community' ceremony.

The Society launched a community champion awards scheme to recognise and celebrate the members of Penrith's community, as part of the first ever awards dedicated to the town. The Cornerstones of the Community scheme is to be rolled out to other branches in 2012.

More than 50 people attended the exclusive invitation-only ceremony, which included members of the Society, the town's business community, Eden District Council, as well as the award nominees and their friends and family.

The awards, he said, was a 'thank you' to the town for the support the Society had received and to recognise the members of the community that go above and beyond the call of duty.



Presenters and Winners - celebrating great work.

The winner of the Branch Award, Rachel Bodger, 18, said at the time of the event: "I feel very honoured to receive this award. It proves that voluntary work can be rewarding in different and sometimes surprising ways."



Rachel Bodger - Branch Award Winner - giving her acceptance speech.

Four awards were given out in total; Branch Award, People's Choice, Leader's Award and a Business Award.



Joe Cann - People's Choice Award Winner - accepting his award from the Society's Chairman David Holborn.

The ceremony was opened by the Society's Chairman, David Holborn, who gave a dedication to the people of Penrith. He thanked them for the support they have shown to the Society over the years, especially since the branch's flood in December 2010, which devastated the permanent branch on Market Square and resulted in the branch relocating to the temporary premises while it was redeveloped over an eight-month period.

North East Schoolchildren go to the ball

More than 100 primary schoolchildren from across the North East went to the Ball with Cinderella after taking part in a festive art competition.

The Society teamed up with Northern Stage to run a competition based around the Newcastle theatre company's play, The Glass Slipper, which challenged entrants to create their own designs for the hot air balloons and glass slipper that feature in the play.

Over 400 children from ten primary schools entered the competition, which was run through the Society's branch network. After reviewing all the entries, the judges decided that the papier mache Union hot air balloon designed by Matthew Storey, a Year Four pupil at Red Rose Primary School in Chester-le-Street, was the best of the bunch.



Winner - Matthew Storey - holding his Union design and his class mates who all attended the performance.

Matthew's prize was for him, his entire class and teachers to be VIPs of Northern Stage for a performance of The Glass Slipper, and for his design to feature in the e-Christmas card the Society sent out at Christmas.

Competition runners-up included Natasha Hughes of Oakfield Primary School in Low Fell, Caitlyn Bennett of Kingston Park Primary School, and a special prize was also awarded to the entrants from Whickham Primary School for the extra-special effort they made with their designs.

The launch of the Sir Bobby Robson Foundation ISA!



The Society is delighted to introduce the Sir Bobby Robson Foundation ISA.

This not only pays a competitive variable rate of up to 2.60% Gross*/AER** and allows easy access withdrawals at any time, but also pays an additional 0.10% to the Sir Bobby Robson Foundation.

The charity's aim is to find more effective treatments for cancer, including clinical trials of new drugs at the Sir Bobby Robson Cancer Trials Research Centre.

The product is available with a minimum investment of only £1 so it's easy to get started. The ISA also allows transfers from other ISA providers allowing you to transfer previous year's subscriptions.

- Interest Rates available annually and monthly;
- Annually (Variable) – 2.60% Gross* / AER**;
- Monthly (Variable) – 2.35% Gross* / 2.38% AER**;
- Penalty free withdrawals without notice;
- Account available by branch, post or online;
- Transfer from other ISA providers are also permitted; and
- The Society will pay 0.10% of the average balance held*** to the Sir Bobby Robson Foundation annually. For illustrative purposes this translates as £10 per £10,000.

The Sir Bobby Robson Foundation Newcastle upon Tyne Hospitals NHS Charity (Reg. 1057213). For more information about the charity and/or for full product terms and conditions please visit www.newcastle.co.uk.savings

*'Gross' interest is the contractual rate of interest payable before the deduction of income tax. **'AER' stands for the Annual Equivalent Rate, a notional rate which illustrates what the interest rate would be if paid and compounded on an annual basis. ***Average balance held in all Sir Bobby Robson Foundation ISA accounts at the end of each month.

Don't miss out!

We have to remind all our members from time to time that they can choose not to receive marketing mailings, emails or phone calls from the Society. To find out whether you are opted in our out, or to change your preferences, just ask next time you're in your branch or call our Newcastle-based Customer Contact Centre on **0845 7344 345*** and our staff will be happy to help. Remember though, if you choose not to receive marketing messages from the Society, you may miss out when we launch new products and services.

ISA Customers

We want to make you aware of some important information from HM Revenue & Customs (HMRC) regarding how you can invest your ISA allowance. The information HMRC provides explains that if you already have a cash ISA in place, into which you invested during the current tax year (2011-12) and you pay into this during the next tax year (2012-13), you are not allowed to open another cash ISA during the current tax year.

8 However, we've made changes to the way you can invest your ISA allowance, meaning you're no longer tied to one, single cash ISA product within the tax year. This unique service is called MaximISA™** and it allows you to split your cash ISA allowance between various **Newcastle cash ISA** products and still get the tax-free benefits. This is because we now 'bundle' all of your various ISAs under one unique reference number for HMRC reporting purposes.

To find out more about the MaximISA™ service, simply call us on **0845 7344 345***, pop into any of our branches, or visit www.newcastle.co.uk.

Important Information about Compensation Arrangements

We are covered by the Financial Services Compensation Scheme (FSCS). The FSCS can pay compensation to depositors if a building society is unable to meet its financial obligations. Most depositors - including most individuals and small businesses - are covered by the scheme.

In respect of deposits, an eligible depositor is entitled to claim up to £85,000. For joint accounts each account holder is treated as having a claim in respect of their share so, for a joint account held by two eligible depositors, the maximum amount that could be claimed would be £85,000 each (making a total of £170,000).

The £85,000 limit relates to the **combined** amount in all the eligible depositor's accounts with the building society, including their share of any joint account, and not to each separate account.

For further information about the scheme (including the amounts covered and eligibility to claim) please call us on **0845 7344 345*** or ask a member of staff from your local branch.

Staying safe online

At the Newcastle, we take security very seriously but there are a few things you can do to help keep your online accounts safe:

- Don't write down your online log in details;
- Make sure you have up-to-date anti-virus and anti-spyware software installed on your computer;
- Take care when opening email attachments;
- Ensure you always log off properly when you've finished transacting online; and
- We will never ask you send personal details in an email; do not respond to suspicious emails asking for such information.

Want to be kept up to date?

Why not sign up to receive our regular e-Newsletter? The e-Newsletter is an email service that gives you regular updates, news and advice that we think could be useful. It's very straightforward to register, simply visit www.newcastle.co.uk and sign up.

Why not also join our Priority Register?

The Register is also an email service that keeps you up-to-date with our new products and services – just as they're launched, so you don't miss out. It's easy to join, simply ask in branch or telephone our Newcastle-based contact centre on **0845 7344 345***, provide your email address and that's it!

We always try to keep the marketing messages to a minimum anyway – only sending you the information on products that we really think could be of interest to you.

*Lines open Monday to Friday, 8am to 6pm (excluding Bank holidays) **MaximISA™ is a trade mark of Newcastle Building Society. All rights reserved.

Notice of AGM

Notice is given that the AGM of members of Newcastle Building Society will be held on Wednesday 25 April 2012 in the Bamburgh Suite, Newcastle United Football Club, Newcastle upon Tyne NE1 4ST at 1.45pm prompt, for the following purposes:

Ordinary Resolutions

1. To receive the Annual Report & Accounts
2. To re-appoint PricewaterhouseCoopers LLP as auditors
3. To approve the Report on Directors' Remuneration

Election and Re-election of Directors

4. i) To re-elect David John Buffham
 ii) To re-elect Frank David Holborn
 iii) To re-elect Ronald Joseph McCormick
 iv) To re-elect Richard Derrick Mayland
 v) To elect Philip James Moorhouse
 vi) To elect John Morris
 vii) To re-elect Angela May Russell
 viii) To re-elect Gillian Tiplady
 ix) To re-elect Catherine Rosemary Reid Vine-Lott
 x) To re-elect John Henderson Warden
 xi) To re-elect James Henry Willens

Special Resolution

5. To consider and, if thought fit, to pass the following as a Special Resolution: That the Rules of the Society be amended in the manner specified in the document produced to the meeting and initialled by the Chairman for the purposes of identification.

By Order of the Board



Ian Good
 Group Secretary
 29 February 2012

Notes

1. These notes form part of the Notice of Meeting.
2. Under the Society's Rules, a member entitled to attend the Meeting and vote may appoint a proxy to attend and vote on his or her behalf. You may appoint the Chairman of the Meeting or anyone else as your proxy and your proxy does not have to be a member of the Society. Your proxy may vote for you at the Meeting but only on a poll.
3. You may instruct your proxy how to vote at the Meeting. Please read the instructions on the Voting Form.

How to Vote

Online

1. You can vote online at: www.newcastle.co.uk/aggm
2. You must vote online by **12 noon Tuesday 24 April 2012**. 10p will be donated to our Charity of the Year, Macmillan Cancer Support, for every online vote received.

Freepost

1. Complete, sign and detach the Voting Form.
2. Post it in the pre-paid envelope provided. No stamp is required. Your form should be received no later than **12 noon Tuesday 24 April 2012**.
Please do not include passbooks or cheques in the pre-paid envelope.

At the AGM

1. You can vote in person at the AGM on **Wednesday 25 April 2012**.
2. Bring your Voting Form, or other evidence of membership, to the Meeting.

Agenda:

- Registration 1:00pm
- AGM 1:45pm prompt
- Refreshments 3:20pm to 4:00pm

AGM Business

1. The Annual Report and Accounts for the year ended 31 December 2011 are required to be received formally by members at the AGM.
2. It is a requirement that the auditors are appointed by the members each year. The Board is proposing the re-appointment of PricewaterhouseCoopers LLP as auditors.
3. Although it is not a legal requirement, in line with current best practice, members are being asked to approve the Report on Directors' Remuneration for the year ended 31 December 2011.
4. In accordance with best practice on corporate governance, all of the Society's Directors are standing for election or re-election at the AGM. Details of all the Directors are set out on pages 14 to 16.
5. The Board is proposing a number of changes to the Society's Rules at this year's AGM. Further information, including a summary of the main changes to the existing Rules, can be found on pages 12 and 13.

The Board recommends that you vote in favour of all the resolutions and for the election or re-election of the Directors.

Being a Member

What does being a Member actually mean?

As a member of a building society, you are more than just a customer; you have certain rights to receive information and to voice your opinions on the way your building society is run. Building societies are unlike banks, which are public limited companies (plcs) owned by, and run for, their shareholders. As a mutual organisation, a building society does not have any other set of owners, separate from its members, to influence or direct its business.

As a member what can I expect to receive?

Members are entitled to receive a range of information, including:

- A copy of the society's rules and memorandum (on request);
- A copy of the annual summary financial statement on the society's business (which is sent to members before the AGM and also when an account is first opened);
- A copy of the detailed Annual Report and Accounts (on request); and
- Notice of the AGM.

Does every member have the same rights?

Most people taking out a mortgage or opening a savings account with a building society become members and therefore have rights to receive information as mentioned above. However, some building society investors have deposit accounts (although this is increasingly rare); depositors are not members and have no member rights. Also, customers of a subsidiary of a building society are not members of the Society.

Additionally, saving members with less than £100 in their account, borrowing members with a mortgage of less than £100, and members under the age of 18 have restricted rights, allowing them only to receive information on request. They cannot vote, nominate directors or speak at AGMs, for example.

Joint Account

In many cases, savers and borrowers have joint accounts; for instance, a husband and wife may hold one account between them. In such cases, only the first-named account holder is entitled to all of the members' rights; the second, or subsequent, named holders are entitled to fewer rights - mainly regarding obtaining information. It is therefore important that careful consideration is given to the order of names on a joint account.

How to get there

By Road

From the A1 North or South take the A184 slip road. Follow signs for the A189 to cross the Redheugh Bridge, leading onto St. James' Boulevard (known as Blenheim Street on the map opposite). Travel all the way to the end of the Boulevard.

Turn left at the traffic lights on to Barrack Road (the Stadium is on the right) and over the next set of traffic lights move into the right-hand lane. Turn right at the next set of traffic lights into the football club.

By Rail

Newcastle Central Railway Station is only five minutes from the football club by car or taxi. The Tyne & Wear metro station system provides a link direct to the football club. For details of the rail service please call National Rail on 08457 484 950.

For details of the Tyne & Wear Metro System call Nexus on 0191 203 3333.

Local Travel Information

If you would like to find out more about local transport information you can also contact Traveline on 0871 200 2233.

Venue Details

Upon arrival, guests travelling by road will be advised by an attendant where to park. The attendant will also direct guests to the relevant reception area.

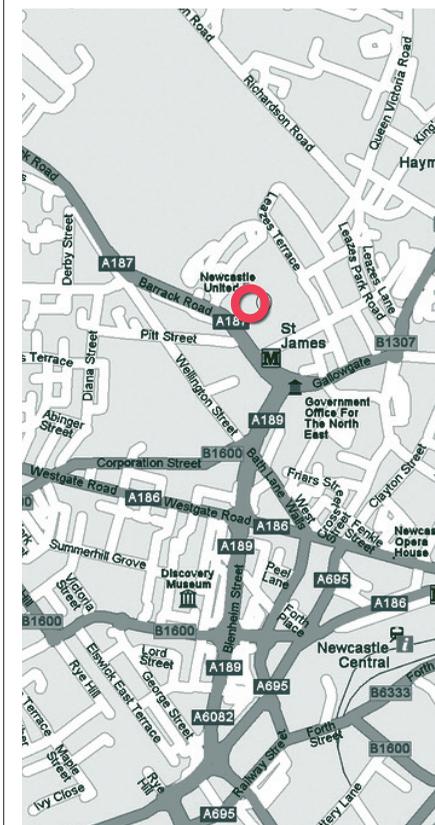
There are a small number of free on-site car parking spaces for members attending our AGM.

The free car parking spaces for our members are on levels 1 and 2 of the multi-storey car park. The car parking areas can be accessed from Barrack Road. Please follow sign for 'Conference and Banqueting Car Parking'.

In the event of levels 1 and 2 of the multi-storey car park being full, guests may use the nearby low-level two storey car park. The cost there is 60p per hour from 8am - 10pm.

Wheelchair access is available.

Some limited disabled parking spaces are also available and can be booked in advance by calling Christine Heslop on 0191 244 2735.



There is an item (number 5) on the agenda at this year's AGM to amend the Rules of the Society. The purpose of this note is to provide an explanation to members of the substance of the alterations.

The Society has not carried out a full review of the Rules since 1998. It is now doing so following the publication by the Building Societies Association (BSA) of a new edition of its Model Rules (on which the Society's Rules are based). This has been produced by the BSA to reflect changes in building society law and practice since the publication of the previous edition of the Model Rules in 1997.

The proposed alterations to the Society's Rules reflect very closely the wording of the BSA Model Rules. The Financial Services Authority (FSA) has been consulted in the development of this edition of the Model Rules and has indicated that it would regard its use by societies as helpful.

This note sets out the main areas of change and provides examples of specific changes in each area. If you would like a copy of:

1. The existing Rules, with the alterations highlighted;
2. The Rules including all the proposed changes; and/or
3. The document setting out the proposed amendments,

then please visit the Society's website: www.company-newcastle.co.uk/financial-results/ or request copies from the Group Secretary, Newcastle Building Society, Portland House, New Bridge Street, Newcastle upon Tyne NE1 8AL.

It is intended that, if the alterations to the Rules are agreed at the AGM, they will take effect (subject to registration by the FSA) on 1 August 2012.

The Board believes that these alterations will benefit the Society and its members and recommends that members vote FOR the resolution covering the alterations.

Main changes to the Society's existing Rules

Electronic Communications

There has been a substantial growth in electronic communications affecting building societies since the Society's Rules were last changed. This has covered the full range of communications, including matters relating to meetings. This is reflected in proposed alterations to the Rules, the main examples being:

General Changes

A new **Rule 1(e)** – facilitating the use of electronic communications for sending notices or documents under the Rules.

Rule 32(5) to (8) – containing specific amendments to the Notice of Meetings rule to cover electronic communications.

Rule 46(2) – extending the existing provision regarding the service of notices to cover electronic communications.

A new **Rule 46(5)** – confirming the ability to serve notices and other documents electronically.

Particular application to meetings

Rule 37 – there are a number of proposed alterations designed primarily to facilitate the appointment (and revocation) of proxy appointments by electronic communication.

Rule 39 – this rule is being revised to cater for electronic ballots (i.e. where some of the voting is electronic).

Other related changes

Rule 1(a) – definitions of "Register" and "Registered Address": these have been amended, principally to cater for electronic addresses.

A new **Rule 1(d)** – this new provision is designed to give the Society greater flexibility in relation to the acceptance of signatures on documents in forms other than conventional manuscript.

A new **Rule 42(6)** – this provides for an electronic form of seal for the Society.

Meetings

As well as the alterations affecting electronic communications, there are a number of other meeting related changes, the main examples being:

Rule 34(1) – the provisions relating to the quorum (i.e. the numbers of members required to be present) at meetings have been simplified.

Rule 35(11) – a provision has been added confirming that the Chairman may declare the result of a poll (i.e. a formal vote not by show of hands), except on an adjournment, at a time determined by him/her e.g. later in the meeting, shortly after the meeting or subsequently on the Society's website.

Rule 36(6) – this has been amended to allow the holder of a power of attorney from a member to appoint a proxy.

Rule 37(4) – this change will allow proxies to speak at general meetings.

Rule 45 – it is being made clear that in those cases where the Rule requires a Special Resolution, the Resolution must be a valid resolution under the general law.

Rule 46(2) – the existing Rules deem notices etc. to be received 72 hours after posting. This will be altered to provide for a deemed period of 48 hours, which is now more common.

A new **Rule 46(4)** – this provision has been included to provide alternative communication arrangements for meetings in the case of postal disruption.

Directors/Board

The provisions regarding directors and the Board are also being updated, the main examples being:

Rule 12(4)(g) – the existing provisions for delegation by directors are being supplemented by a provision allowing the Board to delegate by power of attorney for specific purposes; the provisions regarding delegation to committees are being amended by including a general power for the Board to decide regulations for committees based on the approach in the Model Articles for public companies.

Rule 13(1)(a) (and other connected rules) – this alteration is designed to reflect the fact that the "normal retirement age" provisions for directors under the Building Societies Act 1986 may well cease to apply in the future in the light of the Equality Act 2010, and will therefore only be relevant so long as they are binding on the Society.

Rule 16(3)/(4) – the provisions for convening meetings of directors have been simplified.

Rule 24 – this rule deals with the circumstances in which a director gives up office, and is being updated; it also now provides for an executive director to stand down where he/she relinquishes executive office and clarifies and amplifies the Board's ability to remove a director who fails to maintain the required regulatory authorisation.

Terms and Conditions

Since the Rules were last fully reviewed in 1998, the Society has increasingly covered contractual terms and conditions for savings and mortgage products in product related literature. In view of this, a number of Rules have been shortened e.g. Rules 8(5), 11 and 12(5). Certain other "terms and conditions" related provisions have been reviewed and amended in the light of regulatory and practice developments, the main examples being:

Rule 4(8) – this has been amended to confirm that the Society will not have an absolute discretion to refuse to accept further share account investments or lend further money on an existing member's account, though it may refuse to open a new account.

Rule 6(3) – this deals with termination of membership by account closure by the Society. As altered, it will provide that termination can be immediate if there is a valid reason e.g. abuse of staff, otherwise there must be notice of one month, or longer if the account terms provide for the member to give longer notice of withdrawal; there is also provision for fixed term accounts.

Rule 8(4) – this deals with notification of changes to terms and conditions of a share account; it has been redrafted following implementation of the Payment Services Regulations and the Banking Conduct of Business Sourcebook to provide that notification of changes in account terms and conditions will be as provided in the account documentation, except where the account documentation makes no appropriate provision for this, when notification will be by not less than two months' personal notice.

Our Directors



1. David Holborn Chairman

David has spent his entire career as a finance professional. He worked for Lloyds Banking Group for 39 years in a number of Executive roles. He was Director of the Northern Region for 10 years and was responsible for service to customers in business, commercial and personal sectors through 225 branches and 3000 staff. He was also a member of the Lloyds TSB National Retail Board. He was elected to Fellowship of the Chartered Institute Of Financial Services in 1998 for his services to Banking and is a former President of the Bournemouth and Newcastle Centres. Prior to his appointment as Chairman of the Society's Board in January 2011, he built up significant experience of the Society; he was a Non Executive Director for eight years and held the post of Senior Independent Director. David is also the Vice Chairman of Rothley Trust, a post he has held for three years, having previously been a Trustee for four years.

2. Jim Willens Chief Executive

Jim's expertise in, and commitment to, the building society sector spans more than 30 years. During this time, he has held significant senior posts including Retail Operations Director and Group Services Director at Nationwide. His roles over the years have included strategic responsibility for Branches, Telephony, Internet Services, Technology, Product Development and Central Support Services, which have involved leading teams in excess of 9,000 people. His career started out in the 'field' as a branch manager and he also held a range of retail and sales management positions. Jim has a strong track record of delivery and a passion for developing the people he works with to provide excellent customer service through the mutual business model both of which are key elements to the Society's corporate strategy.

3. Ron McCormick Deputy Chairman

Ron has established a successful career in the building society sector as an experienced accountant. He is both a Fellow of the Institute of Chartered Accountants and a Fellow of the Chartered Institute of Internal Auditors. He has previously worked as both Group Finance Director then Group Commercial Director at Skipton Building Society, posts which he held for a total of 14 years. In addition, he has more than seven years experience with Guardian Royal Exchange, as well as seven with KPMG, both in the UK and abroad. Following three years on the Society's Board, in January 2011 he was appointed Deputy Chairman and Senior Independent Director. He is a member of the Society's Audit and Group Risk Committees. He also works as a senior adviser to businesses within a range of sectors.

4. Angela Russell Finance Director

Angela is a highly experienced Chartered Accountant and Certified Public Accountant with over 20 years experience in finance in the UK and abroad. She has worked in a variety of positions covering finance, risk, audit, project and corporate planning roles. In particular, she has several years experience in finance roles within the building society sector including her current role as Finance Director for the Society, which she has held since 2010, and follows two years with the Society as Group Risk Executive. She also held the post of Finance Director at the Universal Building Society (before its merger with the Society in 2006). Angela also spent 12 years at PricewaterhouseCoopers LLP. She is also a Non Executive Director of a North East based care charity.

5. John Warden Operations Director

John has worked for over 10 years in financial services. During that time, in addition to operations, he has headed functions covering marketing, corporate planning, business change, project management, finance, IT and HR. He joined the Society in May 2010 as Interim Operations Director before being confirmed in the permanent post in October that year. Prior to that, he held senior roles at both Coventry and Yorkshire Building Societies. John is a Chartered Accountant with over 10 years experience as a Finance Director spanning a number of sectors including financial services, retail, IT and manufacturing. He also spent nine years at PricewaterhouseCoopers LLP.

6. Gillian Tiplady Business Services Director

Gillian has more than 18 years experience of the legal profession, which includes ten years working in the building society sector. She worked at Universal Building Society for five years before the merger with the Society where she was a Director and Group Secretary. In January 2011, she became a Board member of the Society when she was appointed as Business Services Director. She is a solicitor and spent 13 years at Watson Burton where she specialised in Banking and Insolvency law. She is also a trustee of Seven Stories, the Centre for Children's Books.

7. John Morris

Non Executive Director

John is a Fellow of the Institute of Chartered Accountants and brings to the Society a significant amount of experience of both the banking and building society sectors. He worked for several years as Director of Finance for the Retail Banking Division at HBOS. Prior to that, he held senior posts at Halifax (Halifax Building Society and then Halifax PLC) as General Manager and Leeds Permanent Building Society where he held the post of General Manager Finance. He also worked at KPMG where he started his accountancy career. He is a member of the Society's Group Risk Committee.

9. Catherine Vine-Lott

Non Executive Director

Catherine has a total of 34 year's experience in the financial services sector having spent her entire working life in the industry. This includes 18 years at Barclays where her positions included Chief Executive of Barclays Stock Brokers, as well as Barclays Personal Investment Management. In addition, she has significant experience with Legal and General both at group Board level and in running the wealth management division. This brings an abundance of expertise to Newcastle's Board, which she joined in January 2010. She is also an experienced Non Executive Director and is Chairman of Openwork Holdings Limited, Rathbone Brothers PLC and Cranfield University Advisers Committee. For the Society, she is Chairman of the Remuneration Committee and a member of the Audit Committee.

11. David Buffham

Non Executive Director

David has spent most of his career at the Bank of England. He held a wide variety of banking and other roles, most recently the post of Bank of England Agent for the North East. There he was responsible for reporting to the Bank's Monetary Policy Committee on the region's economy and explaining policy to key stakeholders in the North East. He brings this knowledge and experience to the fore as Chairman of the Group Risk Committee and also as a member of the Nomination and Remuneration Committees. He is an experienced Non Executive Director and, additionally, is a Governor at Northumbria University in Newcastle.

8. Richard Mayland

Non Executive Director

Richard is an experienced accountant who was a partner at Pricewaterhouse Coopers LLP (PwC) for 17 years before his retirement in 2003. During his time with PwC, he specialised in audit and business advisory services. His time as a partner was spent in the North East before being asked to head the financial services audit practice for the North of England. He has significant expertise in the regulatory and accounting matters. He is currently Chief Executive of Norprime Ltd, a post he has held for five years. He brings more than 30 year's experience of the accountancy world to the Society's Board, which he has been a member of for more than six years. He is also Chairman of the Society's Audit Committee and a member of both the Nomination and Remuneration Committees.

10. Phil Moorhouse

Non Executive Director

Phil is a highly experienced accountant and is a Fellow of the Chartered Association of Certified Accountants. He has held a number of senior Board positions including that of Managing Director (UK) of Northgate PLC, which he held for more than seven years. This followed six years as Finance Director. He is a Director of the charity Renew (North East), having been Chairman for several years and at Molins PLC he is Chair of Audit and a Senior Independent Director. Additionally, he sits on the Board of Cumbria NHS Partnership Trust. Phil brings his 35 years industry expertise to the Newcastle's Board and also the Society's Audit Committee, of which he is a member.

REMUNERATION COMMITTEE REPORT

The Remuneration Committee operates within the Terms of Reference (TOR) agreed by the Board. The TOR are reviewed annually and were last reviewed on 27th February 2012. The effectiveness of the committee is also reviewed on an annual basis and was last reviewed on 28th November 2011.

The main objectives of the committee are summarised as follows:

- To ensure compliance with the FSA Remuneration Code ("the Code");
- To consider and make recommendations to the Board on executive remuneration and conditions of employment; and
- To consider and make recommendations to the Board on the general framework of staff bonus schemes.

Composition of the Committee

The committee consists solely of Non Executive Directors. Catherine Vine-Lott (known as Kate Avery and Chairman of the committee), David Buffham and Richard Mayland. The committee operates to a rolling agenda in order to ensure it fully discharges its responsibilities. It normally meets at least three times each year. The committee is supported by the Chief Executive and Human Resources Executive who attend meetings in an advisory capacity only. The Chief Executive does not attend any part of a meeting where his own remuneration is being discussed.

FSA Remuneration Code

On 17th December 2010, the FSA published the final rules for the Code. The Society was governed by the new code with effect from 1st January 2011 but, in view of the short timescale between the announcement and the effective date, the FSA established a transitional period until July 2011 for organisations, such as the Society, to comply with the Code. The FSA also issued guidance on the application of the Code throughout the year, as many aspects appeared not applicable to organisations, such as the Society. The Society is categorised as 'Tier 2' for the purposes of the Code (organisations with capital exceeding £100m but not exceeding £750m). The key requirements of the Code affecting the Society are summarised below:

- To establish a Remuneration Committee;
- To maintain a Remuneration Policy Statement;
- To maintain a list of employees whose professional activities have a material impact on its risk profile – such staff are known as 'FSA Code Staff'; and
- To defer parts of variable pay (bonuses) which exceed certain thresholds.

The Remuneration Committee undertook a thorough review of remuneration policies and processes during

2011 and consider that the Society fully complies with the requirements of the Code.

FSA Code Staff

The Committee considered that there were 15 employees that should be categorised as Code Staff and these include:-

- All Executive Directors (4);
- Sales and Marketing Executives (2);
- Executives and senior managers responsible for key control functions (5) – Group Risk Executive, Head of Business Assurance, Head of Compliance, Money Laundering Reporting Officer and Senior Underwriting Manager; and
- All other Executives (4).

A summary of the remuneration of Code Staff during 2011 and the business areas in which they operate is shown on page 19.

Remuneration Strategy

The Society's remuneration Strategy can be summarised as set out below:

Basic Salaries

Remuneration packages are normally set at a level to attract, motivate and retain Executives, Officers and staff of the Society of the calibre necessary to oversee the operations of the Society. Basic salaries are normally set by taking into account salary levels within similar sized financial services organisations and the market as a whole, so as to attract and retain the skills levels that are appropriate to manage the diverse challenges faced by the Society.

General salary increases were not awarded in 2009 or 2010 due to the prevailing economic conditions. A moderate increase of 2.5% was awarded to all staff, except Directors, in April 2011.

Performance Related Bonuses

In light of the continuing difficult trading conditions facing the Society, the payment of bonuses to Executive Directors, Executives and Remuneration Code staff has been suspended since 2007. However, in December 2011 a small bonus of £200 was paid to all staff including four Remuneration Code staff (Senior Managers) but excluding Executive Directors and Executives. Sales related incentive and bonus schemes have continued to be

REMUNERATION COMMITTEE REPORT

operated for most sales staff. Bonus schemes (when operated) are set in such a way as to ensure that they promote the financial strength of the Society, do not reward failure and that they do not encourage any officer of the Society to take risks outwith the Society's risk appetite.

The Committee introduced a monitoring process during 2011 in order to ensure that all bonus payments comply with the Code and the Society's Remuneration Policy Statement.

The Committee has approved a Corporate Bonus Scheme for 2012 in which all staff, including Code Staff, will participate. The scheme will be based upon the Society achieving the main objectives set by the Board, which will be monitored via Key Performance Indicators. The size of bonus awarded, if any, will be determined by the Board on the recommendation of the Committee. The Board therefore has total control of the scheme and will ensure that it does not result in inappropriate bonuses being paid.

The performance of all staff, including Code Staff is reviewed at least annually via a formal appraisal process.

Exceptional Items

The Committee is required to report any exceptional items such as 'sign-on' or severance payments made to Code Staff. It is confirmed that there were no such payments made during the year other than relocation expenses for the Chief Executive and Group Risk Executive which were agreed at the times of their appointments.

Pensions

All staff (including Executive Directors and Executives) are eligible for membership of the Newcastle Building Society Group Personal Pension Scheme, which is a defined contribution scheme. The Newcastle Building Society Pension & Assurance Scheme (a 'defined benefit' scheme) has been closed to active membership since November 2010 and had been closed to new entrants since 2000. None of the current directors participated in this particular scheme.

Other Benefits

All Executive Directors and Executives receive a range of taxable benefits, which include a motor vehicle or cash equivalent, private health care and the ability to participate in a concessionary mortgage scheme. Life cover for a lump sum on death in service is also provided. No Executive participated in the concessionary mortgage scheme during the year although some had mortgages with the Society on the same commercial terms as members of the Society.

Service Contracts

It is the Society's policy to provide six months notice of termination for all Executive Directors. All of the current Executive Directors therefore have such notice periods. Five of the longer serving Executives have service agreements, which provide for 12 months notice of termination from the Society. The remaining Executives all have notice periods of 6 months. It is the policy to employ all newly appointed executives with notice periods of 6 months. There are no contracts of employment for Non Executive Directors and no compensatory terms for loss of office.

Policy on Remuneration of Non Executive Directors

Non Executive Directors fees are set at a level appropriate to reflect the skills and time required to oversee the Society's operations and progress. Non Executive Directors receive a base fee and additional fees depending upon the Board Committees on which they sit or chair.

Fees are normally reviewed annually in light of those paid to directors of other similar financial services organisations. The Non Executive Directors do not determine their own fees. The CEO recommends the fees for Non Executive Directors. The Remuneration Committee then agree any such recommendations before they are ratified by the full Board i.e. by Non Executive Directors and Executive Directors. Fees were not subject to a general increase in 2011. Non Executive Directors do not participate in any bonus or pension schemes.

REMUNERATION COMMITTEE REPORT

	Salary or fees	Annual bonus	Pension contributions to defined contribution scheme	Other benefits	Increase in accrued pension benefits earned in year (excl. defined benefit scheme)	Total 2011 contractual benefits	'One off' expenses - relocation costs	Total 2011 including 'One off' expenses	2010 total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Executive Directors									
C Greaves (resigned 31 July 2010)	-	-	-	-	-	-	-	-	82
W Lee (resigned 31 July 2010)	-	-	-	-	-	-	-	-	90
AM Russell (appointed 1 July 2010) (Note 2)	145	-	13	10	-	168	-	168	84
CJ Seccombe (retired 12 March 2010)	-	-	-	-	-	-	-	-	57
G Tiplady (appointed 11 January 2011)	120	-	8	11	-	139	-	139	-
JH Warden (appointed 7 October 2010)	140	-	13	11	-	164	-	164	41
G Wilkinson (resigned 9 April 2010)	-	-	-	-	-	-	-	-	21
JH Willens See Notes 3 & 4	260	-	-	37	-	297	12	309	362
	665	-	34	69	-	768	12	780	737
Non-Executive Directors									
DJ Buffham (appointed 24 May 2010)	38	-	-	-	-	38	-	38	20
AM Cairns (resigned 30 June 2011)	16	-	-	-	-	16	-	16	9
CJ Hilton (retired 31 December 2010)	-	-	-	-	-	-	-	-	64
FD Holborn (appointed Chairman 1 January 2011)	62	-	-	-	-	62	-	62	45
RD Mayland	43	-	-	-	-	43	-	43	40
PJ McCormick (appointed Deputy Chairman/Senior Independent Director 1 January 2011)	50	-	-	2	-	52	-	52	42
J Morris (appointed 31 October 2011)	6	-	-	-	-	6	-	6	-
PJ Moorhouse (appointed 31 October 2011)	6	-	-	-	-	6	-	6	-
JM Pott (retired 31 December 2010)	-	-	-	-	-	-	-	-	33
CRR Vine-Lott (appointed 1 January 2010)	40	-	-	1	-	41	-	41	34
NA Westwood (retired 28 November 2011)	30	-	-	-	-	30	-	30	33
Total for Non Executive Directors	291	-	-	3	-	294	-	294	320
Total for all Directors	956	-	34	72	-	1,062	12	1,074	1,057

Notes:

- The Society introduced an HMRC approved Pensions Salary Sacrifice Scheme for all staff during 2011. Some of the Executive Directors have elected to participate in the scheme however, their gross salaries and pension contributions (before salary sacrifice is applied) are shown.
- Mrs A.M. Russell's salary was increased to £150,000 on 1 April 2011 however, Mrs Russell has elected not to accept the increase yet.
- Mr. J.H. Willens was set a relocation allowance of £90,000 inclusive of tax and national insurance. Mr Willens has now been fully reimbursed for the cost he incurred up to that limit.
- Mr. J.H. Willens has elected to take his pension contribution amounting to £23,400 as a cash payment. He is liable for his own Tax and National Insurance Contributions on this payment.

Summary of the Remuneration of FSA Code Staff

A summary of the remuneration of Code Staff during 2011 and the business areas in which they operate is shown below. No comparative analysis is available for previous years as the categorisation of FSA Remuneration Code staff was introduced in 2011. Such analysis will be provided in future years.

Category	Typical Functions	Number in Category	*Fixed Remuneration £000	Variable Remuneration £000	Deferred Remuneration £000	Total Remuneration £000
Executive Directors	CEO, Finance Director, Operations Director, Business Services Director	4	768	12	-	780
Sales & Marketing Executives		2	212	-	-	212
Control Functions	Business Assurance, Risk Management, Compliance, Underwriting	5	328	15	-	343
Other Executives	Treasury, Information Technology, Operations, Human Resources	4	379	-	-	379
Total		15	1,687	27	-	1,714

*Includes benefits and pension contributions.

Catherine Vine-Lott
Chair – Remuneration Committee
29 February 2012

Overview

2011 was another challenging year for the financial services sector and the wider global economy, with some commentators suggesting it was the most difficult 12 months since the onset of the financial crisis. High inflation, higher taxes, rising unemployment and the austerity measures introduced by the Government affected household budgets and the high street through lower disposable incomes and waning confidence to consume. The Eurozone crisis has brought significantly more uncertainty and turbulence to markets. The impact of continued low interest rates coupled with a highly competitive retail savings market maintained pressure on margins. Despite this backdrop the Society has maintained its continued and steady progress.

Operating profit before provisions, impairments and exceptional items improved to £9.2m from a £0.3m loss in 2010. This progress has been achieved by pursuing strategies to return our focus to that of a traditional and simpler building society model, supported by a diversified income stream via the Solutions business, and with a significantly leaner and more efficient cost base. Profit before tax has increased to £0.1m in 2011 compared to a loss of £4.7m in 2010.

The Group balance sheet remains robust with high levels of premium low risk liquid assets, overall well-performing quality mortgage assets, a bigger proportion of funding from retail savers and improved capital, which saw the Core Tier 1 ratio improving to 10.0% (2010: 9.1%), and overall Solvency increasing to 15.0% (2010: 14.1%).

A continued focus on business simplification saw completion of the subsidiary rationalisation programme with 22 subsidiaries closed since 2010, repayment of the commercial securitisation programme at the first call date in February 2011 and unwind of the Covered Bond programme in July 2011. The sale of the Society's Prepaid Cards division was completed in December 2011 resulting in a net gain on disposal of £3.9m.

The risk profile of the Society's balance sheet continued to improve with a reduction in legacy portfolios in wind down of £185m including a 22% fall in commercial balances, 17% fall in Buy to Let mortgages and 29% decrease in loans secured on traded endowment policies, which are now at only £28m. The Group recognises the particularly demanding conditions experienced by commercial borrowers and has recognised a charge of £12.3m against loans in arrears or possession, with Law of Property 1925 (LPA) receivers or where a trigger event has identified there may be a problem in the future servicing of the loan.

Income Statement Review

GROUP INCOME STATEMENT			
	2011	2010	2009
	£m	£m	£m
Net interest income	17.5	17.8	20.4
Other income	27.2	18.8	19.4
Total income	44.7	36.6	39.8
Administrative expenses	(32.6)	(33.7)	(38.3)
Depreciation	(2.9)	(3.2)	(3.3)
Operating Position pre Provisions/ FSCS/Exceptionals	9.2	(0.3)	(1.8)
Net gain on disposal	3.9	-	-
Impairment losses - customers	(12.3)	(1.8)	(8.0)
Impairment losses - banks and debt securities	0.7	2.4	9.1
FSCS levy	(1.4)	-	1.3
Repositioning Programme	-	(4.0)	-
Provisions for liabilities and charges	-	(1.0)	(0.5)
Profit/(loss) for the year before taxation	0.1	(4.7)	0.1

Net Interest Income

Net interest margin remained stable at 0.40% in 2011 the same as in 2010. Maintaining margin remains a challenge given the continued upward pressure on retail funding costs, reduced returns on liquid assets due to the impact of the Liquidity Standards Regime and a stagnant housing market impacting mortgage lending volumes. The Group will continue to maintain its strategy of considering the longer term impact on margin of new residential lending and will only lend where acceptable returns are achieved for the risk taken.

Other Income and Charges

Other income across the Group rose by £8.4m in 2011 to £27.2m from £18.8m in 2010. The main drivers for the improvement were an increase in Solutions income of £6.6m and higher activity on regulated sales which generated £0.7m of additional income. In the Solutions business, the full year impact of contributions from a number of savings management contracts, was felt, on both expanding contracts launched in 2010 and new contracts in 2011. The Solutions division continues to attract new business and the Group will continue with its strategy to strengthen its diversification based on core competencies into 2012 and beyond.

Administrative Expenses and Depreciation

Administrative expenses fell by £1.1m in the year to £32.6m (2010: £33.7m) despite the increased staffing requirement and activity levels required to support the growing Solutions business. When the cost base for 2011 is compared to that of 2009 there has been an overall reduction of £9.1m, after taking into account that 2009 management expenses are stated net of a £3m pension curtailment credit. The overall fall in management expenses reflects the benefits flowing from the Repositioning Programme in 2010 with lower property costs, improved efficiency levels and reduced subsidiary administration costs; this is supplemented with strict control of discretionary expenditure and carefully

managed capital investment. The management expense ratio (administrative expenses plus depreciation as a percentage of mean total assets) improved to 0.80% in 2011 from 0.82% in 2010. As a measure of the Group's improving efficiency the ratio of operating cost to income has improved to 80% from 101% in 2010.

Gain on Disposal of Prepaid Cards Division

The Society legally completed the sale of its Prepaid Cards Division to Wirecard AG Group on 21st December 2011. Cash received on completion amounted to £7.5m and a further £2.5m may be receivable as deferred consideration based on trading performance of the Cards Division in 2012 and 2013. The Society has recognised £0.5m of the earn-out in 2011 with any further income being recognised in 2012 and/or 2013 when receipt is more certain. After allowing for costs of £0.7m, assets written off of £0.3m and liabilities recognised of £3.1m (in relation to pre-completion liabilities retained by the Society) the net gain on disposal recognised in 2011 is £3.9m. Further details are given in Note 10 on page 40 of the Annual Report and Accounts.

Impairment Losses

Loans and Advances to Customers

The overall net impairment charge for loans and advances to customers has risen to £12.3m in 2011 from £1.8m in 2010. The Society has, and will continue to, pursue its strategy to de-risk the balance sheet by winding down the commercial lending portfolio and providing against loans where an impairment trigger has been reached. The economic climate and uncertainty, particularly in the second half of 2011, have heightened difficulties in the commercial property sector and as a result £12.2m of the £12.3m charge added in the year is related to commercial lending (across specific and collective provisions) following impairment assessments and a revision to the Society's methodology of identifying trigger events. Impairment calculations are carried out by considering future discounted cashflows as per rules laid out in international accounting standard, IAS39. In considering future cashflows the Society estimates the future valuation of the security less anticipated disposal costs, any interest rate hedging unwind required as well as interest rates, payments and charges. The Society considers several factors when deciding if a commercial exposure is impaired including any missed payments, tenant financial position, tenant voids and likelihood of re-letting, and any other potential loan servicing issues arising from assessments or professional advice.

In 2011 a provisioning committee was newly formed with the remit to fully and consistently apply the Society's impairment methodology to commercial loans with the best internal and external information available. Further details of commercial arrears and provisions are given in the Directors' Report on page 14 of the Annual Report and Accounts.

A charge of £0.6m relates to residential lending; predominantly Buy to Let loans. The incidence of credit losses on the Society's core residential lending portfolio has been negligible. The low level of losses on residential lending, in current circumstances, is a reflection of the good quality of £2.6bn or 86% of the Group's mortgage assets. Impairment of the residential book is considered collectively for loans with 3 month+ arrears based on an estimation of loss given default and probability of default based on individual loan circumstances. All properties entering possession are provided specifically based on loan to value and anticipated disposal costs. The Society has created an additional model in 2011 to identify roll rates to possession for loans with low arrears; previous arrears or where forbearance has previously been granted. An additional small collective provision has been recognised covering loans captured by this model. The Society's book of loans secured on traded endowment policies is significantly reduced and £0.4m has been credited through impairment charges to reflect a lower provision requirement.

Loans and Advances to Banks and Debt Securities

In 2008 the Society made impairment provisions totalling £32.6m against exposures to Icelandic banks. The Society is provided with information from administrators about the level of recoveries the creditors could expect to recover from the Icelandic banks. The anticipated recoveries for Glitnir and Landsbanki have fallen in 2011 following an adverse ruling on priority of deposits in Iceland. Kaupthing Singer and Friedlander and Heritable recoveries, which are based on latest estimates from the administrators, have been revised upwards following an ongoing improving trend in recoveries, which has been evident over the last year. The overall effect on the Society is that there is a net credit of £0.7m on the impairment provisions as set out in Notes 11 and 12 of the Annual Report and Accounts.

FSCS Levy

The Society's provision for its contribution to the Financial Services Compensation Scheme (FSCS) has been increased by £1.4m in 2011 (2010: £nil). The increase in provision is to enable the Society to cover its estimated liabilities under the rules of the scheme in compliance with international reporting standards and guidance, IAS37 and IFRIC6. The cost of funding the FSCS Levy is currently being negotiated between the FSCS and HM Treasury and the final outcome of these discussions will have an impact on the compensation levy passed on to UK regulated deposit takers. Further details of the provision are given in Note 27 on page 52 of the Annual Report and Accounts.

Repositioning Costs

The Society established a £4m provision in 2010 to cover costs and fees associated with its programme of business simplification and property rationalisation. At 31 December 2011 £1.1m (2010: £1.7m) of the provision remained, relating to vacant properties that the Society is currently marketing with property agents.

Taxation

The Society's tax charge for the year reflects the impact on deferred tax assets for the change in the current corporation tax rate. This amounted to £0.8m for 2011 (2010: £0.5m).

Segment Reporting

The Newcastle Building Society Group prepares segment information under IFRS 8 with activities split into "Member" and "Solutions" businesses. Details are given in Note 9 to the Annual Report and Accounts. The Member business provides mortgage, savings, investment and insurance products to members and customers. The Solutions business 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. The presentation in Note 9 in the Annual Report and Accounts highlights the effect that the interest rate margin has on the Member business profitability. Although the Board has followed strategies to stabilise the margin, it remains under pressure from high funding costs and low returns on some asset classes. In addition, the impact of commercial provisions and the higher FSCS levy has had a pronounced impact on the overall profit before tax of the Member business. The improved performance of the Solutions business reflects the full year impact in 2011 of contracts entered into in 2010 and new contracts in 2011. As volumes in the Solutions business increase there is also a greater recovery of the fixed overheads that support this business.

Balance Sheet Review

Liquid Assets

The Society has continued to maintain a high level of quality liquid assets throughout 2011 with a higher liquidity percentage of 29.2% at 31 December 2011 (2010: 25.2%). The Society pursues a prudent and careful approach to its liquid asset investments with robust and thorough credit risk assessment. Over 70% of the liquid assets held are AAA-rated. Exposures with a rating of A3 or below are all deposits with other building societies and with 2012 maturity dates.

The Society has no liquid instruments with counterparties based in Greece, Portugal, Italy, France or Belgium. A single Spanish exposure of £3m is held with an organisation, which has a major UK high street presence and is due to mature in March 2012.

All of the Society's liquid assets are denominated in UK sterling; the Society does not invest in instruments denominated in other currencies.

Loans and Advances to Customers

Loans and advances to customers fell by £353m in 2011 as shown below, with over one half of this attributable to the unwinding of portfolios where the Society had ceased new lending and exited the market. The Group has continued its policy of only undertaking new residential lending where it

can be done profitably after considering all associated risk, funding and capital costs. 2011 has also seen an increase in residential customers paying off their mortgages in full or making lump sum payments with 55% of the reduction in the prime residential portfolio being attributable to this feature. The residential portfolio contains the Group's Buy to Let mortgage book.

	2011		2010	
	£m	LTV%	£m	LTV%
Residential Homeowners	1,715	55.8	1,929	55.8
Housing Associations	849	74.8	870	74.7
Commercial	392	93.9	488	78.3
Other	38	66.7	60	62.2
	2,994		3,347	
Provisions	(17)		(22)	
	2,977		3,325	

The Group's lending is all secured with a first charge registered against the collateral property. Residential loans are shown at indexed loan to value using the quarterly regional Halifax House Price Index, remaining loans are shown without indexing. Further information on security loan to value is provided in Note 34 of the Annual Report and Accounts.

The Society's loans of 3 months or more in arrears are measured by both number of loans and balance as a percentage of total number of loans and total balance, respectively. The levels of arrears experienced are satisfactory given the economic backdrop and are below market average. The value of commercial loans in arrears of 3 months or more has increased by 1.37% from its 2010 zero base. The Society works closely with borrowers and regularly assesses the servicing and repayment risk of its exposures. The Group's residential portfolio is of good quality with a lower number of loans in arrears at 31 December 2011 than at the 2010 year end.

The Society's policy on forbearance measures is compliant with the detailed requirements of the FSA's Mortgage Code of Business Sourcebook (MCOB). The term forbearance is defined as the granting of a concession, which alters the contractual terms of a loan. The Society will work closely with any homeowner experiencing difficulties, offering help and advice on all aspects of the situation. In an approach which seeks to treat its customers fairly the Society tailors its forbearance measures to reflect the borrower's individual circumstances. The Society can offer measures including changing the term of the loan, a temporary change to interest only, a reduced subscription, a payment holiday or deferring interest payments.

The Society will also consider whether the borrower qualifies for Government initiatives covering Homeowner Mortgage Support Scheme (HMSS) and Homeowner Mortgage Rescue Scheme (HMRS). The Society enters into forbearance agreements on the understanding that concessions are granted in the best interests of the

borrower in order to return the loan to performing status over time. Forbearance data is monitored closely on a monthly basis by the Residential Credit Committee with the levels of concessions granted not considered to be material for the size of the overall book.

At 31 December 2011, the Group had only one commercial loan in possession and two exposures in Law of Property Act 1925 (LPA) receivership with total balances of £2m, after specific provisions. One commercial loan with a balance of £2.5m had its terms restructured during the year. Residential possessions total 28 (2010: 40) and include properties where the borrower has handed in the keys, properties possessed following court action by a second charge lender and where the Society is assisting the estate of a borrower in the disposal of a property. Only four residential accounts in 2011 had defaulted to the point that required court action by the Society to take possession.

Funding

Despite a challenging marketplace, the Society continues to offer its members a range of attractive savings products. This has resulted in an increase in retail savings balances of £170m in 2011 as the Society moved even further away from reliance on treasury markets and wholesale deposits. The wholesale funding ratio reduced over the year from 9.53% to 6.95% with the Society's mortgage portfolio remaining fully funded by retail savings. The Society's £500m Covered Bond programme, which was launched in January 2009 was unwound following repayment of the funding in July 2011. In addition, the Society called the non-recourse finance held in the special purpose vehicle, Bamburg Finance (No1) plc, on 1 February 2011. The £65m call saw floating rate notes secured on first-charge commercial loans redeem at par. During the year, the Society notified Moody's that it wished to withdraw its rating and this was withdrawn in October 2011.

Capital

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

All of the capital ratios show improvement in 2011 and demonstrate a strengthening capital base with the total solvency ratio improving to 15.0% (2010:14.1%). The Group complied with Individual Capital Guidance notified by the FSA throughout 2011.

CAPITAL	2011 £m	2010 £m
Tier 1 Capital		
General Reserve	170.8	174.5
Permanent interest bearing shares	29.6	29.6
Regulatory waiver adjustment	-	0.2
	200.4	204.3
Tier 2 Capital		
Subordinated Debt	56.0	58.6
Collective impairment allowance	1.6	6.4
	57.6	65.0
Total Capital	258.0	269.3
Risk Weighted Assets		
Liquid Assets	127.4	65.4
Loans and Advances to customers	1,420.4	1,628.6
Other Assets	65.5	86.6
Off Balance Sheet	40.1	59.2
Operational Risk	62.5	73.0
	1,715.9	1,912.8
Capital Ratios	%	%
Core Tier 1 ratio	10.0	9.1
Tier 1 ratio	11.7	10.7
Solvency ratio	15.0	14.1
Tier 2 to Tier 1 ratio	28.7	31.8

Outlook

It is likely that the economic conditions, and particularly the market turbulence, which prevailed in 2011 could abate to a degree as European governments tackle the issues at hand and attempt to bring stability to the global economy. However there is also a possibility the UK will enter a second recession given the negative growth figures issued by the Office for National Statistics for Quarter 4 2011. Any further rises in unemployment could see the Society experience a higher rate of mortgage arrears. The Board expects the low interest rate environment to continue throughout 2012. This will maintain pressure on margins when combined with the competitive retail savings market, however household budgets should continue to benefit from lower mortgage interest payments.

The Society will maintain its cautious approach to lending in terms of risk and return with high volume unlikely as there is no planned balance sheet growth. The Board's approach to lending is designed to protect capital and liquidity and means that growth in retail funding will not be required. The commercial wind-down strategy and improving the overall risk profile of the Society's mortgage portfolio will continue to be pursued and the additional provisions recognised in 2011 should support the Society's continued pro-active approach.

Profit will not be the key driver for 2012, but the Society will continue to strengthen its income streams through its Solutions business, as well as reducing further its underlying cost base. The Board is confident that improvement in financial performance will continue in 2012.

SUMMARY FINANCIAL STATEMENT

For the year ended 31 December 2011

This Summary Financial Statement is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors, free of charge on demand, at every branch of the Newcastle Building Society from 21 March 2012.

Approved by the Board of Directors on 29 February 2012:
David Holborn, Chairman
Richard Mayland, Chairman of the Audit Committee
Jim Willens, Chief Executive

Group results for the year

	2011 £m	2010 £m
Net interest income	17.5	17.8
Other income and charges	26.6	18.8
Gains less losses on financial instruments and hedge accounting	0.6	-
Administrative expenses and depreciation	(35.5)	(36.9)
Operating profit / (loss) before impairments, provisions and exceptional items	9.2	(0.3)
Impairment losses and other costs	(11.6)	(0.4)
Repositioning Programme	-	(4.0)
FSCS levy	(1.4)	-
Exceptional profit on disposal	3.9	-
Profit / (loss) for the year before taxation	0.1	(4.7)
Taxation (expense) / credit	(0.8)	1.0
Loss for the financial year	(0.7)	(3.7)

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SUMMARY FINANCIAL STATEMENT

For the year ended 31 December 2011

Group financial position at the end of the year

	2011 £m	2010 £m
Assets		
Liquid assets	1,180.9	823.9
Mortgages	2,938.6	3,264.7
Fair value adjustments for hedged risk	57.9	50.8
Other loans	38.0	60.4
Derivative financial instruments	44.3	34.2
Fixed and other assets	158.8	184.8
Total assets	4,418.5	4,418.8

Liabilities

Shares	3,761.4	3,593.0
Fair value adjustments for hedged risk	28.7	20.8
Borrowings	280.8	457.4
Derivative financial instruments	57.4	54.2
Other liabilities	29.8	29.1
Subordinated liabilities	58.7	58.6
Subscribed capital	29.6	29.6
Reserves	172.1	176.1
Total liabilities	4,418.5	4,418.8

Summary of key financial ratios

	2011 %	2010 %
Gross capital as a percentage of shares and borrowings	6.44	6.65
Liquid assets as a percentage of shares and borrowings	29.18	25.21
Loss for the year as a percentage of mean total assets	(0.02)	(0.08)
Management expenses for the year as a percentage of mean total assets	0.80	0.82

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For the year ended 31 December 2011

Notes

Gross capital as a percentage of shares and borrowings

Gross capital represents reserves, plus subordinated liabilities and subscribed capital. The purpose of capital is to provide a buffer against any losses arising from a society's activities, thereby protecting investors' funds.

The gross capital ratio measures the extent to which a society's activities are funded by capital, compared to shares and borrowings. The higher this ratio is, the greater the protection for investors.

Liquid assets as a percentage of shares and borrowings

Liquid assets are assets held by a society, which are in the form of cash or assets which are readily convertible into cash. The ratio is maintained at a level which the Directors consider appropriate for the activities of the Society.

Profit for the year as a percentage of mean total assets

A building society needs to make a reasonable level of profit each year in order to maintain and strengthen its gross capital ratio. It is similar to a company's return on assets.

The Newcastle Building Society operates a policy of 'profit sufficiency' and one of the most appropriate measures of profitability is to express profit as a percentage of mean total assets.

Management expenses for the year as a percentage of mean total assets

Management expenses are the costs of running a society and comprise administrative expenses, depreciation and amortisation. The lower this ratio is, the greater a society's efficiency.

Annual re-election of Directors

In discharging its responsibilities to be accountable to the Society's members for the operation of the Society, the Board regards good corporate governance as extremely important. A revised UK Corporate Governance Code (formerly the "Combined Code on Corporate Governance") was issued by the Financial Reporting Council in June 2010 and applies to all accounting periods beginning on or after 29th June 2010.

One aspect of the Code provides that all directors of FTSE 350 companies should be subject to annual election by shareholders, and the Building Societies Association considers that this requirement would apply to the twelve largest building societies. Therefore, in line with good corporate governance, and following a recommendation to the Board made by NomCo, all Directors will now offer themselves up for annual election/re-election at the Society's Annual General Meeting. Details relating to the Directors can be found on pages 14 to 16.

We have examined the Summary Financial Statement of Newcastle Building Society for the year ended 31 December 2011, which comprises the Chief Executive's Review, the Remuneration Committee Report, the Summary Directors' Report and the Summary Financial Statement.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, Annual Business Review, Directors' Report and Remuneration Committee Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. The other information comprises only the Chief Executive's Review, Summary Directors' Report and the Remuneration Committee Report.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 'The Auditor's Statement on the Summary Financial Statement in the United Kingdom' issued by the Auditing Practices Board. Our report on the Group and Society's full Annual Accounts describes the basis of our audit opinion on those Annual Accounts.

Opinion on Summary Financial Statement

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of Newcastle Building Society for the year ended 31 December 2011 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Karyn Lamont (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
29 February 2012