Announcement of half-year results for the six months ended 30 June 2022

During the first half of 2022, our lives and work returned to a more normal pattern as we all learned to live with the continued presence of Covid-19, but with the increased confidence derived from the results of the ongoing vaccine rollout. Whilst we are aware the pandemic is not over and remain alert to the long term impacts of the virus, it was a welcome sight to see more customers return to our high streets, more face-to-face contact in our branches and our colleagues return to our new primary head office at Cobalt Park.

For those returning to the office, we have adopted a hybrid working approach, with the majority of full time colleagues spending two days in our head office environment and three days working from home. This new pattern of working means that for the first time in two years, colleagues have been able to work together in the office and experience some of the benefits that come from face-to-face collaboration and collective learning.

However, the first half of the year has also brought a new set of challenges – political upheaval in UK Government, the rising cost of living and price inflation exacerbated by the outbreak of conflict in Ukraine and the expectation that these uncertain economic conditions will continue for some time to come. These challenges not only impact the Society but more importantly our colleagues and Members. For many the rising cost of living and its impact on the value of savings and the cost of mortgages are real concerns. Against this backdrop our purpose-led strategy appears more relevant than ever to our customers and our communities and we remain more determined than ever to deliver a successful, innovative and growing business that can make genuine, positive differences in supporting the people we serve.

The decision by the Bank of England to raise the base rate of interest has stimulated savings rates upwards. While increased rates have been welcomed by savers, they cannot keep pace with current inflation and cost of living pressures mean that customers have less money to set aside for savings and some are using savings balances to cover rising or unexpected household bills.

These same savings challenges mean that for first-time buyers it is harder than ever to raise a deposit and the continued housing supply shortage means that house price growth continues, albeit at a slower rate. Those that are able to get a foot on the property ladder face the challenge of a rising rate environment so we're seeing an increased demand for longer term fixed rate periods to help borrowers attain mortgage repayment certainty in the face of wider economic uncertainty.

Against this backdrop, we have sought to maintain a fair balance between our savings and mortgage rates and to continue to do all we can to help make house purchases a realistic prospect for those seeking to get on to the property ladder and support those who are looking to save or plan their finances.

We have sustained a strong financial performance, including growth in our underlying operating profit compared to the same period last year. Profit before taxation was £14.2m (£15.9m at Half Year 2021). We have also maintained our ongoing investment in our infrastructure and commitment to our high streets and communities as we continue to focus on our purpose of, 'connecting our communities with a better financial future'.

Highlights of the first half of 2022*:

- Profit before taxation of £14.2m (Half year 2021: £15.9m);
- Underlying operating profit of £14.2m (Half year 2021: £13.3m), see note 15 for further details;
- Gross mortgage lending was £448m (Half year 2021: £483m);
- Net core residential lending for the first half of the year was £181m (Half year 2021: £220m);
- Mortgage arrears remain at low levels with 0.38% of mortgages in arrears by 3 months or more (Full year 2021: 0.42%);
- Capital ratios remain robust. Including unverified profits Total Capital Ratio (Solvency) stands at 14.4% (Full year 2021: 14.6%), Common Equity Tier 1 Ratio at 13.3% (Full year 2021: 13.3%) and Leverage Ratio at 4.5% (Full year 2021: 4.5%). Excluding unverified profits the Total Capital Ratio is 13.7%, Common Equity Tier 1 ratio is 12.5% and Leverage Ratio is 4.3%;
- Robust Liquidity with Liquidity as a percentage of shares, deposits and liabilities of 20.8% (Full year 2021: 21.4%);
- Customer Net Promoter Score was +81 (+82 for Full year 2021);
- Delivered £182,000 in community funding (Half year 2021: £111,000), including community grants from the Newcastle Building Society Community Fund at the Community Foundation totaling £60,000 (Half year 2021: £65,000). Grants were awarded to 22 different charities, with a particular focus on employability, social isolation, food poverty, homelessness, debt management, and cancer care;
- Opened a brand new community branch in Knaresborough on 18th July 2022;
- Shared plans for a ground breaking pilot which aims to introduce OneBanks multi-bank transaction terminals in two branches;
- Launched a new employability partnership with armed forces charity Walking With The Wounded;
- Celebrated the official opening of NUCASTLE powered by Newcastle Building Society, a new community hub and home of Newcastle United Foundation;
- Award success in 2022 so far:
    - North East Business Awards – Tyneside and Northumberland Company of the Year;
    - North East Business Awards – Tyneside and Northumberland Apprenticeships, Skills and Training;
    - CIPD North East of England HR&D Awards 2022 – Excellence and Positive Impact;
    - Mortgage Finance Gazette Awards 2022 – Mortgage Product Innovation;
    - Two clients supported by Newcastle Strategic Solutions were successful at the Moneyfacts Awards 2022; and
    - Shortlisted for Third Sector Business Charity Awards 2022 – Charity Partnerships – Banks and Financial Services for our work with Newcastle United Foundation.

* Please refer to the Strategic Report and Glossary of the 2021 Annual Report and Accounts for information on definitions or explanations of the performance metrics detailed.

Strategy and Purpose

Faced with a new set of challenges, we continue to manage the Society under the guidance of our purpose statement – 'Connecting our communities with a better financial future'. Our purpose serves to help us navigate uncertainty, giving us the assurance of focus in an uncertain world.

Our purpose means we remain focused on providing good value products and excellent service to our customers, and retaining a presence on our high streets. We are proud of our role as an employer and supporter of undiscovered talent, and we're increasingly conscious of our responsibility to be a sustainable organisation and to care for the environment. Support for our communities extends to those with the greatest need and in the areas where we can contribute to making positive change. We're making progress with our Equality, Diversity and Inclusion ambitions, working with partners to ensure opportunities are open to everyone.

New Challenges

Against an uncertain macroeconomic background we continue to support customers by providing a great level of service and offering products at consistently good value.

In February we were one of the first savings providers to respond to the Bank of England's decision to increase the base rate of interest, passing on the rise to the majority of variable rate savings products. In the first half of the year, all of our variable rate savings book has benefitted from an increased product rate to some degree. Helping people to save is a key part of our purpose and we continue to offer significantly better than UK average savings interest rates.

House prices across the UK continue to increase and although the rate of growth appears to be slowing, any rise makes it even more difficult for homebuyers to save for a deposit. To support those looking to achieve the dream of home ownership, especially first time buyers or those with a low deposit, we've continued and extended our participation in two innovative mortgage products: Deposit Unlock and First Homes.

Deposit Unlock is a completely new to market, new-build mortgage product which provides an option for those with a small deposit to realise their dream of owning a new-build home. A year after we helped develop and launch the scheme, we remain the largest lender under the initiative which is now operating nationally through 21 participating developers. 73% of applications under Deposit Unlock have been from first time buyers, which shows that the initiative is helping in exactly the way it was designed and we expect interest in the scheme to continue to grow, especially when Help to Buy comes to an end.

The Government-led 'First Homes' scheme helps local first-time buyers – many of whom could be key workers such as NHS staff and veterans – onto the property ladder by offering homes at a discount of at least 30% compared to the market price. We continue to provide our full support to the scheme, having funded more than one third of national completions in the first half of 2022. In a challenging market for first time buyers these types of schemes are hugely valuable and show the importance of our continued pursuit of innovation in the mortgage space.

In addition to these innovative schemes, we continue to evolve our mortgage offer to help address some of the challenges faced by borrowers. This includes new longer-term fixed rate products and the expansion of our Joint Mortgage Sole Proprietor product range which is designed to support first time buyers onto the property ladder by using the income of a family member to increase borrowing capacity.

Our customer satisfaction score at the half year point is 96% and our net promoter score (NPS), which measures the loyalty of our customer relationships is +81 (NPS scores range from -100 to +100).

With our communities facing such economic uncertainty, it is hard to think of a time when access to professional financial advice has been more important. Our financial advice subsidiary, Newcastle Financial Advisers, which provides access to face to face advice on the high street, has delivered a strong performance so far in 2022. The subsidiary's team of advisers recently achieved 2022 Top Rated Firm status from VoucherFor, the UK's leading review site for Financial Advisers. Achieving this recognition requires exemplary client feedback and the demonstration of a clear commitment to transparency, meaning advisers consistently invite all clients to review them.

An overall VouchedFor rating of 4.8/5 from more than 1,100 client reviews demonstrates the high standard of advice we're providing on high streets right across our region.

Grants through the Newcastle Building Society Community Fund at the Community Foundation Tyne & Wear and Northumberland have continued to make a real difference across our region. In May, £60,000 of grant funding was awarded to 22 different charities, with a particular focus on employability, social isolation, food poverty, homelessness, debt management, and cancer care. A further £15,000 was awarded to seven different charities to fund community events celebrating the Queen's Platinum Jubilee with a focus on tackling social isolation.

In April we also made a donation of £25,000 to the Disaster Emergency Committee (DEC) to help those impacted by the conflict in Ukraine. DEC charities and their local partners are on the ground in Ukraine and neighbouring countries, providing food, water, shelter and medical assistance.

At the same time, the Society is also committed to support colleagues who choose to open their home to a refugee through the Homes for Ukraine scheme. As well as providing an additional two days' paid leave, the Society will provide colleagues with a grant of £500 to help with settling in costs.

For many colleagues, the return to a more normal working pattern has provided new opportunities to volunteer their time to local causes and to take part in a range of fundraising activities. Colleague volunteering is an important way we connect with, and offer support to, our communities and at the half year point, colleagues have delivered more than 300 days of volunteering. Colleague fundraising efforts have continued to contribute to the Newcastle Building Society Community Fund and raised money for several other local charities and good causes.

Innovation

We have continued to deliver our multi-million pound branch investment programme and in January completed the major refurbishment of our branch in Bishop Auckland.

We're committed to providing a face-to-face service on our high streets, but remain aware of the challenges and ongoing changes facing many town centre traders and businesses. So although our newly refurbished high street location in Bishop Auckland might have a more traditional appearance of a branch, we're continuing to rethink what a building society branch might look and feel like.

In March we announced plans to open a new branch in Knaresborough, working in partnership with North Yorkshire County Council and Harrogate Borough Council to establish a branch within the library building. Knaresborough is a town which has been left without a bank following a succession of bank branch closures.

Our new branch within Knaresborough library is modelled on our successful Yarm library branch, and is our fourth North Yorkshire branch, alongside our community partnership branch in Hawes Community Office, our Yarm library branch and our branch in Stokesley. We're looking forward to offering a warm welcome to customers in our new Knaresborough branch in the second half of the year.

Furthermore, we continue to work closely with North Tyneside Council on proposals to open yet another new branch in Tynemouth library.

In April we announced plans to work on a ground breaking pilot which aims to introduce multi-bank transaction terminals in two branches, alongside our existing services. The terminals provide access to all banks on the Open Banking network, meaning customers of all the major UK banks will be able to use OneBanks to withdraw cash, deposit notes and coins, move funds and pay bills. We are proud to be the first in the mainstream financial services industry to propose the provision of OneBanks terminals within a branch in order to provide people with convenient access to cash withdrawals and deposits when their bank branch is no longer local or convenient.

We continue to look for new ways to use technology to support in-person service, including the introduction of a facility on our website to book video appointments with our financial advisers.

Our subsidiary Newcastle Strategic Solutions serves the Group's technology needs and is the UK's leading provider of outsourced savings management services to other banks and building societies, delivering ongoing investment into our savings app and website.

Newcastle Strategic Solutions has successfully extended the partnership with one of its major clients in the first half of 2022, and are hopeful that other similar announcements will follow in the second half of the year. Clients once again featured prominently in savings industry related honours with Newcastle Strategic Solutions' offering underpinning awards for savings products and customer service.

New products and services continue to be rolled out to both new and existing clients, business savings and app capabilities being two noteworthy examples. The Company sustains a strategic programme of investment in digital products, data security and re-platforming that will underpin future growth of the business.

Building employability through collaboration

Nurturing talent from within our region, enabling our young people to realise their potential and develop skills and then retaining those skills through the provision of great jobs and meaningful career pathways is good for our Society, good for our Members and good for our region. In addition to community grants to local charities working to tackle issues around employability, one of the ways we are making a difference is by working in collaboration with selected partners to create opportunities for talented people in our communities who may not otherwise get a chance.

In March, we launched a new five-year partnership with the armed forces charity Walking With The Wounded, including an annual donation of £25,000 to support their employability programme. The charity delivers award-winning employment, mental health, care coordination and volunteering programmes in collaboration with the NHS to help those who served, and their families, get back on their feet. Working in collaboration with Walking With The Wounded we will create new veteran employment opportunities across the Group and aim to recruit at least five veterans this year.

The partnership builds on our commitments as a gold level signatory to the Armed Forces Covenant, which is our guarantee to support those who serve or have served in the armed forces, and their families. This includes offering flexibility in working hours and leave around deployment and offering support to colleagues who are members of the Reserve forces.

Our £1.1m partnership with Newcastle United Foundation reached a significant milestone in March with the official opening of the charity’s new home, NUCASTLE powered by Newcastle Building Society. As well as being the Foundation’s city centre HQ, the facility is a community hub for sports, education and wellbeing and is on track to receive more than 100,000 visitors in its first year. We continue to support the Foundation’s flagship project NU Futures, by contributing to workplace readiness workshops at schools in the region. We also hosted a bespoke week of work experience with the Foundation which resulted in five young people accepting offers to join the Society as customer service apprentices.

Colleagues also work with Newcastle United Foundation to engage with schools in our region, and already in 2022 we’ve visited 17 different schools delivering joint financial education workshops to help pupils begin to build an understanding of money matters.

We continue our comprehensive programme of work with The Prince’s Trust, at the heart of which is our support for their Team programme, supported by our colleagues’ contribution to the programme through mentoring, supported work experience and work shadowing. Thanks to our partnerships with Newcastle United Foundation and The Prince’s Trust we have now recruited ten apprentices through their employability programmes.

Investing in our future

Colleagues who join the Society as apprentices become part of our thriving early talent programme, which sits at the heart of our strategic plan to build a future proof workforce and strives to create an inclusive environment for development, active and pragmatic experiences that translate learning into real life application. We’re a Top 100 employer with RateMyApprenticeship, the UK's leading job resource for young people seeking apprenticeships, which is a demonstration of our investment in colleagues at all levels of the organisation.

That investment includes the appointment of an Education and Partnership Advisor, a newly created role and the re-purposing of 25% of entry-level roles to apprenticeships for our key partners.

The wellbeing of colleagues is vital to the success of our business. Our eNPS, which measures our employee net promoter score, or how likely our colleagues are to recommend Newcastle Building Society is in the top 25% of the global finance sector at +52, according to benchmark data from our survey provider.

And we were thrilled when our investment and commitment around Early Talent was recognised at the North East Business Awards where we received the award for Apprenticeships, Training and Skills for the Northumberland and Tyneside area. This was followed by success at the CIPD North East of England awards where we received the award for Excellence and Positive Impact.

We're investing in the support we provide to colleagues and through our partnership with Newcastle United Foundation became a business champion of the 'Be A Game Changer' initiative earlier this year. 'Be A Game Changer' is the Foundation's mental health awareness campaign that uses the topic of football to encourage everyone to talk openly about mental health. Colleagues will benefit from a bespoke package of support including wellbeing workshops and opportunities to get more active. The initiative strengthens the existing support provided to Society colleagues through regular initiatives and an active network of Mental Health First Aiders.

Colleague turnover is an important reflection of the success of our colleague agenda. The Group colleague turnover rate was 16.34% for the half year ended 30 June 2022, in comparison to 15.5% for the year ended 2021 and 9.98% for the half year ended 2021. This is a reflection of national trends and the challenging recruitment market that we are experiencing now the labour market has picked up post the Covid-19 pandemic.

Financial Performance

The first half of 2022 has seen the external environment continue to be unpredictable and increasingly challenging, with the pandemic still evident in our way of life, we now are facing unprecedented high inflation and a potential cost of living crisis. However the Society's underlying business continues to be sound leading to strong profitability, robust capital, and good levels of liquidity. This is all supported with diversified income from our subsidiaries, Newcastle Strategic Solutions and Newcastle Financial Advisers.

The Group is reporting a strong financial performance for the first half of the year, with profitability (operating profit and profit before taxation) slightly lower than that reported for the first half of 2021. On an underlying operating profit basis we have seen an increase of £0.9m to £14.2m for the first half of the year in comparison to half year 2021, please see note 15 for further details.

The first half of 2022 has seen total operating income increase by 14% to £53.9m, however we have seen a higher increase in our cost base (administration expenses and depreciation and amortisation) of 23% to £40.0m.

We continue to invest in our business and in particular our colleagues and IT infrastructure. We are actively growing our colleague base and capability by recruiting new colleagues across the business. Investment in information technology continues and we concluded our rollout of colleague computing equipment earlier this year, providing all colleagues with a standard set of IT equipment to be able to work within a hybrid model.

In line with other sectors of the UK, macro political and economic influences have brought financial headwinds, particularly from increasing costs and tightened labour markets.

The high inflationary pressures that are being felt in our own households are also impacting our day to day business operations, which together with our ongoing programme of investment into technology and infrastructure, have seen our costs increase across our business activities. Like every household in the country we also incur the unprecedented increase in energy costs for our branches and head office properties.

Similar to other organisations, the recruitment market we are experiencing is being driven by candidates. Pair this with the new opportunities hybrid working offers to mobility of roles where we are seeing colleagues leaving to move to organisations outside our region, meaning that the external job market and therefore recruitment is very challenging. Whilst we recognise these challenges are there we actively look to transform them into opportunities for us to benefit from. All of these pressures are not expected to reverse over the foreseeable future.

Profitability

Group profit before taxation was £14.2m for the six months ended 30 June 2022 compared to £15.9m for the first half of 2021. Operating profit before impairment and provisions decreased slightly by £0.8m to £13.9m from £14.7m at half year 2021. Key underlying adjustments of £0.3m (Half year 2021: (£1.4m)) resulted in operating profit on an underlying basis of £14.2m (Half year 2021: £13.3m).

Net interest income was £35.4m (Half year 2021: £28.2m) and our net interest margin increased to 1.45% at 30 June 2022 (30 June 2021: 1.17% and 31 December 2021: 1.21%), both increases driven by rising market interest rates.

Other income and charges, which includes income from Newcastle Strategic Solutions and Newcastle Financial Advisers, were £21.9m for the six months ended 30 June 2022 compared to £20.4m for the first half of 2021. Solutions continued to see growth in its underlying business in the first half of 2022 as well as existing clients adding new services to their savings proposition, which included mobile app and new savings products. Newcastle Financial Advisers delivered a strong performance over the first half of the year with regulated sales and funds invested both outperforming original targets.

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 increased to 74.2% (30 June 2021: 68.9%) and management expenses (comprising administration expenses and depreciation) increased by £7.5m from £32.5m to £40.0m. Both increases related to the investment in colleagues and IT infrastructure are in line with expectations.

Loans and Advances to Customers

The net increase in loans and advances to customers after provisions was £76m for the first half of the year, resulting in loans and advances to customers of £3.9bn at 30 June 2022 (31 December 2021: £3.8bn). Gross lending for the first half of the year was £448m (First half of 2021: £483m). The net change across the whole of our lending for the first half of 2022 was £106m (First half of 2021: £191m), which includes a £52m reduction in our exposure to the legacy lending book (First half of 2021: £29m). The Society's core residential mortgage book grew by £181m during the first half of 2022 (First half of 2021: £220m).

Credit Risk

Impairment write-backs on loans and advances to customers were £0.5m (30 June 2021: write-back of £1.2m). The write-back of £0.5m relates primarily to the legacy residential book.

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 affordability stress play out.

The percentage of mortgages in arrears by 3 months or more remain at low levels at 0.38% (0.43%: 30 June 2021 and 0.42%: 31 December 2021). There were no properties in possession at the half year ended 30 June 2021 (30 June 2021: 2).

Liquidity

We continue to manage our liquidity levels efficiently and comfortably within our regulatory limits. Liquid assets as a percentage of Shares, Deposits and Liabilities at 30 June 2022 were 20.8% (31 Dec 21: 21.4%). 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 2022 was 222% (31 Dec 21: 202%), comfortably in excess of the minimum regulatory limit of 100%. 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.

Funding

The Society is predominantly funded by retail savings with wholesale funding used to provide a diversified funding source, Retail savings balances increased by £177m during the first half of 2022 to £3.9bn (31 December 2021: 3.7bn). Wholesale funding, including drawdown on Bank of England Funding Schemes, decreased by £81m during the first half of the year to £665m (31 December 2021: £747m).

Capital

Capital ratios remain robust. Including unverified profits, total Capital Ratio (Solvency) remained at 14.4% (31 December 2021: 14.6%) and Common Equity Tier 1 ratio was 13.3% (31 December 2021: 13.3%). The Society's Basel III leverage ratio (transitional basis) was 4.5% at 30 June 2022 (31 December 2021: 4.5%). Excluding unverified profits the Total Capital Ratio is 13.7%, Common Equity Tier 1 ratio is 12.5% and Leverage Ratio is 4.3%.

Summary and look ahead

In a challenging period, the Society has performed remarkably well and I am pleased with the continued momentum across all areas of the business. We are all living through a period of unparalleled uncertainty and change but with our purpose to ‘connect our communities with a better financial future’ as our guide, we have delivered a strong first half of 2022. This can be attributed to our unique strategic approach within and for our region, with each aspect of our business contributing and complementing each other to create a robust business model for the long term.

Through our partnerships we are delivering sustainable positive community impact, focusing on the areas which we believe will make the biggest difference for the people in our region as they face fresh challenges and deal with the same economic uncertainty.

We will need to remain careful, cautious and thoughtful, as we face into a period of rising inflation, increased cost of living for our customers and the uncertainty at home and abroad impacting our economy. However, we also remain full of ambition and I believe the Society’s plan for continued innovation, growth, and investment will help us find a path during the months and years ahead and we will strive to make as much progress as we can to deliver on our purpose for the benefit of the customers and communities we serve.

Andrew Haigh
Chief Executive

Forward-looking statements
Certain statements in this half-yearly information are forward-looking. These statements are made in good faith based on the information available up to the time of approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Therefore actual results may differ materially from those expressed or implied by these forward-looking statements. The Directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Condensed Consolidated Income Statement

	Unaudited 6 months to 30 Jun 22	Unaudited 6 months to 30 Jun 21 restated	Audited 12 months to 31 Dec 21
	£m	£m	£m
Interest receivable and similar income	54.4	40.6	90.8
Interest payable and similar charges	(19.0)	(12.4)	(31.8)
Net interest income	**35.4**	**28.2**	**59.0**
Other income and charges	21.9	20.4	42.3
Fair value gains less losses on financial instruments and hedge accounting	(3.4)	(1.4)	(1.8)
Total operating income	**53.9**	**47.2**	**99.5**
Administrative expenses	(37.3)	(30.0)	(65.8)
Depreciation and amortisation	(2.7)	(2.5)	(5.2)
Operating profit before impairments and provisions	**13.9**	**14.7**	**28.5**
Impairment reversals on loans and advances to customers	0.5	1.2	2.8
Impairment reversals / (charges) on tangible and intangible assets	-	0.1	(2.0)
Provisions for liabilities and charges	(0.2)	(0.1)	(0.2)
Profit before taxation	**14.2**	**15.9**	**29.1**
Taxation expense	(1.7)	(2.3)	(5.2)
Profit after taxation for the financial period	**12.5**	**13.6**	**23.9**

Due to a change in accounting policy at the 2021 year end with respect to equity release mortgages, the comparatives have been restated, see note 13.

The notes on pages 14 to 27 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Statement of Comprehensive Income

	Unaudited 6 months to 30 Jun 22	Unaudited 6 months to 30 Jun 21 restated	Audited 12 months to 31 Dec 21
	£m	£m	£m
Profit for the period	12.5	13.6	23.9
Other comprehensive (expense) / income			
Items that may be reclassified to income statement			
Movement on fair value of debt securities through other comprehensive (expense) / income	(1.3)	0.2	(0.2)
Income tax on items that may be reclassified to income statement	0.3	(0.1)	0.3
Total items that may be reclassified to income statement	(1.0)	0.1	0.1
Total other comprehensive (expense) / income	(1.0)	0.1	0.1
Total comprehensive income for the financial period	11.5	13.7	24.0

The notes on pages 14 to 27 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Balance Sheet

	Unaudited 30 Jun 22	Unaudited 30 Jun 21 restated	Audited 31 Dec 21
	£m	£m	£m
ASSETS			
Liquid assets	950.9	959.7	956.4
Derivative financial instruments	50.3	2.1	14.5
Loans and advances to customers	3,870.5	3,743.8	3,794.5
Fair value adjustments for hedged risk	3.0	87.4	62.1
Property, plant and equipment	30.9	34.0	31.0
Intangible assets	8.6	7.0	7.5
Other assets	24.8	22.7	28.4
TOTAL ASSETS	**4,939.0**	**4,856.7**	**4,894.4**

	Unaudited 30 Jun 22	Unaudited 30 Jun 21 restated	Audited 31 Dec 21
	£m	£m	£m
LIABILITIES			
Shares	3,908.6	3,771.5	3,731.8
Deposits and debt securities	665.0	664.3	746.7
Derivative financial instruments	91.0	169.5	147.6
Other liabilities	18.8	17.6	24.2
Subscribed capital	20.0	20.0	20.0
Reserves	235.6	213.8	224.1
TOTAL LIABILITIES	**4,939.0**	**4,856.7**	**4,894.4**

The notes on pages 14 to 27 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 2022 (unaudited)

	General reserve	Fair Value through Other Comprehensive Income	Total
	£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)
At 30 June 2022	234.7	0.9	235.6

For the 6 months ended 30 June 2021 (unaudited)

	General reserve	Fair Value through Other Comprehensive Income	Total
	restated	restated	restated
	£m	£m	£m
At 1 January 2021 - restated	198.3	1.8	200.1
Profit for the period	13.6	-	13.6
Net movement in fair value through other comprehensive income	-	0.1	0.1
At 30 June 2021	211.9	1.9	213.8

For the year ended 31 December 2021 (audited)

	General reserve	Fair Value through Other Comprehensive Income	Total
	£m	£m	£m
At 1 January 2021 - restated	198.3	1.8	200.1
Profit for the period	23.9	-	23.9
Net movement in fair value through other comprehensive income	-	0.1	0.1
At 31 December 2021	222.2	1.9	224.1

The notes on pages 14 to 27 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Cash Flow Statement

	Unaudited 6 months to 30 Jun 22	Unaudited 6 months to 30 Jun 21 restated	Audited 12 months to 31 Dec 21
	£m	£m	£m
Net cash flows from operating activities*	92.4	(107.6)	(62.6)
Corporation tax paid	(2.5)	(1.9)	(4.4)
Cash inflows / (outflows) from operating activities	89.9	(109.5)	(67.0)
Purchases of property, plant and equipment	(3.9)	(3.0)	(7.7)
Sales of property, plant and equipment*	2.4	4.9	4.9
Purchase of investment securities	(147.9)	(62.4)	(106.6)
Sale and maturity of investment securities	50.0	27.0	84.6
Net cash flows from investing activities	(99.4)	(33.5)	(24.8)
Interest paid on subscribed capital	(1.2)	(1.2)	(2.3)
Payment for finance lease arrangements	(0.6)	(0.4)	(1.2)
Net cash flows from financing activities	(1.8)	(1.6)	(3.5)
Net decrease in cash and cash equivalents	**(11.3)**	**(144.6)**	**(95.3)**
Cash and cash equivalents at the start of period	395.0	490.3	490.3
Cash and cash equivalents at the end of the period	**383.7**	**345.7**	**395.0**

*£4.9m were reclassified from net cash flows from operating activities to sales of property plant and equipment for the 6 months to 30 June 2021.

The notes on pages 14 to 27 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 2021 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, 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 2022 and the 6 months to 30 June 2021 is unaudited. The financial information for the 6 months to 30 June 2021 was issued without an independent review report for the Group's auditors.

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 2022 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 2021, 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, in the context of the Group's current trading position as well as the UK's current economic conditions. The review takes into account the Group's principal risks. This includes the potential effects of global supply chain disruptions and trade restrictions due to Covid-19, geopolitical tension and conflict in Ukraine, resulting in exceptionally high inflation and rising market interest rates in the UK and globally.

Together with regular stress testing, the Group's forecasts show that the Society 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 Society 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 2021, as described in those financial statements. The Group changed accounting policy for equity release mortgage assets at the 2021 year end, see note 13 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.

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 15.

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 21 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 2021 Annual Report and Accounts, other than the reclassification of Equity investments from level 2 to level 3. See note 12 for details.

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 15 for details.

5. Principal Risks and Uncertainties

The Group's activities expose it to a variety of risks: credit risk, liquidity risk, market risk (predominantly interest rate and macro-economic risk), pension fund obligation risk, capital risk, operational risk, conduct risk and climate change risk. There have been no changes in the principal risks and uncertainties facing the Group. Nonetheless, whereas in 2022 there was still significant uncertainty of how government support of the economy during the Covid-19 pandemic and its subsequent removal would impact on the Group's trading environment, this has now resulted in higher inflation and corresponding increases in the Bank of England's base rates, as well as other measure of quantitative tightening. The Group closely monitors the impact these developments have on our members, in particular the impact of the cost of living on the affordability of mortgages. This has led to an additional post model adjustment for affordability being included within our IFRS 9 expected credit losses. The interim condensed consolidated financial information does not include all risk management information and disclosures required in the annual accounts, and should be read in conjunction with the Group's 2021 Annual Report and Accounts. There have been no material changes to the Group's risk appetite since publication of the Group's 2021 Annual Report and Accounts.

6. Taxation

The effective tax rate is 19.0% (2021:19.0%). 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.

7. Related Party Transactions

During the 6 months to 30 June 2022 the Society purchased £6.1m 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 2021, £2.8m was procured from NSSL). The Society received £5.2m from NSSL in the 6 months to 30 June 2022 for the provision of Financial and Administrative Services. (This compares to £4.8m from NSSL for the same period in 2021).

8. Interest receivable and similar income

	Unaudited 6 months to 30 Jun 22	Unaudited 6 months to 30 Jun 21 restated	Audited 12 months to 31 Dec 21
	£m	£m	£m
Interest income calculated using effective interest rate	50.7	41.2	92.0
Interest recognised in respect of insurance contracts	5.6	6.0	11.9
Net expense on derivatives used for hedging purposes	(1.9)	(6.6)	(13.1)
Total Interest Income	**54.4**	**40.6**	**90.8**

9. 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 22	Unaudited 6 months to 30 Jun 21	Audited 12 months to 31 Dec 21
	£m	£m	£m
Revenue from contracts with customers			
Solutions business:			
Savings management services	17.1	16.3	32.6
Savings management project and change services	0.5	0.4	0.9
IT services	0.3	0.3	0.6
Member business:			
Regulated advice services	3.0	2.4	5.4
Third party services	0.7	0.8	0.5
Other services	-	0.1	0.1
Total revenue from contracts with customers	**21.6**	**20.3**	**40.1**

10. 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.

A comprehensive cost allocation exercise was carried out in 2022 to reflect increasing technology and support service charges provided to the Member business. The revised commercial arrangements have increased other income and charges received by Solutions from the Member business and decreased the administration paid by Solutions in 2022. For June 21 and December 21 comparative purposes Solutions' other income and charges reflecting the cost allocation exercise would have been £21.6m and £44.8m, administration charges of £17.0m and £37.0m and profit for the period of £2.9m and £4.0m for the 6 months to June 2021 and the year ended 31 December 2021 respectively.

6 months to 30 June 2022	**Member Business £m**	**Solutions Business £m**	**Total £m**
Net interest income	35.9	(0.5)	35.4
Other income and charges and fair value gains less losses on financial instruments and hedge accounting	(5.6)	24.1	18.5
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**

6 months to 30 June 2021	**Member Business** restated **£m**	**Solutions Business £m**	**Total** restated **£m**
Net interest income	28.7	(0.5)	28.2
Other income and charges and fair value gains less losses on financial instruments and hedge accounting	(0.9)	19.9	19.0
Administrative expenses	(12.9)	(17.1)	(30.0)
Depreciation and amortisation	(1.3)	(1.2)	(2.5)
Operating profit before impairments and provisions	**13.6**	**1.1**	**14.7**
Impairment reversals on loans and advances to customers	1.2	-	1.2
Provisions for liabilities and charges	(0.1)	-	(0.1)
	14.7	**1.1**	**15.8**
Impairment reversals on property and equipment			**0.1**
Profit before taxation			**15.9**
Taxation expense			(2.3)
Profit after taxation for the financial period			**13.6**

Year to 31 December 2021	**Member Business £m**	**Solutions Business £m**	**Total £m**
Net interest income	60.1	(1.1)	59.0
Other income and charges and fair value gains less losses on financial instruments and hedge accounting	(1.1)	41.6	40.5
Administrative expenses	(28.4)	(37.4)	(65.8)
Depreciation and amortisation	(2.6)	(2.6)	(5.2)
Operating profit before impairments and provisions	**28.0**	**0.5**	**28.5**
Impairment reversals on loans and advances to customers	2.8	-	2.8
Provisions for liabilities and charges	(0.1)	(0.1)	(0.2)
	30.7	**0.4**	**31.1**
Impairment charges on property and equipment			(2.0)
Profit before taxation			**29.1**
Taxation expense			(5.2)
Profit after taxation for the financial period			**23.9**

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

	Unaudited 6 months to 30 Jun 22	Unaudited 6 months to 30 Jun 21 restated	Audited 12 months to 31 Dec 21
	£m	£m	£m
Fair value movement on loans and advances to customers held at fair value through profit and loss	(31.5)	(15.5)	(23.3)
Fair value movement on derivatives financial instruments in economic but not in accounting hedge relationships	31.0	18.3	25.4
Interest expense on derivatives in economic but not accounting hedge relationships	(3.1)	(4.3)	(8.4)
Fair value movement on Equity instruments	(1.9)	-	3.4
Gains / (losses) crystallised on sale of assets held at fair value through other comprehensive income	-	-	0.1
Hedge ineffectiveness on accounting hedges	2.1	(1.1)	1.0
	(3.4)	(2.6)	(1.8)

12. 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 2022.

	Level	Unaudited 30 Jun 22	Unaudited 30 Jun 21 restated	Audited 31 Dec 21
		£m	£m	£m
Financial assets				
Debt securities – Fair value through other comprehensive income	1	488.0	404.4	390.7
Equity investments	1	0.1	0.2	0.2
Derivative financial instruments	2	50.3	2.1	14.5
Fair value adjustments for hedged risk	2	3.0	87.4	62.1
Equity instruments*	2	-	-	3.7
Equity investments*	3	1.9	0.3	-
Loans and advances to customers held at fair value	3	198.6	245.7	232.6
Financial liabilities				
Derivative financial instruments	2	91.0	169.5	147.6

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).

* Equity investments in Openwork LLP were reclassified from level 3 to level 2 in 2021, as a market for these instruments was established during the period. Market prices of equity units are not publicly quoted, but they are observable to members of the LLP. However, the instruments have subsequently been reclassified back to level 3 as the market established has proved not to be a reliable estimate of the value of the equity units due to the relative lack of buyers compared to sellers at this stage.

Mortgage assets 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 that estimates the funding costs and expected return on equity of an entity that could acquire the portfolio if it was for sale. 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 2022 the fair value of the mortgage assets held at fair value was £198.6m (2021: £232.6m). 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	+/-0.5%	(7.0)/7.6
Long term property price growth	+/-1.5%	3.3/(4.5)
Property price volatility	+/-3.0%	(3.9)/3.2

13. Equity release mortgages

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

	30 Jun 2022	**30 Jun 2021** restated	**31 Dec 2021**
	£m	**£m**	**£m**
Gross mortgage balances	166.1	174.4	169.1
Fair value uplift	32.0	71.3	63.5
Fair value presented on balance sheet	**198.1**	**245.7**	**232.6**

The gross mortgage balances above reflect the Group's maximum pre-collateral exposure to credit risk at 30 June. 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 decreased by £31.5m during the six months period. The main source of the change in fair value was a change in market interest rates, which increased by 1.4%. 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 £31.0m, resulting in a net movement of £0.5m in the period (see also note 11).

14. Insurance contracts: Changes in Accounting Policy

As disclosed in the Group's 2021 Annual Report and Accounts, the Society has changed its accounting policy in relation to equity release mortgages. The Group previously accounted for equity release mortgage assets at amortised cost and changed its accounting policy to a fair value approach. The change is regarded to result in more relevant and reliable information to the users of the accounts and therefore was encouraged under the applicable accounting standards IFRS 4 and IAS 8. The change in accounting policy also led to a de-recognition of the hedge adjustment associated with the equity release portfolio.

The accounting policy change was implemented retrospectively, that is, relevant comparative balances were restated as if the Group had always followed a fair value approach. This ensures that the balances provided as a comparative are prepared on the same basis as those for the current year.

A reconciliation of the changes is included below and further details in respect of the change in accounting policy can be found in Note 35 of the Annual Report and Accounts.

Reconciliation of the Income Statement for the period ended 30 June 2021.

	As previously stated	**Adjustment**	**As restated**
	£m	**£m**	**£m**
Interest payable and similar charges	(16.7)	4.3	(12.4)
Net interest income	23.9	4.3	28.2
Fair value gains less losses on financial instruments and hedge accounting	-	(2.6)	(2.6)
Total operating income	45.5	1.7	47.2
Impairment charges on loans and advances to customers	0.9	0.3	1.2
Profit before taxation	13.9	2.0	15.9
Taxation expense	(2.3)	-	(2.3)
Profit after taxation for the financial period	11.6	2.0	13.6
Total comprehensive income for the financial period	11.7	2.0	13.7

Reconciliation of the Balance Sheet at 30 June 2021

	As previously stated	**Adjustment**	**As restated**
	£m	**£m**	**£m**
Loans and advances to customers	3,669.9	73.9	3,743.8
Fair value adjustments for hedged risk	168.4	(81.0)	87.4
Other assets	62.0	1.7	63.7
Reserves	219.2	(5.4)	213.8

Reconciliation of the Statement of Movements in Member's interests

	As previously stated	**Adjustment**	**As restated**
	£m	**£m**	**£m**
Total reserves at 1 January 2021	207.5	(7.4)	200.1
Movement in year	11.7	2.0	13.7
Total reserves at 30 June 2021	219.2	(5.4)	213.8

* The adjustments relate exclusively to General Reserves

15. Credit risk

Loans afd advances to customers consist of the following balances:

Product	30 Jun 2022	30 Jun 2021 restated	31 Dec 2021
	£m	£m	£m
Prime residential	2,955.3	2,687.0	2,785.7
Buy to let	387.8	390.0	399.6
Legacy books:			
Legacy buy to let	23.5	32.0	27.7
Commercial	11.9	18.1	14.9
Housing association	282.7	363.7	323.4
Serviced apartments	17.2	17.7	17.5
Policy loans	1.5	1.8	1.6
Equity release mortgages	198.1	245.7	232.6
Provisions	(7.5)	(12.2)	(8.5)
Total	**3,870.5**	**3,743.8**	**3,794.5**

Loans and advances to customers are accounted for under *IFRS 9: Financial Instruments*, with the exception of the equity release portfolio which is accounted for under *IFRS 4: Insurance Contracts*. This note provides an overview of changes in credit risk since December 2021.

The reduction in provisions since the previous half year are primarily due to redemptions of legacy assets that were subject to provisions.

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 2021 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 2021 accounts. However, scenarios have been updated to reflect the current economic outlook. The following table summarises the HPI and unemployment assumptions used, which are the most significant assumptions to determine the provision. They are provided as annual percentage growth or contraction compared to the previous year.

Scenario		2022	2023	2024	2025	2026
Upside	House price Growth	12.7%	3.5%	2.1%	2.6%	3.1%
	Unemployment	3.5%	3.5%	3.5%	3.5%	3.5%
Base	House price Growth	5.1%	1.1%	0.6%	1.6%	2.6%
	Unemployment	4.1%	4.1%	4.0%	3.9%	3.9%
Downside	House price Growth	-	(13.4)%	1.8%	1.5%	(1.2)%
	Unemployment	5.6%	6.5%	4.8%	4.6%	4.9%
Stress	House price Growth	-	(12.7)%	(18.1)%	(10.5)%	3.8%
	Unemployment	5.6%	8.3%	9.2%	8.6%	7.9%

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 £0.7m (December 2021: £0.6m) has been recognised.

Affordability

We have not seen increases in non-performing loans in the first half of 2022. 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 does not adequately reflect the risk of inflation, and as a result, as a post model adjustment for £0.1m has been booked to account for this risk (December 2021: £nil). The adjustment has been determined by stressing the base rate and household income variable in the Society's provisioning model as a proxy for the reduction in disposable income expected to result from high inflation levels.

Interest only accounts

Historically, the Society has booked a post model adjustment against risk of default from interest only accounts that are close to maturity and where no suitable repayment vehicle is in place (December 2021: £0.1m). This has now been integrated into the model and as a result, no post model adjustment is required anymore.

IFRS 9 staging and loss provisioning

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			**Stage 2**			**Stage 3**			**Total**
	Of which Months in Arrears			**Of which Months in Arrears**			**Of which Months in Arrears**			
	< 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			**Stage 2**			**Stage 3**			**Total**
	Of which Months in Arrears			**Of which Months in Arrears**			**Of which Months in Arrears**			
	< 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 30 June 2021 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	2,385.0	-	-	268.1	9.0	-	11.9	1.4	11.6	**2,687.0**
Buy to Let	361.1	-	-	25.7	1.7	-	0.7	0.2	0.6	**390.0**
Total	**2,746.1**	**-**	**-**	**293.8**	**10.7**	**-**	**12.6**	**1.6**	**12.2**	**3,077.0**

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	438.5	-	-	1,169.2	85.0	-	636.1	6.8	190.6	**2,526.2**
Buy to Let	70.1	-	-	173.5	24.9	-	339.1	3.5	3.7	**614.8**
Total	**508.6**	**-**	**-**	**1,342.7**	**109.9**	**-**	**975.2**	**10.3**	**194.3**	**3,141.0**

The impact of IFRS 9's staging and loss provisioning to the Society's closing 31 December 2021 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	2,421.6	-	-	319.3	9.7	-	21.2	2.7	11.2	**2,785.7**
Buy to Let	367.0	-	-	27.4	1.0	-	2.6	1.6	-	**399.6**
Total	**2,788.6**	**-**	**-**	**346.7**	**10.7**	**-**	**23.8**	**4.3**	**11.2**	**3,185.3**

Expected Credit Losses

	Stage 1 Of which Months in Arrears			Stage 2 Of which Months in Arrears			Stage 3 Of which Months in Arrears			Total
	< 1	1-3	> 3	< 1	1-3	> 3	< 1	1-3	> 3	
					£000					
Prime residential	392.3	-	-	969.1	50.7	-	116.9	10.8	1,240.6	**2,780.4**
Buy to Let	479.4	-	-	96.5	14.0	-	25.1	129.4	-	**744.4**
Total	**871.7**	**-**	**-**	**1,065.6**	**64.7**	**-**	**142.0**	**140.2**	**1,240.6**	**3,524.8**

Sensitivity
The 30 June 2022 provisions are sensitive to the likelihood factor applied to the different scenarios. The analysis below demonstrates the impact of changes to the scenario weightings.

	Upside	Base	Downside	Severe downside	Provision £m
Actual weighting	10%	40%	35%	15%	2.9
Sensitivity 1	0%	100%	0%	0%	1.7
Sensitivity 2	0%	0%	100%	0%	3.4

Legacy portfolios
The provisioning methodology for Commercial, Legacy Buy to Let, and Service Apartments exposures follows that outlined in the Group's 2021 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	Severe downside
Retail	90%	80%	70%	40%
Leisure	75%	65%	55%	45%
Residential	117%	106%	89%	71%
Distribution	120%	100%	90%	80%
Serviced Apartments	106%	90%	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 2022		30 Jun 2021		31 Dec 2021	
	Exposure	Provision	Exposure	Provision	Exposure	Provision
	£m	£m	£m	£m	£m	£m
Legacy Buy to Let	23.5	0.7	32.0	3.6	27.7	1.0
Commercial	11.9	3.2	18.1	4.7	14.9	3.5
Housing Associations	282.7	-	363.7	-	323.4	-
Serviced Apartments	17.2	0.7	17.7	0.8	17.5	0.8
Policy Loans	1.5	-	1.8	-	1.6	-
Total	**336.8**	**4.6**	**433.3**	**9.1**	**385.1**	**5.3**

Sensitivity
The 30 June 2022 provisions are sensitive to the likelihood factor applied to the different scenarios. The analysis below demonstrates the impact of changes to the scenario weightings.

	Upside	Base	Downside	Severe downside	Provision £m
Actual weighting	10%	40%	35%	15%	4.6
Sensitivity 1	0%	100%	0%	0%	3.3
Sensitivity 2	0%	0%	100%	0%	5.1

16. Alternative performance measures

The Board considers the following items in determining the underlying profit of the Group. They are items defined as income or expenses that arise from events or transactions that are distinct from the core activities of the Group and therefore do not represent the groups true performance.

	30 June 22	30 June 21	31 Dec 21
	£m	£m	£m
Operating profit before impairment and provisions	13.9	14.7	28.5
(Gains)/ loss in fair value of equity release mortgages	0.5	(2.8)	(2.1)
Hedge ineffectiveness on accounting hedges	(2.1)	1.4	(1.0)
Revaluation of investments	2.0	-	(3.4)
(Gains)/ loss crystallised on sale of assets	(0.1)	-	(0.1)
Underlying operating profit	14.2	13.3	22.0

17. Notes to the Cashflow Statements

	30 Jun 22	30 Jun 21	31 Dec 21
	£m	£m	£m
Reconciliation of profit before taxation to net cash inflow from operating activities		restated	
Profit before taxation	**14.2**	15.9	**29.1**
Depreciation and amortisation	**2.7**	2.5	**5.2**
Interest on subscribed capital	**1.2**	1.2	**2.3**
Decrease in derivative financial instruments	**(92.3)**	(44.8)	**(81.2)**
Decrease in fair value of mortgage assets held at fair value	**31.5**	15.5	**23.3**
Decrease in other financial liabilities at fair value through profit or loss	**59.1**	28.7	**54.0**
Changes in retirement benefit obligations	**-**	-	**-**
Other non-cash movements	**(0.5)**	0.2	**(4.1)**
Net cash inflow before changes in operating assets and liabilities	**15.9**	19.2	**28.6**
Increase in loans and advances to customers	**(107.1)**	(199.2)	**(244.5)**
Decrease in cash collateral pledged	**91.5**	42.8	**79.9**
Increase / (decrease) in shares	**176.8**	(4.8)	**(44.5)**
(Decrease) / increase in amounts due to other customers and deposits from banks	**(81.7)**	36.3	**118.7**
Decrease / (increase) in investments, other assets, prepayments and accrued income	**1.6**	(1.3)	**(5.9)**
(Decrease) / Increase in other liabilities	**(4.6)**	(0.6)	**5.1**
Net cash inflow/(outflow) from operating activities	**92.4**	(107.6)	**(62.6)**

	30 Jun 22	30 Jun 21	31 Dec 21
Cash and cash equivalents			
Cash and balances with the Bank of England	**359.7**	335.7	**382.2**
Loans and advances to banks repayable on demand	**24.0**	10.0	**12.8**
At 30 June / 31 December	**383.7**	345.7	**395.0**

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 2021 Annual Report and Accounts, other than Ian Ward who retired as a Director on 27 April 2022.

On behalf of the Board

Andrew Haigh
Chief Executive
26 July 2022

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 2022 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 17.

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 2022 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 company 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
26 July 2022