Cover photo:
Dennis & Charlotte Chirwa, Hexham customers

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Newcastle Building Society Annual Report & Accounts 2021 Connecting our communities with a better financial future

Connecting our communities with a better financial future

Newcastle Building Society
Annual Report & Accounts 2021

Annual Report & Accounts 2021

Stokesley branch

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Performance Highlights 2021

£29.1m
(2020: £1.4m)
Profit before tax

+43
(2020: +45)
Colleague engagement score

5,300
(2020: 5,206)
New mortgage customers

£28.5m
(2020: £14.9m)
Operating profit before impairments

5,652
(2020: 6,069)
New branch customers

1,581
(2020: 915)
First-time buyers

£861m
(2020: £645m)
Gross residential lending

13.8%
(2020: 14.1%)
Common Equity Tier 1 capital

1,300+
(2020: 1,200+)
Colleagues

8,370
(2020: 13,887)
New savers across the UK

28
(2020: 25)
Industry awards

95%
(2020: 95%)
Overall customer satisfaction

2,875
(2020: 854)
Colleague volunteering hours

30
(2020: 30)
Branches region-wide

Introduction

This is my first opportunity to 'speak' to you, our Members, since taking up the reins as Chair of your Society in August 2021.

James Ramsbotham, Chair

I would like to start by saying how happy I am to assume this role following the excellent work done by your previous Chair, Phil Moorhouse who left the organisation in great shape. I extend my thanks and acknowledgment to Phil for his excellent work in leading the Board and, prior to that, as a Non-Executive Director of the Society.

Newcastle Building Society is a special organisation, at a unique moment in time, serving a superb part of our country. In various roles, particularly in my most recent work, I have come across many businesses (many of them excellent in their field or outstanding in terms of performance) but I am convinced that the purpose-led, engaged, and 'can do' culture of the Society, that I have witnessed first from the outside and since becoming Chair, is quite extraordinary.

National and regional challenges lie ahead but the Society continues to face into these challenges. Working with others, it is making a real and positive difference to the lives of many people while building a long-term, sustainable business for its Members.

I very much look forward to working with your Executive Team, as part of our Board, and with you as Members in the coming years. I am passionate about what being a mutual membership organisation really means and to help ensure that we deliver for you in this regard, by continuing to understand and respond to your needs.

Chair's Statement
Continued

Economic summary

The first half of 2021 saw the country move to a more positive place in terms of the Covid-19 pandemic, with the vaccination programme underway and fewer imposed restrictions. However, the pandemic is far from 'over' and it continued to have an ongoing impact throughout the year with new variants emerging.

While predictions suggest the UK economy could end the year with an annual GDP growth rate of between 7.0% and 7.1%* (*PwC UK Economic Outlook December 2021), this figure is from a low 2020 base when the UK economy experienced a significant lockdown across much activity.

Underlying growth is likely to continue to be modest for 2022 as the UK economy, hopefully, resumes more normal economic activity.

The effects of the pandemic are likely to continue to exert an uneven impact across the UK. Lower income households are under pressure, some struggling to get back into work post furlough. Higher income households still have capacity to spend, or surplus to invest. However, all are likely to be feeling the impact of inflation which is rising, fuelled by increased energy prices, and predicted to reach its highest level in thirty years in the first half of 2022 before a gradual return to its target level. Naturally, rising inflation will be most challenging to those individuals and communities across our region who, for a variety of reasons, are already struggling to make ends meet and to whom we hope we can continue to show both empathy and support as the region's largest building society.

There is a more positive outlook regarding the level of unemployment as this is not expected to rise in the coming months.

While the Bank of England base rate remained at a historic low of 0.1% for much of 2021, a late December increase took it to 0.25% and a further increase in early 2022 took it to 0.5%. Despite the potential for further increases from the Bank of England, savings rates continue to be low with any rate increase feeling very marginal for savers.

The housing market has experienced significant activity and a buoyant year in 2021, as working from home has driven changing needs for some home owners seeking additional room, outside space, or even relocation from cities to towns and more rural environments. Housing market sales and house prices have been running at their strongest levels since the global financial crisis.

The government stamp duty holiday in 2020, and its subsequent extension to June 2021, undoubtedly stimulated the market. While its phased removal has seen some demand cool off in the second half of 2021, a continuing imbalance between supply and demand has seen house prices continuing to rise.

Fierce competition among lenders in the mortgage market has resulted in mortgage rates being driven down over the past year, and this is likely to continue and possibly intensify in 2022.

Strategy, purpose, performance

Your Society's unique place in the region, its drive to connect and empower others, the talent and skills of its people, and the opportunities this invariably creates, all combine to make it an exciting place to be. I firmly believe there are some great things to come.

I mentioned earlier the positive impact of the Society's purpose, which is connecting our communities with a better financial future. Helping people to own their home, save, and plan their finances; building lasting authentic relationships with customers, clients and partners; empowering people to realise their potential; fostering inclusion, diversity and positive change; and caring for our environment are all important commitments your Society has made as part of its purpose-led delivery.

They are commitments the Society is measuring itself against and of which the Board has oversight. The Society will continue to report back to its Members on all these commitments, which in these challenging times feels more important than ever.

Financial performance

The Society has delivered a very strong underlying financial performance in 2021. Profitability increased significantly, in part due to the market conditions. A number of key non-underlying items also contributed to 2021's strong performance and these are detailed in the Strategic Report. The headlines include:

Operating profit before impairments and provisions increased significantly to £28.5m (an increase of £13.6m on 2020). (Underlying operating profit of £22.0m (2020: £16.9m)).

Profit before tax for the year increased significantly to £29.1m, compared with £1.4m in 2020.

The Group's capital ratios remain robust. The Common Equity Tier 1 ratio, which measures the Society's ability to withstand financial distress, a measure which compares capital against assets, was 13.8% (2020: 14.1%).

Its Tier 1 ratio, a key measure of financial strength was 13.9% (2020: 14.4%). The Group complied with Individual Capital Guidance plus capital buffers, as notified by the Prudential Regulation Authority, throughout 2021.

The overall Group performance is one we should all be proud of, particularly in such uncertain and challenging times. Even more pleasingly, the results have been delivered alongside incredibly high standards of customer care, customer service and sustained consideration of wider community support. Further details of the Society's performance during the year and the positive impact it has had on communities across the region are set out in the Chief Executive's Review.

My sincere thanks go to all the colleagues who make this possible. Those on the front line of customer and community service; those who provide valued financial advice; those supporting the running of the complex systems and processes that create a timely mortgage transfer or enable Members to stay up to date with their savings via the mobile app; those who help maintain a financially robust, well-resourced and resilient Society; those who deliver an outstanding service in savings management for clients of our market-leading subsidiary, Newcastle Strategic Solutions; and those who help create a safe and clean environment for colleagues to work in. All have a critical role to play.

Regulatory changes

The Financial Conduct Authority plans to introduce a new Consumer Duty for financial firms in 2022. Aiming to focus on supporting customers to make good financial decisions and avoid foreseeable harm, it has been consulting on its proposals this year.

This will be one of the most significant regulatory changes the industry has seen in the last few years and aims to set a standard to which it expects financial services providers to service their customers, from the design of products and their delivery, through to reflective analysis of how well customer needs were met.

With a customer centric culture, a focus and review on the delivery of fair outcomes, and existing analysis that proactively looks for any customer harm, the Group is well placed to meet these requirements. The Society has commenced a full programme of analysis based on the final consultation to ensure it meets the FCA's timelines for implementation.

Board matters

We have had a number of changes to the Board this year, not least a change of your Chair!

I would like to reiterate, on behalf of many, our gratitude to ex Chair Phil Moorhouse. During his nearly ten years of service, he led the Board through a period of sustained growth for the Group, while providing stewardship through some uniquely challenging periods in the aftermath of the last financial crisis and, more recently, during the most difficult days of the Covid-19 pandemic. As a Board and a Society, we are extremely appreciative of Phil's contribution to the Society's progress.

We also welcomed a new Non-Executive Director, Michele Faull, to the Board. Michele, a former Chief Financial Officer at Coventry Building Society and a Risk Director at Nationwide, is also a member of the Board's Audit and Group Risk Committees.

Look forward

I am in no doubt that challenging times will continue in 2022. UK households face significant cost of living rises, a stall in real wage increases, and rising tax and energy bills. The planned new social care levy on national insurance and the freezing of personal income tax allowance, combined with rising inflation, will squeeze household budgets.

In addition, at the time of writing, it is becoming clear that events in Ukraine are not only distressing at a human level, but may also have a global economic impact. We will keep a close eye on further developments.

Your Society will actively continue to support its Members and the communities we serve.

Working with a clear strategy, your Society is continuing to build success. Growing the Society to achieve greater economies of scale to minimise the impact of the costs associated with increasing regulatory frameworks is key. To secure and maintain this required growth necessitates ongoing investment and your Board is committed to supporting both these requirements.
I look forward to our colleagues continuing to deliver excellent service, innovation, and success on behalf of our Members.

James Ramsbotham
Chair
1 March 2022

Note: Certain 2020 figures have been restated, see note 35 of the 2021 Annual Report and Accounts.


West Denton Branch

Throughout 2021 the Covid-19 pandemic continued to cast a shadow over various aspects of our lives and work. As the year progressed, the second pandemic wave in the UK asserted its hold through the highly infectious Omicron variant, and once again individuals, families and communities were forced to reassess how to be together.

Andrew Haigh, Chief Executive

Strength through purpose

The majority of our colleagues continued to work remotely as we delayed our return to our new head office location at Cobalt Park until the first half of 2022. In this period the housing market maintained unusually high levels of transactions and house prices continued on their upward trajectory, relatively immune from the wider economic impacts of the pandemic. Meanwhile the base rate remained at its historically low level until the very end of the year, and the unwelcome prospect of rising inflation started to materialise.

At the end of 2020, I stated that we aspired to exit this period of crisis and recovery in a stronger position than we might have expected to achieve without having gone through this experience, and I'm very proud that we have delivered on this. For your Society, despite the many challenges, 2021 was a year of achievement, characterised by a spirit of can do, innovation, agility, responsiveness, ongoing commitment and investment, which I will cover in more detail in the body of my review.

The underlying financial performance has been strong with record pre-tax profit and operating profit. The Group's operating profit before impairments and provisions for 2021 was £28.5m, an increase on last year by £13.6m. This resulted in a pre-tax profit of £29.1m, compared to £1.4m for 2020 and ahead of what was budgeted. This position reflects the ongoing success of our purpose-led strategy and the tireless commitment of our colleagues to deliver for customers, regardless of the challenging environment.

Also during the year, I was delighted to join my colleagues in extending a very warm welcome to James Ramsbotham, who joined us as our new Chair in August following our previous Chair, Phil Moorhouse, stepping down. I am hugely grateful to Phil for the leadership he provided to our Board through a very challenging period and the significant personal contribution he made to the success of the Society during that time. We consider that we are very fortunate to have James on our Board. He has extensive experience and clear focus on both customers and communities, and we very much look forward to working with him in the years ahead.

Key highlights include:

- Profit for the year before taxation increased significantly to £29.1m (2020: £1.4m)
- Operating profit before impairments and provisions increased significantly by £13.6m to £28.5m (2020: £14.9m)
- Underlying operating profit of £22.0m (2020: £16.9m)
- Gross mortgage lending for the year was £861m and net core residential lending £330m (£645m gross and £228m net in 2020)
- Market-leading mortgage innovation through Deposit Unlock – the first lender to market with a successful pilot and rollout of an innovative new build homes initiative supporting those with a small deposit to get a foot on the housing ladder
- First Homes – participation in the government scheme to support affordable home ownership on new homes developments
- Over £82m of funds invested for Members through our advice subsidiary, Newcastle Financial Advisers Limited
- Customer satisfaction score at an all-time high of 95% and net promoter score (NPS) improved further to +82 (2020: +78)
- More than £750,000 in community funding through charity partnerships, community grants, and colleague fund raising matches

Awards

- Best Regional Building Society – 5th consecutive year (What Mortgage)
- Best Building Society for Mortgages (Credit Strategy Lending Awards)
- 4* Mortgage Provider rating (Financial Advisor Service Awards)
- Best Community Services (Mortgage Finance Gazette)
- Best Use of Customer Insight (International Engage Awards 2021)
- North East Apprentice of the Year
- Gold Better Health At Work Status
- 21 additional awards our Solutions subsidiary helped their clients to win

Purpose

We are the North East's largest building society with assets of £4.9bn and 30 branches across the North East, Cumbria and North Yorkshire. We are committed to the people and places that make up our region and believe in the power and value of lasting, authentic customer relationships.

We are a purpose-led, Member-owned organisation. Our purpose is to connect our communities with a better financial future. This informs our strategy, our decision making, and defines how we measure our success.

During 2021 we evolved the pillars which support delivery of our purpose to emphasise our commitment to diversity, inclusion and the environment. This includes introducing a new pillar "Caring for our environment and ensuring sustainability for future generations". This brings emphasis to our inter-generational commitment to longer-term sustainability to take account of the challenges we face as a Society, in particular the need to protect and preserve our environment, a key focus for us in 2022 and beyond.

We employ over 1,300 people and continuously invest in our colleagues, creating opportunities for talented individuals from a wide variety of backgrounds to succeed. We work with like-minded partners who share our aim, not just to make a positive difference, but to help create environments where people can overcome disadvantage and ultimately thrive.

Using our 'always on' customer feedback tool, insight, and daily conversations, we try to anticipate our Members' needs, building authentic relationships that stand the test of time.

Alert to the challenges faced by potential and existing home owners, we innovate products and propositions to help people move on and up the property ladder. We employ digital technology to enhance choice and convenience, to support but not replace our face to face, personal service. We develop supportive services in tune with our customers' needs to help them through life's most challenging moments. We make financial advice you can trust accessible and convenient on the high street, available in a network of 30 branches that come with a commitment to maintaining and enhancing our high street presence.

We bring our communities with us. We share our success as part of our shared future. Whether building our Newcastle Building Society Community Fund at the Community Foundation to more than £2.5m in value as a permanent legacy to support charities across the region through grant funding; or the involvement of colleagues in hundreds of local volunteering missions; or creating meaningful career opportunities for talented individuals who may not otherwise have had a chance; or providing our best (in some instances high street market leading) savings rates to those in our heartland via our branches; or helping people on to the housing ladder for the first time, with innovative products such as Deposit Unlock and First Homes.

This is what a purpose-led mutual business looks like; this has driven our 2021 success.

Our financial performance

Our gross mortgage lending for the year was £861m (2020: £645m) and our net core residential lending was £330m (2020: £228m).

Group profit for the year before tax was £29.1m for the year ended 31 December 2021, compared to £1.4m for 2020.

The business performed very well with a 91% increase in operating profit before impairments and provisions of £13.6m, taking the total for the year to £28.5m (£14.9m in 2020). Key underlying adjustments of £6.5m resulted in operating profit on an underlying basis of £22.0m. (2020: £16.9m).

At 2020 year end, we reported a significant increase in our credit and legacy provisions which resulted in a pre-tax profit of £1.4m. During 2021 we have seen a write-back of impairment charges on our residential and commercial books, reflecting a more positive outlook. We continue to be watchful in this respect.

Impairment charges on property and equipment was £2.0m in 2021 (2020: £3.8m), relating to charges in relation to IT equipment and leasehold property.

In addition to positive headlines in our financial performance, we remain strongly capitalised and continue to operate with appropriate levels of liquidity.

In comparison to the significant impairment and provisions for 2020 of £13.5m and as a result of the positive economic environment, impairments and provisions were a write-back of £0.6m for 2021.

Total operating income increased by 28% to £99.5m in 2021 (£77.7m in 2020). Offsetting income is overall management expenses, which include business administration and depreciation expenses. Management expenses increased to a cumulative £71.0m from £62.8m in 2020, reflecting continued investment in our colleagues and infrastructure during the year.

The Society's net interest margin increased to 1.21% from 1.04% in 2020 and net interest income increased by £10.7m to £59.0m (2020: £48.3m).

The Group's capital ratios remain robust with Common Equity Tier 1 ratio of 13.8% (2020: 14.1%) and Tier 1 ratio was 13.9% (2020: 14.4%). The Group complied with Individual Capital Guidance plus capital buffers, as notified by the Prudential Regulation Authority, throughout 2021.

The Society continued its focus on core residential lending while winding down legacy portfolios. The net increase in customer loans and advances was £228m overall in 2021 and included a £330m net increase in core residential, of which £48m was in buy-to-let, and a £102m reduction in our non-core legacy mortgage portfolio.

The percentage of mortgages in arrears by three months or more remains at low levels for 2021. Overall number of loans in arrears have seen an increase of 0.06% to 0.42%.

The Group's liquidity, excluding encumbered assets, ended the year at 17.1% compared to 19.1% in 2020. This is comfortably in excess of the Society's minimum operating level.

In December 2021, we significantly increased our funding capability and diversification as well as our access to both external funding and government funding schemes. Through our newly created Tyne Funding No. 1 plc. which utilises buy-to-let loans, we completed and fully retained our first Residential Mortgage Backed Securities (RMBS) issuance.

> **Attracting and growing the right talent is key to ensuring the long-term success of your Society.**

Continuing to build authentic relationships

Our continued prioritisation to provide good value products and high standards of service to our customers, in branch, on the phone, or when dealing with us online, has seen us deliver an outstanding year.

I'm extremely pleased that our 2021 customer satisfaction score of 95% has matched our previous year's high (2020: 95%). We further improved our 2021 net promoter score (NPS) to +82, an increase of 4 points on an already impressive score of +78 in 2020. NPS measures the strength of our customer relationships and is driven by the quality and value our colleagues deliver. NPS scores can range from -100 to +100.

Our continuous online and mobile 'Customer Voice' survey provides valuable, real time feedback, which is shared across all levels of the business. We supplemented this in 2021 with the introduction of a dedicated online customer panel, 'Connected Communities'. Connected Communities has already become a vibrant means by which Members provide valuable thoughts, views and feedback on a range of topics, and share insights and information with each other and with us. Members who would like to sign up to be part of Connected Communities, can find more information on our website.

Helping people save and plan their finances

Our subsidiary, Newcastle Financial Advisers Limited, which provides financial advice across our branch locations, experienced another strong year for new investments. The team of professional advisers, located in each of the network of branches across the region, delivered 7,000 customer advice journeys to enable customers to make the most of their money.

Despite the pandemic challenges of face-to-face meetings in the first half of the year, a customer survey (Ongoing Service Survey, October 2021) demonstrated advisers had contact with 88% of existing customers in the last 12 months. Customers value the service highly and they are happy to refer onto family and friends, with the subsidiary achieving a customer NPS of +91.

Newcastle Financial Advisers also runs Academy, its training programme (in association with Openwork), as part of a commitment to recruit and skill the next generation of professional advisers.

Despite the ongoing national trend of bank branch closures, we believe in the value of face to face customer contact and maintaining a physical presence within the communities we serve. We remain committed to our high streets and continue to invest in our branch network, as well as new digital technologies. Looking after our customers means being available to them and making it easy for them to interact with us in the way they choose.

We remained 'open for business' throughout the pandemic. We have maintained a full branch operation including access to cash, which was vital for some of our most vulnerable customers.

After a Covid-enforced pause, we also recommenced our multi-million pound branch investment programme. This saw our West Denton branch relocate to a more convenient and prominent location in the Denton Park Centre. A dedicated community room forms part of the new design and is available for local people and community groups to use free of charge.

We also began work on a full refurbishment of our branch in Bishop Auckland, which will relaunch in early 2022. Our plans to open a brand new community branch in the library in Tynemouth are progressing and we continue to discuss other partnership opportunities across our network that align with our strategy and future plans.

Early in 2021 we moved out of our Newcastle city centre head office location, reducing our administrative building footprint from two to one. As part of this head office change we had to close our Portland House branch, which was integrated into the main building. Branch customers were given a warm welcome at the nearby Northumberland Street branch.

Chief Executive's Review

Continued

We continued to offer significantly better than UK average savings interest rates – paying an average rate across our products of 0.71% versus a whole of market average of 0.27%. (Based on CACI's Current Account and Savings Database as at October 2021).

We also launched a 2% Regular Saver, which proved very attractive to Members in the current low rate environment, and which attracted new Members to save with us through our branch network.

While the Bank of England base rate remained at an historic low of 0.1% for much of 2021, a late December increase took it to 0.25%. Your Society passed on the rate increase in full in January 2022 to 97% of Members with a variable rate savings product.

Innovating

Helping people own their own home

Our gross mortgage lending in 2021 was £861m (2020: £645m) with net core lending at £330m (£228m in 2020) and we welcomed 5,300 (2020: 5,206) new mortgage customers to the Society.

2021 was a year of innovation for us in the mortgage space. For a number of years house prices across the country have continued to rise, while wages haven't kept pace. Achieving the dream of home ownership without family or other financial assistance can seem out of reach when a large deposit is required. This impacts both first-time buyers and low deposit, next time buyers. But our participation in launching two new innovative mortgage support schemes this year has provided some assistance.

First Homes: We announced our participation in the government-led 'First Homes' scheme which helps local first-time buyers – particularly key workers such as NHS staff and armed forces veterans – onto the property ladder by offering homes at a discount of at least 30% compared to the market price.

A proportion of new homes are made available on new home developments under the First Homes scheme, with a minimum 30% discount on the open market value, which will be passed on with the sale of the property to future first-time buyers. This means homes will always be sold below market value and local communities will benefit from easier access to them for generations to come. A number of developments across the country are now running the scheme.

Deposit Unlock: One area of the market which is particularly challenging for buyers is purchasing a new build home with a small (5%) deposit, as most lenders don't offer high loan to value lending on a new build mortgage. We were therefore delighted to announce 'Deposit Unlock' earlier this year, an innovative new build mortgage product which helps those with a small deposit to realise their dream of owning a new build home.

We helped develop this 'first' for the UK in collaboration with insurance broker, Gallagher Re, The Home Builders Federation and four of its members. Newcastle Building Society was the first lender to offer mortgages under this arrangement, initially as part of a regional pilot, and was also the first to offer Deposit Unlock on a national basis. A number of young buyers are now on their home owning journey as a result.

We supported these national 'firsts' with other mortgage moves specifically designed to improve access and affordability for borrowers.

- We re-introduced 90% and 95% loan to value lending
- We extended the availability of our Self Build and Custom Build mortgages, increasing the loan to value cap to 85%
- We re-introduced our Help to Buy range, including a unique remortgage product allowing customers who are in a position to repay their equity loan to do so and consolidate this in their existing mortgage
- We re-introduced and enhanced our Large Loan proposition to support higher earning professional customers with enhanced income multiples and increased loan amounts.

The financial support package for home buyers set out by the FCA in response to the pandemic, the Covid-19 payment deferral scheme, ended in October 2021. Through participation in this we helped over 4,500 borrowers experiencing financial difficulties as a result of the pandemic, allowing payment deferrals of up to 6 months. We're pleased that 99% of borrowers who requested a payment deferral have since returned to normal monthly payments.

Investing

In addition to providing a market leading outsourced savings management service, our subsidiary Newcastle Strategic Solutions Limited also serves the Group's technology needs. Investment is ongoing in the Group technology infrastructure to strengthen and enhance resilience and performance, build greater business flexibility, and adapt to changing propositions while delivering value for clients and customers.

We have invested in capacity and capability across IT, risk and compliance, financial crime, and the Group's IT security. Our technology infrastructure has also received investment to support current remote working requirements and our future desired state, along with the people and talent required to deliver it.

We are investing in modern workplace technology in our head office, along with the latest in laptop performance and enhanced connectivity. Work has also commenced to update our savings and mortgage platforms with a digital, customer-centred design approach. This follows the successful introduction of our Mortgage Renewal Online Portal, which enables mortgage customers to renew their mortgage conveniently online.

Newcastle Strategic Solutions manages savings accounts on behalf of some of the UK's leading savings providers, supporting UK banks and building societies looking to launch or grow their savings operations, or transform the management of their existing portfolio. During 2021 Solutions achieved record balances under administration and has built a strong pipeline of new business into 2022, while retaining all its existing clients.

We continue to develop our mobile app which is available to our Solutions' clients and, in the latter part of the year, Solutions also successfully launched an online business savings account for small and medium sized businesses. This new savings product capability has already been taken up by new client, Recognise Bank, and by the Society.

Over the past 12 months 21 awards have been secured by clients of the subsidiary, supported by the servicing operations of Newcastle Strategic Solutions.

Building employability

For more than two years now, we have focused our efforts on supporting employability across our region in response both to the challenges of the pandemic and wider economic inequalities.

Great place to work

Being a great place to work continues to feature strongly in our thinking, in the authentic relationships we build with customers and clients; the talent we nurture; the leadership and creativity we foster; and in the communities we serve.

Our People Strategy focuses on creating a healthy and sustainable culture, connecting our colleagues with our purpose, strategy, values and behaviours; providing an inclusive environment where colleagues have a sense of belonging and do their best work; and creating ways of working to drive engagement and operational effectiveness.

Attracting and growing the right talent is key to ensuring the long-term success of your Society. Sitting alongside this is our desire to develop a high performance environment where colleagues own their own performance, take accountability for delivery and are rewarded and celebrated for their contribution.

Your Society continues to create career advancement and opportunities for continued development for colleagues. This is against a backdrop of Society growth and success necessitating new roles.

We made a significant step forward in our pay position with a move ahead of the market in April, recognising both the organisation's ongoing success and the competitive nature of the wider labour market. Recognising their hard work and contribution in another challenging year, we made an additional recognition payment to all colleagues other than Executives in December.

Our apprentice programme continues to thrive and is fit to take a much more prominent role in our recruitment, talent and succession strategy. We had four apprentices shortlisted in the regional final of the National Apprentice Awards and we were recognised for the third year running when our South Shields branch customer advisor apprentice, Eryn Wood, won the North East Apprentice of the Year 2021.

In the last four years we have created 38 apprenticeship routes to permanent employment, including five new apprentices who joined us this year. Our ambition next year is to bring 25% of new colleagues in through our early talent programme. Our early talent pool includes the opportunity to join us via apprenticeships, graduate roles, and student placements, in addition to a ring fenced Prince's Trust apprenticeship and a ring fenced Newcastle United Foundation's NU:Futures Programme apprenticeship.

We work hard to build a great experience for our new joiners and were therefore proud to make the 'Rate my Placement' Top 50 Employer list for the third year running. This year we entered the top 10 for the first time.

We continue to support the Common Purpose Young Leader programmes which supports young people in the UK to develop their leadership skills. Five of our own young leaders have attended the programme this year, along with two young people from the NU:Futures Programme.

We also achieved the goal we set for the Women in Finance Charter – achieving 40% females in senior management – ahead of our original target of 2023 and are now working towards gender parity.

In line with colleague feedback, we made the decision that hybrid working would be our preferred future working model. As part of this arrangement, our base assumption is that full time colleagues will spend two days a week in our head office environment and three days working from home.

During 2021, following the sale of our Portland House office building, we re-located our head office to a property we already owned and occupied at Cobalt Park, North Tyneside. The transformation of our new head office building provides an opportunity for us to embed an environmentally friendly approach and practice. Investing in our shared future to reduce our carbon footprint has also included the introduction of an electric vehicle leasing scheme as a colleague benefit and we are committed to launching a cycle to work scheme when colleagues return to regular office-based working.

This change in location has provided an opportunity for us to introduce new workspace concepts, to encourage easier collaboration and provide efficient use of space. We are taking advantage of this opportunity to fully digitise the way we work in the office, in how we interact with our workspace, for example to book meeting rooms or hot desks, and in seamlessly connecting those in physical meetings with remote meeting participants.

We consider the benefits of the time that colleagues will spend together in the office makes a vital contribution to our culture of connection and to delivering our purpose with impact.

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 +43. Our apprentice eNPS is +90, which is 50 above the benchmark.

Partnerships and grants

Our commitment is to support talent and success from a diverse range of backgrounds. One of the ways we do this is through our active community partnerships, which include the Newcastle United Foundation, and The Prince's Trust. We have also focused a significant portion of our community grants towards employability support activities within grass roots charities.

Following the launch of our £1.1m partnership with the Newcastle United Foundation last year to deliver 'NUCASTLE powered by Newcastle Building Society', a new-build community hub for sports, education and wellbeing, significant progress has been made in its construction. We witnessed the first local youngsters trying out the rooftop pitch in October, ahead of the planned launch in March 2022, which will dramatically expand opportunities for local people.

Delivery of our joint programmes – Newcastle United Foundation's NU:Futures and The Prince's Trust Team programme – continued despite the challenges of remote delivery required in lockdown. Career advice and other information sessions, including financial education, have been consistently delivered, thanks to the commitment of our colleagues from our branch network and across our Society.

Recognising that the pandemic has brought significant challenge to our communities, our grant giving programme through the Newcastle Building Society Community Fund at the Community Foundation Tyne & Wear and Northumberland was refocused to support Covid-19 recovery.

The Newcastle Building Society Community Fund grants are providing ongoing support to programmes delivering employability skills and experience; addressing food poverty; and helping with debt management. In 2021 we provided £185,000 in support grants across these areas of focus.

Our total community contributions this year, made up of grants, match funding, and our ongoing partnership donations, was more than £750,000. Through these various activities we have positively impacted over 21,700 people of all ages in our region in the past year.

Again, despite the challenges of working remotely, our colleague fundraising surpassed the previous year's total at £14,772 (£16,129.88 including match funding) raised through a combination of Give As You Earn, fundraising days and a variety of other fundraising activities.

Wider community

Colleague volunteering continues to be a fundamental way we support our communities. In 2020 we worked with 'tech for good' business, onHand, and the National Innovation Centre for Ageing to roll out an innovative volunteering app across our region. In 2021, through this and other volunteering commitments, colleagues have delivered more than 400 days of support to our communities – through befriending calls, shop drops, prescription collections, sports coaching and a variety of other activities. Our work with onHand has also meant that over 3,200 trees were planted on our behalf in 2021, aligned to our levels of volunteering.

Summary and look ahead

I am delighted with how our colleagues have responded to the many and unique challenges of 2021, the progress we've made together towards our strategic goals and the sustained impact across all aspects of our purpose. Once again I offer my personal thanks for our colleagues' continued support and tireless efforts on behalf of our customers and clients – I feel truly privileged to lead this remarkable team. I also thank our Members for their continued support and their fantastic engagement with the Society.

The combined commitment and participation of colleagues, Members and communities has not only delivered a highly successful financial year, it has put us in a strong position for 2022. While we all remain hopeful that 2022 will be the year when we see the Covid-19 pandemic reduce its impact on our day to day lives, it is clear that our customers and communities will face many new challenges in the years ahead and, internationally, events in Ukraine are a new source of concern for all. However, the resolve and determination of our colleague team, along with our investment in the Society's capabilities and infrastructure, will ensure we can continue to be there for our Members in the ways and places they need us to be. We will continue to compete with the best; and in so doing, deliver a stand out regional building society, committed to delivering its purpose and serving its Members within and beyond our region.

Andrew Haigh
Chief Executive
1 March 2022

Note: Certain 2020 figures have been restated, see note 35 of the 2021 Annual Report and Accounts.

Newcastle Building Society has a genuine family feel. I got my first account here when I was a little girl. My son also has an account here. No matter which member of the team you speak to they're always welcoming, friendly and willing to go the extra mile. A real pleasure to deal with.

Tracy, Whitley Bay customer

Strategic Report

The Directors present their Strategic Report on the Group for the year ended 31 December 2021.

Newcastle Building Society is the largest building society based in the North East of England with assets of £4.9 billion. 2021 saw the Covid-19 pandemic continuing to impact our way of life and the economic environment and despite the challenges this has brought, the strength of our core operating model enabled the Society to perform exceptionally well in 2021, striving forward with our purpose. Despite the uncertainty caused by Covid-19 to the economic environment we are reporting significantly higher operating profit before impairments and provisions than we reported in 2020, while we continue to operate with strong capital ratios and have robust liquidity ratios.

Purpose

As a sustainable mutual business, our success lies in the intersection between serving the interests of our stakeholder members and communities and delivering an efficient, profitable and resilient business model: a strategy that is led from the purpose of the organisation; valued by and compelling to its customers and financially robust.

OUR PURPOSE

Connecting our communities with a better financial future.

WHAT WE DO

- Helping people own their own home, save and plan their finances
- Building lasting, authentic relationships with customers, clients and partners
- Being a great place to work, where people can realise their potential
- Fostering inclusion, diversity and positive change at work and in our communities
- Caring for our environment and ensuring sustainability for future generations

Our business model and strategy

Our business model is derived from how we believe a modern, regional building society should operate. We attract savings balances by offering our customers fair and consistent rates over the long-term and we offer fairly priced mortgages on residential property to customers whom we believe will be well placed to repay their loan. As such, we meet our customers' needs to save and to own their own home. In addition, we offer financial planning in all our branches, which helps our customers to plan their finances for the long-term, while strengthening the trust and bond between us.

We bring scale and a diversified income stream to the Group by taking one of our core skills, savings management, and offering that as a service to other banks and building societies.

As a regional building society, we are particularly focused on supporting the communities of our region, which we define as the North East of England, North Yorkshire and Cumbria. As a customer-owned business, we are clear how being truly led by our purpose of 'connecting our communities with a better financial future' means that we can deliver a unique and sustainable business to benefit both our region and our customers for the long-term.

We care about building lasting, authentic relationships with our customers, which means that while digital and intermediary channels play a key role in our distribution and service delivery, face-to-face contact and a thriving branch network are particularly important. We are therefore keen to innovate in this area, ensuring we can continue to play a role in maintaining vibrant high streets across our region.

Our strategy is built around five themes:

Being truly purpose-led in our approach to strategy and developing the business.

Building our brand through our communities, recognising that our success relies on the reputation we build with our customers and the difference we make for the communities we serve across our region.

Growing the scale and efficiency of the business, increasing our impact and the long-term sustainability of our operations.

Fostering mutual advocacy, whereby our customers genuinely value the services we provide and the contribution we make to their community and region; they actively participate in the Society and become our biggest advocates, encouraging others to become part of our Society.

We understand that making a positive contribution to the region's environmental sustainability is no longer a matter of choice but necessity and we have amended our purpose accordingly. We are currently working with market leaders in helping to shape our public commitments together with the science based detailed planning and associated investment requirements.

We believe that our approach to strategy delivers a truly purpose-led business, which is driven to act in the interests of our customers, who are also our key stakeholders, but also has the attributes required to deliver a successful commercial outcome. Commercial success is vitally important as the profits we generate are re-invested into the business to support areas such as growth, innovation and infrastructure, for the long-term benefit of members and provide the capital to underpin our operations, providing resilience and security for our Members.

Our 'strategy wheel' summarises our approach and demonstrates how each aspect of our business contributes and complements each other to work in synergy and deliver stable, cost effective funding and lending, achieving a sustainable business model for the long-term, which is uniquely placed within the region and the communities we serve.

Impact of Covid-19 on strategy

During 2021, Covid-19 was still ever present in our everyday way of lives and although we saw a more positive outlook on the state of the pandemic with the introduction of the vaccination rollout, supported latterly by the booster rollout, the Society continued to create an environment of reflection and promoted challenge on our strategy as the pandemic evolved. Our strategy, and resilient business, has strengthened as we moved through 2021 and the pandemic cycle, resulting in a strong performance demonstrated through our financial results. Covid-19 has reinforced or in some ways accelerated our strategic plans, with a great example being our move to a hybrid operating model which is expected to be live for colleagues in early 2022.

Group structure

At our core, we remain a straightforward saving, lending and advice business putting Members at the heart of what we do. As well as providing mortgage and savings accounts to our Members, we also provide a number of other related services, including regulated financial advice for investments through our subsidiary Newcastle Financial Advisers Limited; an Appointed Representative of Openwork LLP. We also provide a range of home insurance policies through our partner Fairmead Insurance Limited (renamed from Legal & General Group Insurance Limited).

Newcastle Strategic Solutions

Newcastle Strategic Solutions, our savings management and IT subsidiary, has been managing savings accounts on behalf of some of the UK's leading savings providers since 2004.

Newcastle Strategic Solutions, purpose links directly to the overall Group's purpose and the pillar "building lasting authentic relationships with customers, clients and partners" – this plays a key role in the Society's financial model.

We support UK banks and building societies looking to launch and grow their savings operations, or transform the management of their existing portfolio. Our systems are built to provide a secure online savings platform.

Newcastle Strategic Solutions strategic ambition is to grow its client portfolio and support the on-going growth of its existing clients, whilst providing an ever improving product capability and level of service to both clients and their customers. So that it can maintain its market leading position and to position themselves to be able to launch new and enhanced services for clients and their customers, Newcastle Strategic Solutions continues to invest in its technology and service, with this including investments in cyber security, digital platforming and enhanced customer experience continue.

Newcastle Financial Advisers

Newcastle Financial Advisers, our financial advice subsidiary, provides Members with access to trusted financial advice, something we believe everyone deserves.

Newcastle Financial Advisers continues to affirm its position on the high street along with its reach in the community, providing experienced advice to our Members. We are proud to offer:

1. Personalised advice and solutions – Advice on solutions and products that are tailored to our Members' needs.
2. No pressure to make decisions or take products – Our Members have no obligation to follow the advice given and no fees are charged unless they implement the advice.
3. Trustworthy advisers you can always reach – We have introduced new telephone and video chat options as well as our face to face branch service.
4. We offer, pensions; investments; life and income protection insurance; and inheritance tax planning.
5. Newcastle Financial Advisers (NFAL) is part of The Openwork Partnership, one of the UK's largest financial advice networks, meaning NFAL can offer advice on a wide range of products and high-quality services.
6. A service that's open to everyone – Unlike some UK banks and building societies, no minimum investment is required. In fact, Members are welcome to ask for advice even if they don't take up our recommendations.

Strategic Report
Continued

Financial performance

The Chief Executive's Review details the Society's performance and success throughout 2021 and should be read in conjunction with this report. The Strategic Report outlines the financial performance of the Society over 2021.

Key performance indicators

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

Key Performance Indicators

Non-Financial Measures	2021	2020 restated
Customer satisfaction	95%	95%
Customer NPS	82	78
Colleague turnover	15.5%	7.5%
Colleague eNPS	43	45
Financial – Profitability		
Operating Profit before impairments and provisions	£28.5m	£14.9m
Net interest margin	1.21%	1.04%
Cost to income ratio	71%	81%
Financial – Balance Sheet		
Common Equity Tier 1 ratio	13.8%	14.1%
Leverage ratio	4.5%	4.4%
Liquidity coverage ratio	216%	226%
Gross lending	£861m	£645m

Senior management consider a wide range of financial and non-financial metrics to assess the performance and future direction of both the Group and Society. Financial metrics include both measures defined or specified by the Group's applicable financial reporting frameworks (primarily International Financial Reporting Standards and the Building Societies (Accounts and Related Provisions) Regulations), such as Group operating profit before impairments and provisions, and non-specified measures, such as net interest margin and cost to income ratio.

Those financial measures not specified by the Group's financial reporting frameworks are alternative performance measures (APMs) with further detail provided in the financial KPIs and analysis section.

Customers

A key part of our strategy is delivering outstanding levels of service and building authentic long lasting relationships with our Members. Our Voice of the Customer programme helps us to do this by providing daily, realtime feedback from our customers, helping us to continue to develop and improve the service we deliver. In 2021 we received almost 17,000 responses from our customers across all our channels including the branch network, mortgage operations, mortgage intermediaries and our financial advice subsidiary, Newcastle Financial Advisers Limited.

Despite the continued challenges of the Covid-19 pandemic, we have consistently improved our net promoter score year on year, this year exceeding our previous score of 78 in 2020 by 4 points to 82 in 2021, and we maintained our exceptionally high customer satisfaction score at 95%, something we are very proud of.

To ensure we continue to develop the service we provide we have commenced a number of new strategic projects. Examples include the transformation of our website and an end to end review of our mortgage journeys where we have invited our Members to provide valuable input based on their recent experiences. In March 2021 we launched our Connected Communities online forum, and to date have 550 Members. Since its launch, Connected Communities has actively engaged with 70% of its Members, receiving 906 responses to 76 items of content, and 1,995 poll votes. In 2022 our ambition is to grow Connected Communities and to engage more of our Members in sharing their thoughts and opinions with us.

Colleagues

Being a great place to work where people can realise their potential is key to living our purpose.

Our people strategy focuses on providing an immediate, ongoing and long-term framework for engaging, developing and managing our people, creating an inspiring place for people to work and be able to achieve their full potential whilst delivering the Society's ambitions with key objectives as follows:-

- Creating a healthy and sustainable culture;
- Colleague engagement and communication;
- Enabling a high performing environment; and
- Building future-proof talent.

The Society places a great deal of emphasis on engaging colleagues in the ongoing development of its business and delivering its purpose and strategy.

Colleague Voice, our colleague survey methodology, is representative of views from colleagues across our Society and can make a significant contribution to our ongoing development, both from a business performance and a colleague experience perspective. Our approach to colleague surveys enables us to measure colleague engagement at a strategic level as well as provide managers with the ability to listen to colleagues and work with the feedback, incorporating these insights into their daily thinking, decision making and conversations.

Our survey practices, tools and resources provide managers with real time access to their feedback as well as the ability to respond real-time and create simple and effective action plans to drive positive change, empowering leaders and managers to own their colleague engagement with their teams.

eNPS is our strategic people metric and enables us to benchmark ourselves against the financial services sector and the very best employers across the industry. Our colleague eNPS score for 2021 was +43, placing us in the top 25% of the financial services sector within Peakon's (our provider) global client database.

Our eNPS has remained steady and positive over the course of 2021 and our Colleague Voice survey continued to play a critical role during this unprecedented time. We focused on making sure surveys and question sets were relevant, meaningful and added value at all levels of the organisation by ensuring they were reflective and enquired about key areas of interest of colleagues and management alike.

An annual pay review for all colleagues takes place on 1 April and the Group operates a discretionary Corporate Bonus Scheme for all colleagues based on performance as measured by the delivery of KPIs linked to the Group's strategic objectives.

No award was made under the 2020 Corporate Bonus Scheme due to the economic uncertainty created by the Covid-19 pandemic. For the performance year 2021 a payment of 5% of base pay (for Achievers) and 10% of base pay (for High Achievers) was made. In addition, in recognition of exceptional Group performance in 2021, a further recognition payment was made to all colleagues. The payment made was £750 for full time colleagues and £325 for part-time colleagues below 20 hours. Recognition payments were not made to Executive Directors and other Executives.

Unite has negotiating rights on behalf of all colleagues up to and including senior management level. The 2021 pay rise for all colleagues ranged from 0% to 12%, with an average 3% received by all colleagues.

The Society operates an Equal Opportunities Policy. It is the intention of the Society that no applicant or employee receives less favourable treatment on the grounds of disability, sex, transgender status, sexual orientation, marital status, civil partnership status, race, ethnic origin, colour, age, nationality, national origins, political beliefs or trade union membership, or is disadvantaged by conditions or requirements that cannot be shown to be justifiable.

Our Diversity and Inclusion Committee was formed in 2019 and is made up of volunteers from a diverse cross section of colleagues from across the business. The Committee is responsible for:

- Challenging and validating the Society's Diversity & Inclusion strategy;
- Providing diversity of thought and innovative ideas to help drive the Diversity & Inclusion strategy;
- Actively championing and role modelling the Diversity & Inclusion agenda and taking responsibility for fostering diversity, equality, inclusive practices and organisational and cultural change; and
- Providing stakeholder insight and appropriate challenge/ governance to support decision making.

During 2021 the Diversity and Inclusion Committee have continued to raise awareness and provide education around key diversity and inclusion topics such as race, disability, gender and LGBTQ. We have launched a reverse mentoring scheme to support enhanced awareness and understanding and also established a diversity and inclusion calendar to broaden the topics we raise awareness on and celebrate dates that are meaningful to our colleagues and communities. We were also delighted to be awarded the Gold Better Health at Work Award.

In 2020 we committed to the Women in Finance Charter. The Charter is a commitment by the Government and signatory firms across the finance sector, to work together to build a more balanced and fair industry and to create gender balance, particularly at mid and higher levels across financial services firms.

As part of our involvement, we have stated our commitment to achieve a 40% female representation across senior management (which includes our Board, Executive Committee and Executive direct reports) by 2023. We were pleased to surpass that target early and published attainment of 43% gender representation in the 2021 September reporting window. This is part of a package of measures we will implement designed to improve gender diversity across senior levels of our organisation.

A number of initiatives have been underway across our Society since 2019 to deliver on gender diversity improvement, including our Women in Leadership Network, "Be a Trustee" to provide women with the opportunity to gain wider governance experience and work supporting "Women onto Boards". We also have a number of colleague led networks including a Parent and Carer Network and a Menopause Network.

We want everyone to experience that their potential is not in any way limited by their background, gender, age, race, disability, religion or sexual identity. Our focus is on ensuring this is the case for all our colleagues in our Society.

The Board also has an approved diversity policy. The gender diversity statistics for the Group at 31 December 2021 are as follows:

	Female		Male	
	2021	**2020**	**2021**	**2020**
Directors	25%	17%	75%	83%
Senior Managers	50%	45%	50%	55%
Managers	43%	41%	57%	59%
Colleagues	67%	68%	33%	32%
Overall	**60%**	**61%**	**40%**	**39%**

Colleague turnover is as an important reflection of the success of our colleague agenda. The Group colleague turnover rate was 15.5% at end of December 2021 (2020: 7.5%). This is reflective of national trends linked to limited movement during the first part of the pandemic and then a recalibration to pre Covid-19 levels, as the economy and labour market picked up.

Colleague turnover

The Group has a Health and Safety Committee which facilitates regular consultation with colleagues on specific health and safety matters. The purpose of the Committee is to provide a forum for representative colleagues to help ensure that the Group has taken all reasonable and practicable steps to maintain a safe and healthy working environment in line with statutory requirements.

The Committee reviews the overall operation of the Group's Health and Safety Policy, including the content of employee health and safety training and discusses health and safety performance, challenges and future priorities.

We continued to recognise the importance of colleague wellbeing throughout 2021 and put significant effort into ensuring our colleagues could prioritise their wellbeing. Keeping colleagues safe, communicating regularly and emphasising the support available remained our number one priority.

We held a number of wellbeing campaigns around physical, mental and financial wellbeing and were proud to be awarded our Gold "Better Health at Work Award". We continued to provide internal and external training for all managers on mental health, recruited more Health and Wellbeing Advocates, recruited and trained more Mental Health First Aiders and increased the regular communications emphasising the importance of mental health and the support available.

Financial profitability

Profitability is one of the key performance measures the Board monitors closely. The Society seeks to make sufficient profit in order to invest in and grow the business for the benefit of its current and future Members.

Summary Group Income Statement	2021 £m	2020 restated £m
Net interest income	59.0	48.3
Other income and charges	40.5	29.4
Total operating income	**99.5**	**77.7**
Administrative expenses	(65.8)	(57.9)
Depreciation	(5.2)	(4.9)
Operating profit before impairments and provisions	**28.5**	**14.9**
Impairment reversals / (charges) on loans and advances to customers	2.8	(9.6)
Impairment charges on tangible and intangible assets	(2.0)	(3.8)
Provision for liabilities and charges	(0.2)	(0.1)
Profit for the year before taxation	**29.1**	**1.4**

Profit for the year before taxation was £29.1m in 2021, a significant increase of £27.7m in comparison to £1.4m in 2020. This increase reflects the strong performance of the underlying operating model in 2021. In 2020 we reported a significant increase in impairments and provisions due to the uncertain economic environment, whereby as a result of the more positive economic environment in 2021, impairment and provisions were a write-back of £0.6m (2020 charge: £13.5m).

Operating profit before impairments and provisions increased to £28.5m in 2021, (2020: £14.9m), demonstrating the core strength of the Group's operating model. Total operating income increased by £21.8m or 28%, whilst due to the investment into the business, administration expenses and depreciation also increased by £8.2m or 13%. Operating profit before impairments and provisions is considered an important reflection of the operating strength of the Group's business.

On an underlying basis, operating profit before impairment and provisions was £22.0m in 2021, a difference of £6.5m to reported operating profit before impairments and provisions (2020: £16.9m). The key non-underlying adjustments in the year relate to the gain in the fair value of the equity release mortgages of £2.1m, hedge ineffectiveness of £1.0m and the revaluation of Openwork units held by NFAL of £3.4m. The following table shows reconciliation of operating profit before impairment and provisions to underlying operating profit.

	2021 £m	2020 restated £m
Operating profit before impairment and provisions	28.5	14.9
(Gain) / loss in fair value of equity release mortgages	(2.1)	2.7
Hedge ineffectiveness on accounting hedges	(1.0)	(0.7)
Revaluation of investments	(3.4)	(0.2)
(Gain) / loss crystallised on sale of assets	(0.1)	0.2
Underlying operating profit	**22.0**	**16.9**

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

Net interest margin

Net interest income increased by £10.7m to £59.0m and our net interest margin was 1.21% (2020: 1.04%), both increases driven by falling market interest rates as well as the Group continuing to access central bank funding via the TFS and TFSME schemes.

Net interest margin

Net interest margin is a relative measure of the Group's net interest income (as disclosed in the Income Statements) – the difference between interest received on assets and interest paid on liabilities – divided by the Group's average total assets during the year.

As a result of a change in accounting policy of the equity release mortgage assets from amortised cost to fair value, the historic accounting hedge relationship between the portfolio and associated interest rate swaps is no longer valid. As a result, swap interest can no longer be netted off the mortgage interest income. This has a positive impact on the net interest income presented in the Income Statement. The interest expense on equity release swaps is now included in gains less losses on financial instruments and hedge accounting. The net interest margin for previous years presented in the table above has been restated in line with the new accounting policy to ensure comparability of all periods presented.

Other income and charges

Other income and charges increased by £11.1m to £40.5m in 2021 from £29.4m in 2020. Income from Newcastle Strategic Solutions Limited includes income generated from balances under management of Solutions' clients. Income from Newcastle Financial Advisers Limited (NFAL) was up £4.3m compared to the period ended 2020, £3.4m of the increase relating to the revaluation of Openwork units held by NFAL, with the remaining £0.9m increase relating to fee income.

Administrative expenses and depreciation

Administrative expenses increased by £7.9m or 14% from £57.9m to £65.8m in 2021, with depreciation expenses increasing from £4.9m to £5.2m. Overall management expenses (the sum of administrative expenditure and depreciation) increased to £71.0m from £62.8m reflecting the continuing investment in the Group.

The Group continues to incur administration costs in relation to Covid-19. These costs include providing colleagues who are working from home with a monthly payment to cover additional expenses as well as all new colleagues who will be working from home a grant to enable them to purchase office furniture.

Information technology is a cornerstone of any business and investment ensures our core platforms are at a leading level to provide security of data and enhanced resilience.

To prepare for our hybrid office working, we began a rollout of colleague computing equipment, providing them with a standard set up to use at home and in the office.

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. The cost to income ratio was 71% in 2021 (2020: 81%).

The cost to income ratio reflects costs deemed to be under the control of management (administrative expenses plus depreciation as disclosed in the Income Statements) divided by total operating income, as similarly presented. Management assess the ratio as a measure of operating efficiency and continues to look for ways to improve this metric.

Cost to income ratio

Impairment charges

Covid-19 has had a severe impact on economic activity in the UK and worldwide, with the pandemic's full economic impact still difficult to forecast. The Covid-19 pandemic has the potential to affect our borrowers and their ability to make their mortgage payments.

The impairment charges for loans and advances to customers was a write-back of £2.8m in 2021 (2020: £9.6m charge). Although economic uncertainty remains due to the ongoing impact of Covid-19, the write-back is due to a more positive outlook. We continue to monitor the situation. £0.3m of the impairment write-back relates to the core residential book and £2.5m relates to the legacy residential book.

Impairment charges on property and equipment was £2.0m in 2021 (2020: £3.8m) and relates to charges in relation to IT equipment and leasehold property.

Provisions for liabilities and charges

Provision for liabilities and charges was £0.2m in 2021 (2020: £0.2m) comparable with the prior year..

Taxation

The Group shows an effective corporation tax rate of 17.87% in 2021. The tax charge reflects both tax payable against 2021's profitable operations and an increase in the deferred tax asset carried on the balance sheet. The effective rate paid in the current year is lower than the statutory rate of 19% due to differences in timing of when charges are recognised for accounting and tax purposes. In addition, there was an adjustment of £0.3m credit for previous year items.

Balance sheet

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

	2021 £m	2020 restated £m
Assets		
Liquid assets	956.4	1,109.7
Derivative financial instruments	14.5	-
Loans and advances to customers	3,794.5	3,567.1
Fair value adjustments for hedged risk	62.1	116.1
Non-current assets available for sale	2.4	4.9
Intangible assets	7.5	5.7
Property, plant and equipment	31.0	34.8
Other assets	26.0	19.1
Total Assets	**4,894.4**	**4,857.4**
Liabilities		
Shares	3,731.8	3,776.3
Deposits and debt securities	746.7	628.0
Derivative financial instruments	147.6	214.3
Other liabilities	24.2	18.7
Subscribed capital	20.0	20.0
Reserves	224.1	200.1
Total Liabilities	**4,894.4**	**4,857.4**

Liquid assets

The Society has continued to maintain a level of high quality liquid assets throughout 2021. The Society's liquid assets comprise of assets held in cash or that can be easily convertible to cash through treasury markets (repo) or via the various Bank of England liquidity schemes. All of the liquid assets are placed with AAA rated UK institutions with the exception of Gilts and deposits with the Bank of England which carry the UK Sovereign rating of AA+.

Asset class	2021 %	2020 %
Cash in hand and balances with the Bank of England	49.4	55.4
Covered bonds	23.3	17.3
Residential mortgage backed securities	20.6	18.8
Gilts	4.6	4.7
Other	2.1	3.8
	100.0	**100.0**

As mentioned the Society has access to the Bank of England liquidity schemes and has pre-positioned mortgage collateral and asset backed securities that provide funding as part of business as usual and contingency funding plans. The statutory liquidity percentage (liquid assets as a percentage of Shares, Deposits and Liabilities) reported at 31 December 2021 was 21.4% compared to 25.2% in 2020.

Cash liquidity was 17.1% compared to 19.1% at the previous year end. 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 as at 31 December 2021 was 216% comfortably in excess of the minimum regulatory limit of 100%.

Loans and advances to customers

The Society's strategy to grow prime residential mortgage business whilst winding down legacy portfolios continued during 2020.

Loan portfolios	2021	2020 restated	Movement in year
	£m	£m	%
Core lending			
Prime residential	2,779	2,497	11.3
Retail BTL <£1m	400	352	13.6
Legacy Lending			
Equity release	233	269	(13.4)
Specialist buy-to-let	28	32	(12.5)
Housing associations	323	381	(15.2)
Commercial	15	22	(31.8)
Other	25	29	(13.8)
	3,803	**3,582**	**6.2**
Provisions	(8)	(15)	
	3,795	**3,567**	
	%	%	
Average LTV%	65.8	65.3	

The net increase in loans and advances to customers after provisions was £228m overall in 2021, this includes a net £330m increase in our core lending of which £48m was on buy-to-let properties to individuals. Average LTV increased during the year to 65.8%. The Society does not offer new lending to professional landlords or undertake buy-to-let lending to corporates.

The Group's lending is all secured with a first charge registered against the collateral property. Core and legacy residential loans are shown at indexed loan to value using the quarterly regional Halifax House Price Indices, all other loans are shown without indexing. Further information on security loan to value is provided in Note 43, credit quality.

The Group has previously accounted for the equity release mortgage assets at amortised cost and changed its accounting policy in the current financial year to a fair value approach, as permissible under IFRS 4 and IAS 8. 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. More details in respect to the change in accounting policy can be found in Note 35.

Mortgage credit quality

Arrears

The Society measures mortgage arrears of 3 months or more (excluding possessions) for both number and value of loans. Although primarily a measure of the quality of the existing mortgage books, the Society also uses its mortgage support functions to influence future lending with "lessons learned" fed back into lending policy.

Arrears performance

3 months or more arrears

	By number of loans		By balance	
	2021	2020	2021	2020
	%	%	%	%
Core lending	0.44	0.38	0.40	0.34
Legacy lending	0.11	0.14	-	-
Total	**0.42**	**0.36**	**0.34**	**0.28**

The percentage of mortgages in arrears by 3 months or more remains at low levels for 2021. Overall by number of loans arrears we have seen an increase of 0.06% to 0.42%, and by balance we have seen an increase of 0.06% to 0.34%.

As a response to Covid-19, there has been significant support for the economy and the mortgage market over the past two years from the Government, the regulators and the Bank of England. These measures, together with measures taken by banks and building societies, such as payment holidays, have resulted in increases in HPI, low levels of arrears and less severe increases in unemployment than would have been expected otherwise as a result of lockdowns and changes in customer behaviour.

Overall, at the balance sheet date, the economy looks surprisingly healthy given the disruption the pandemic has caused to individuals and businesses. However, the full effects of unwinding measures introduced by the Government, the regulators and the Bank of England are not yet known. Very high levels of inflation in 2021 and even higher levels forecast for 2022 pose a real risk for the economy in general and our Members in particular. Borrowers may struggle to make contractual mortgage payments if core costs for energy and food rise more sharply than incomes, resulting in increases in default rates. This, in combination with higher interest rates required to counterbalance inflation, could put significant pressure on property values, increasing the Society's risk of losses from lending. As a result, the Society's provisioning models continue to attribute a high probability to unfavourable economic developments, resulting in high levels of provisions for expected credit losses by historical standards and a prudent position at the year end.

Forbearance

The Society will work closely with any homeowner experiencing difficulties, offering help and advice on all aspects of the situation. Forbearance cases and options granted are monitored by the Society's Credit Risk Committee with the levels of concessions granted not considered to be material for the size of the overall book.

In 2020 the Government announced a financial support package in response to Covid-19 for people who were unable to pay their mortgage payment, this continued into 2021. The Society has supported 4,749 borrowers struggling to pay their mortgages with payment holidays, 551 of these payment holidays continued into 2021. There were 83 new payment holidays agreed in 2021, with no payment holidays remaining at the year end (31 December 2020: 313).

Law of Property Act receiverships and possessions

The Society continued to experience a low level of possessions on residential loans and Law of Property Act receiver appointments. At the end of 2021 the Society had 1 property in possession in relation to owner occupied loans and there were 3 exposures in relation to legacy loans being managed by a Law of Property Act receiver.

Funding

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

Retail savings balances decreased by £45m during 2021 to £3.7bn. Wholesale funding, including drawdown on Bank of England Funding Schemes, increased during the year by £119m. This has resulted in the ratio of shares and deposits to wholesale balances moving from 86%/14% in 2020 to 83%/17% in 2021.

Capital

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

Capital	2021	2020 restated
	£m	£m
Tier 1 capital		
Common equity Tier 1 capital	221.0	211.1
Additional Tier 1	2.0	4.0
	223.0	215.1
Tier 2 capital		
Tier 2 capital	18.0	16.0
Collective impairment allowance	0.1	0.2
	18.1	16.2
Total capital	241.1	231.3
Risk weighted assets		
Liquid assets	44.1	43.0
Loans and advances to customers	1,331.6	1,258.1
Other assets	68.3	60.7
Off balance sheet	31.9	22.6
Operational risk	125.2	109.7
	1,601.1	1,494.1
Capital Ratios	%	%
Common Equity Tier 1 Ratio	13.8	14.1
Tier 1 Ratio	13.9	14.4
Total Capital Ratio	15.1	15.5
Leverage Ratio	4.5	4.4

The Group complied with Individual Capital Guidance plus capital buffers, as notified by the Prudential Regulation Authority, throughout 2021. The total capital ratio was 15.1% (2020: 15.5%); Tier 1, and more importantly Common Equity Tier 1, which offers the greatest protection to Members' funds in the unlikely event of unforeseen financial stress, were 13.9% and 13.8%, respectively in 2021.

The leverage ratio is a simplified capital strength ratio measuring qualifying Tier 1 capital against on and off balance sheet assets. The Board monitors the leverage ratio on a monthly basis and as at 31 December 2021 the figure was 4.5% (2020: 4.4%). This is, and has remained throughout 2021, well in excess of the regulatory target of 3%.

The Group holds capital, primarily though accumulated reserves, to protect itself against the risk inherent in the running of a building society: primarily credit risk inherent in mortgage lending, liquidity investment, operational risk and the ability to realise other balance sheet assets ultimately into cash.

The Group's total capital requirement/individual capital guidance is communicated annually by the Prudential Regulation Authority and consists of minimum regulatory capital requirements (Pillar 1) plus additional, Society-specific capital requirements for credit, market, operational, counterparty, credit concentration, interest rate and pension obligation risk (Pillar 2A). The Group's total capital requirement at 31 December 2021 was £189.2m. Further details on the Group's capital position including the transitional impact of Basel III is given in the Pillar III disclosures available on the Society's website.

Principal tisks and uncertainties

The principal risks and uncertainties faced by the Group are set out in the Risk Management Report.

Outlook

As we emerge from the pandemic, there is clear positive UK wide progress as we continue to take steps to learn to live with Covid. That said, we believe the economic outlook remains uncertain, which will continue to disrupt the UK housing and savings markets. In addition, the inevitable impact recent geopolitical events may have on the UK and in turn our Member base will be determined in due course. We will continue to monitor and react to these external conditions and refine our position as they evolve.

Whilst these are challenging times, we believe that our clear strategy has shown considerable resilience in recent years. We are now carrying good momentum into 2022 with considerable opportunity to continue to strengthen our sustainable core business and as such support our regional Members and our UK wider customer and client base connect to a better financial future.

On behalf of the Board
David Samper
Chief Financial Officer
1 March 2022

Newcastle Building Society colleagues, Sheila & Margaret, at Smile for Life Cafe

Newcastle Building Society Community Fund at the Community Foundation

If you would like to nominate a cause local to you and to our branch network, visit your local branch for more information or go to our website: **newcastle.co.uk/community**

The pandemic has brought significant challenge to our region and required us to rethink how we best support our communities and enable them to bring about sustainable positive change.

In financial terms, our total community contributions in 2021, made up of grants, match funding, and our ongoing partnership donations, was more than £750,000. Through these various activities we have positively impacted over 21,774 people of all ages in our region in the past year.

Our community grant giving programme through the Newcastle Building Society Community Fund at the Community Foundation Tyne & Wear and Northumberland has been adapted to support Covid recovery. This year we focused grants to provide ongoing support to programmes delivering employability skills and experience; addressing food poverty; and helping with debt management. In total in 2021 we provided £185,000 to 59 charities across these areas of focus.

We have also used the power of our partnerships to concentrate support on these priorities, helping to make a positive difference for those we serve.

Our partnership with Newcastle United Foundation continues to grow, not least through the construction of 'NUCASTLE powered by Newcastle Building Society', a new community hub for sports, education and wellbeing, which will open in March 2022. We have also provided significant support for the Foundation's flagship NU:Futures programme which aims to connect young people with life-changing opportunities. We've taken great pride in seeing young people move into full time employment after completing the programme, and in January 2022 we welcomed to our business a new IT apprentice after he successfully completed a work experience programme delivered in partnership with the Foundation.

The Sir Bobby Robson Foundation means so much to our region and we've cherished our relationship with the charity since 2012. In 2021 the Society's cumulative contribution to the Foundation's work passed £3m, after funding of £50,000 was provided to enable the Sir Bobby Robson Cancer Trials Research Centre, which sits within the Northern Centre for Cancer Care at the Freeman Hospital, to staff an Oncology Research Nurse position as part of its Early Phase Clinical Trials team.

Colleague volunteering continues to be a fundamental way we support our communities, and through volunteering friendly policies, all colleagues are enabled to unlock the wellbeing benefits that come from helping others.

Another way we support our communities is through our ongoing commitment to providing face to face service in our towns and cities. We continue to invest in our branch network as part of an ongoing multi-million pound programme of improvements, and celebrated the formal opening of a newly located branch in West Denton this year. Guest of honour at the event was Shola Ameobi, former Newcastle United striker and now Trustee at Newcastle United Foundation.

Supporting our communities

Continued

Workplace skills and employability

A total of almost £100,000 in grant funding was made to 27 different regional charities helping to tackle local employability issues. This included £2,940 to Coatham House, a homelessness charity in Teesside, to help fund their volunteering programme and enhance the support available to develop volunteers' personal and professional skills.

Helping to tackle debt

Seven charities working to tackle issues around debt received nearly £20,000 in grant funding. One of those was Citizen's Advice Northumberland who used £3,000 to kick start a project in Ponteland which seeks to reach families in the area facing financial difficulties and provide local access to the support and advice they need.

Addressing food poverty

Regal Respite in Gateshead was one of 17 projects helping to alleviate hunger which we supported this year. Providing respite care for members of Gateshead's Orthodox Jewish community, a £3,000 grant was used to expand the range of situations in which it provides support through food and toy hampers. A total of £46,454 in grant funding was provided to charities tackling food poverty this year.

Helping hospices and cancer care services

We continued our long-term support for hospices and cancer care services in our region by providing £24,000 to eight charities including Tynedale Hospice at Home and Eden Valley Hospice. Our continued support of the Sir Bobby Robson Foundation means we have now contributed more than £3m to one of the region's most beloved charities.

Colleague recognition

Colleagues across the Society help bring our purpose to life and continue to show an incredible commitment to deliver for customers. The strength of our apprenticeship programme and quality of talent within the business were recognised in the regional final of the National Apprentice Awards when our South Shields branch customer advisor apprentice Eryn Wood won the award for North East Apprentice of the Year.

Colleague volunteering and fundraising

Colleagues across the Society continue to give up their time to support our communities. In 2021, colleagues completed a total of 2,875 hours volunteering – helping people in their communities with an amazing range of tasks including coaching, mentoring, gardening, governorship, shopping, and much more. Colleagues also showed incredible generosity, helping to raise £14,772 for the Community Fund through fundraising activities and Give As You Earn contributions.

Celebrating diversity

To help celebrate diversity and inclusivity in our communities, as well as recognising our role in bringing people together, we worked with Darlington Pride and Darlington Borough Council to support the return of the Darlington Pride Weekender. We were also thrilled to be named Pride Media's first ever Community Champion, helping to turn a spotlight on the services and support available to help LGBTQ+ people who have been particularly impacted by Covid-19.

Promoting physical health and wellbeing

In April around 150 colleagues took part in a virtual 5k run to raise money for the Community Fund, raising an impressive £1,305. Whether walking or running, colleagues took the opportunity to get active and give their mental and physical wellbeing a boost, as well as contributing to a good cause.

The Society has a clear commitment to safeguard our environment and deliver sustainability for future generations.

Our approach to this is managed through an Executive Environment and Sustainability Committee. The purpose of this is to ensure we have appropriate policies, process and actions in place to measure our impact and drive forward actions to achieve our desire to meet our environment and sustainability goals.

Hawes, North Yorkshire

Sustainability Report

We intend to commit to a Science-Based Target in 2022, which will require us to reduce our greenhouse gas emissions every year. This will enable a clear and structured standard to be applied to our existing internal target, and further demonstrates our commitment to reducing our carbon footprint.

Science-Based Targets are greenhouse gas emissions reduction targets that are in line with what is necessary to achieve the goals of the Paris Climate Agreement.

In addition, during 2022, we are also planning to adopt a number of United Nations Sustainable Development Goals, to align with our purpose.

Over the course of 2022, we will be enhancing our carbon footprint assessment approach to align with the Greenhouse Gas Protocol Corporate Standard. This standard has become the most widely used and globally recognised approach for reporting greenhouse gas emissions.

It is used by most UK stock exchange listed companies to report their carbon emissions. The standard introduced the concept of 'Scopes' as a way to categorise an organisation's greenhouse gas emissions.

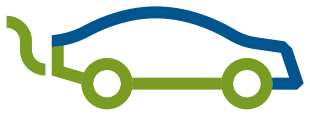
Scope 1
Direct emissions

Direct emissions from sites or assets controlled by an organisation (e.g. gas fired heating boilers, diesel used in backup generators).

Scope 2
Indirect emissions

Indirect emissions associated with purchased electricity consumption. Although electricity is used on site, the emissions take place where the electricity is generated. For electricity taken from the grid, generation is a mixture of renewable, nuclear and fossil fuel electricity generation.

Scope 3
All other indirect emissions



All other indirect emissions (e.g. from business travel by employees and waste disposal).

We will publish our Scope 1 and Scope 2 greenhouse gas emissions in our next annual report and will extend the measurement of our carbon footprint into further areas of Scope 3 as we develop our expertise.

Greenhouse gas emissions are generally shown in units of carbon dioxide equivalent (CO2e). This enables a common unit to be used for the different types of greenhouse gases, which include carbon dioxide, methane and gases used in fridges and air conditioning units.

Greenhouse gas emissions are generally shown in units of carbon dioxide equivalent (CO2e). This enables a common unit to be used for the different types of greenhouse gases, which include carbon dioxide, methane and gases used in fridges and air conditioning units.

Greenhouse Gas Emissions Report

Energy consumption (kWh)	2021	2020	% change
Natural gas	994,523	1,213,803	–18%
Electricity	2,582,688	3,255,848	–21%
Transport	80,364	161,128	–50%
Total	**3,657,575**	**4,630,779**	**–21%**

Greenhouse gas emissions in tonnes of carbon dioxide equivalent	2021	2020	% change
Natural gas	182	223	–18%
Electricity	548	759	–28%
Transport	20	40	–50%
Total	**750**	**1,022**	**–27%**

Intensity metric	2021	2020	% change
KgCO2e per square foot	4.9	4.7	+4%

The 2020 Greenhouse Gas emissions and kWh that were published last year included significant estimation. The 2020 values above have been corrected with the actual Greenhouse Gas emissions and kWh.

We vacated a large office building in March 2021, restating the intensity metric to exclude that building from both the 2020 and 2021 figures gives the following results:

- The restated intensity metric for 2020 is 4.4 KgCO2e per square foot
- The restated intensity metric for 2021 is 4.1 KgCO2e per square foot

Greenhouse gas emissions and energy usage have been calculated in line with the UK Government's 'Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance, March 2019'. Greenhouse gas emissions have been calculated using the location-based method.

Greenhouse gas emissions and conversion factors have been taken from the UK Government's 'GHG Conversion Factors for Company Reporting' for the year 2021. Some estimation has been used to cover missing billing.

Sustainability Report
Continued

The focus for 2021 was on recycling and determining a baseline for our future sustainability planning. 2022 will be about further reducing our greenhouse gas emissions and adopting some of the UN Sustainable Development goals.

Progress in the last year

Wastepaper

We recycled 33 tonnes of confidential wastepaper last year. It was securely shredded and dispatched to a paper mill in Northumberland for recycling into tissue products. This saved 34 tonnes of CO2e compared with disposal in landfill.

Reducing landfill

Reducing non-recyclable waste to landfill has been a key objective for us. We have eliminated plastic cup usage by our colleagues by providing each colleague with a mug and reusable water bottle. Free tea and coffee are available to all colleagues in our offices removing the need for employees to bring in drinks from outside in plastic cups.

Newcastle office

We recycled the majority of office furniture when we vacated a large office building in the centre of Newcastle during the year. The furniture went to two charities and we used an office clearance company to reuse and recycle the remainder. 102 tonnes of office furniture were diverted from landfill, 88% of it was reused and the balance was recycled.

Cobalt offices

We recycled and repurposed the surplus furniture when we refurbished our offices at Cobalt Business Park during the year. Two local colleges benefitted from the furniture and any that could not be donated was recycled.

Electric vehicle scheme

In order to reduce GHG emissions from employee commuting, in 2021 we launched a salary sacrifice electric vehicle scheme for all colleagues. This allows colleagues to lease a new electric vehicle at a significantly reduced cost.

Initiatives for the coming year

Renewable electricity

The Society has been reviewing the options for generating renewable electricity on its sites and we will continue to keep abreast of technological developments in this area. We have contracted to purchase hydropower-generated renewable electricity for our Cobalt offices and 8 of our larger branches for 2022 and 2023. We recognise that this electricity is not supplied directly from the hydropower plant but is distributed through the national grid and is included in our carbon footprint.

Waste

We are currently engaged with a specialist third party waste and recycling consultancy to establish mechanisms for more effective recycling and repurposing of our waste.

Information technology

When purchasing new information technology and electrical equipment, low power consumption is a key driver in our equipment selection process.

Branches

Where we look to open branches we seek to locate them within shared community sites such as libraries. Co-occupied premises results in lower greenhouse gas emissions compared to a standalone branch. It also contributes to the cost of running such community facilities.

Cycle to work

We are launching a cycle to work scheme in 2022 and have provided showers, secure cycle storage and lockers at our Cobalt site to facilitate this.

Our Directors

Andrew Haigh
Chief Executive

Andrew became the Society's Chief Executive in May 2015 having joined the Board as Chief Operating Officer in January 2014.

He has a track record in transforming and developing businesses, and has more than 30 years' business experience, including over 25 years in the mutual sector. He has held financial services leadership roles as both an Executive and a Non-Executive Director, bringing a depth of consumer understanding developed from a variety of sectors including the financial, motor, technology and airline industries.

A proven Chief Executive, Andrew has particular strength in building effective leadership teams and organisations with healthy cultures. His sound experience and customer focus have seen him guide the long-term growth and innovation of brands through clearly defined, purpose-led strategies.

He is a strong advocate for the role of mutuals in the financial services sector and appreciates the balance between delivering profitability and meaningful Member value.

Andrew is a Board member of the Community Foundation serving Tyne & Wear and Northumberland, a Director of the North East England Chamber of Commerce and a Vice President of the Chamber Council, and Chair of the Northern Association of Building Societies.

Stuart Miller
Chief Customer Officer

Stuart became Chief Customer Officer in 2017 and has been a member of the main Board since 2018. He is an Associate of the Chartered Institute of Bankers and holds the Customer Experience Professionals Association qualification for senior business leaders. Stuart is a Director of Newcastle Financial Advisers Limited and sits on the Board of the national High Streets Task Force.

Stuart has more than three decades' experience working in the financial services sector, including Virgin Money where he was responsible for running branches, lounges and the ATM network, RBS International where he was Head of Mortgages and Head of Customer Experience, and NatWest where he ran large teams across branches and private banking.

He is responsible for all customer facing areas of the commercial performance of the Member business including branches, mortgage operations, mortgage advice, product development, marketing, group communications and financial advice.

David Samper
Chief Financial Officer

David has been a member of the Board since 2018 when he joined the Society as Chief Financial Officer.

An accomplished strategic leader with over 20 years' experience as a Chartered Accountant, David has a fundamental knowledge of the issues impacting the long-term commercial sustainability of our business model, balance sheet and profitability.

He understands the financial services sector exceptionally well and has valuable experience in managing financial performance across both large and medium sized financial organisations in the UK and abroad. He brings a different perspective to his team and the Board, gained from his international business experience. David's career has also encompassed multiple system migrations, complementing the knowledge and expertise of our growing Solutions business.

David has held senior roles across a number of organisations, including RBS, Ulster Bank, and at Sainsbury's Bank as its interim Chief Financial Officer. He has led complex acquisitions and driven transformational change, whilst consistently delivering core commercial outperformance.

David's previous experience with broader capital markets and shaping organisational strategy in an ever changing economic and competitive environment will be key to ensuring the success of our ambitious Group.

James Ramsbotham
Chair

James Ramsbotham became Chair of Newcastle Building Society in August 2021. Prior to this he was Chief Executive of the North East England Chamber of Commerce for 15 years and was Chairman of the Darlington Building Society until December 2017.

Previously James was Vice Chairman of the Esh Group, the award-winning North East construction group. Before that, he spent 14 years in Corporate Banking in Barclays Bank plc (throughout the UK), latterly as Marketing Director.

James is Chair of Newcastle Strategic Solutions Limited as well as being Chair of the Society's Nominations Committee. He is also a member of the Society's Group Risk Committee.

He was a soldier for 12 years with the Royal Green Jackets, and benefited from executive education at Harvard (USA), INSEAD (France), and Oxford University after graduating from Durham University.

James is also a Non-Executive Director for Hargreaves Land, part of Hargreaves Services PLC. He is Honorary Colonel for The Rifles in County Durham, Trustee for The Foundation of Light (Sunderland AFC) and a Deputy Lieutenant for Co. Durham. He also gives time to Durham Cathedral, Sunderland University, and various other charitable organisations.

He was awarded an Honorary Doctorate in Business Administration by Sunderland University in 2016; made an Honorary Fellow of the Association of International Accountants (FAIA Hon.) in 2017; and made a CBE for services to business and the North East economy in the 2019 New Year's Honours.

Mick Thompson
Deputy Chair and Non-Executive Director

Mick joined the Board in January 2019, and brings significant accountancy experience with a deep knowledge of audit to support the Society's governance and audit function.

He has worked with companies and organisations across a broad range of industry sectors, including housebuilding, social housing, education, engineering, charities and financial services.

He spent 21 years as a Partner and nine years as Office Senior Partner at KPMG Newcastle.

Mick is a Non-Executive Director of The Clinkard Group Limited, Atlas Cloud Limited and North of England Protecting & Indemnity Association.

He is also a Trustee of Greggs Foundation Charity; Trustee of NUFC Foundation Charity; Trustee of Tyne and Wear Building Preservation Trust; Regional Treasurer of The Lord's Taverners Charity and a member of the International Advisory Board of the Newcastle University Business School.

Appointed Deputy Chair in July 2020, Mick chairs the Society's Audit Committee, as well as being a member of both the Nominations Committee and Remuneration Committee. Mick chairs the Newcastle Building Society Pension & Assurance Scheme Board.

Mick's extensive network in the region helps bring excellent connections to support the development of the Society's brand and strategy. His wide ranging Board portfolio, particularly in the charity sector, is well aligned to our community focus and helps us better understand the issues affecting this sector.

Adam Bennett
Non-Executive Director

Adam joined the Board in April 2019 and is a member of the Society's Group Risk Committee, the Audit Committee and the Group Technology Governance Committee.

Adam spent 36 years at law firm, Addleshaw Goddard, where he specialised in advising building societies. He has a deep knowledge of the building society sector and its associated corporate governance and regulatory requirements.

Adam has advised building societies across a diverse range of issues. He brings formidable legal insight and experience of different business models and structures, important given the Group structure, which includes two key subsidiaries, Newcastle Strategic Solutions Limited and Newcastle Financial Advisers Limited.

During his professional career, Adam has advised on rules of building societies, on corporate governance, including compliance with the UK Corporate Governance Code, and on the powers and statutory and fiduciary duties of Directors.

Our Directors

Continued

Anne Shiels

Non-Executive Director

Anne joined the Board in 2017 as an experienced Director with extensive board-level experience both in the UK and internationally. Working with FTSE 100 and independently-owned companies in both regulated and non-regulated businesses, Anne's experience spans a broad range of sectors including financial services, retail, telecommunications, manufacturing and consumer. She combines strategic leadership and deep people, culture and organisational transformation expertise with a solid understanding of governance, control and risk.

She has held Executive roles at Hallmark Cards, Lloyds Banking Group/HBOS, Safeway and Thus Plc. Anne is a trusted executive coach and adviser to Boards and Directors in diverse businesses in the UK and the US.

Her track record of leading large people functions and facilitating transformative organisational change, coupled with her widespread sector experience, helps us to develop a broader view on matters affecting the Society and assists in developing people strategies including our approach to culture, talent, succession and reward.

Anne chairs the Remuneration Committee and is a member of both the Society's Audit Committee and the Nominations Committee. She is also a Director of Newcastle Financial Advisers Limited.

Bryce Glover

Non-Executive Director

Bryce Glover joined the Board in 2017. He is a highly experienced Director who has operated at Executive Committee and Board level in a number of leading UK financial services businesses.

Bryce adds a genuine breadth of commercial and retail banking expertise, along with a strong credit and risk management background, which is particularly valuable in his role as Chair of the Society's Group Risk Committee.

He has a deep understanding of the mutual sector, having spent nine years working for the UK's largest building society, the last three as Corporate Affairs Director.

His extensive industry knowledge and business acumen assist the development of the business.

The majority of Bryce's career has focused on corporate and commercial banking. He was Managing Director of Commercial Banking at A&L/Santander, before joining Nationwide Building Society in 2009 as a Director heading its Commercial Division, where he managed a £22bn commercial lending portfolio and the society's business savings accounts before heading Corporate Affairs.

Bryce is Chair of the Society's Group Risk Committee and a member of the Remuneration Committee.

Karen Ingham

Non-Executive Director

Karen joined the Board in 2014. She has an extensive customer services background gained in highly competitive consumer sectors and is extremely people and customer focused.

In her current role as Global VP for Small Hotel Partners at Expedia and as part of a digital business, Karen brings valuable commercial sales and service experience to the Board in addition to significant insight into culture, diversity and the development of customer benefits using digital technologies.

As an ex-HR Director she also understands employment law and is able to bring this perspective to Board discussions.

Her contribution to delivering great customer experiences linked to profitable growth aligns to the Society's strategy in building impact and long-term success.

Karen's external roles have included Head of Service and Customer Experience Director. She also spent 18 months as HR Director in the construction industry and started her career with 18 years in financial services at The Co-operative Bank. Karen is a member of the Chief Customer Officer Forum. She is also a Director of Newcastle Strategic Solutions Limited and a member of the Society's Group Risk Committee.

Stuart Lynn

Non-Executive Director

Stuart joined the Board in April 2020. He is a prominent technology business leader with a wealth of experience drawn from his time at the National Health Service and software giant Sage, where he held a number of leadership roles, including Executive Vice President and Chief Technology and Information Officer.

His deep understanding of the potential for digital transformation within businesses to drive better customer experiences and commercial growth will help guide the digital transformation across the Society and Solutions. Developing an approach to technology that can support the provision and delivery of excellent service that is unequivocally human and personal, is a key component of the Group's strategy.

Stuart has been a Non-Executive Director of the Society's Solutions business since 2018 developing considerable understanding of the Solutions' business model and allowing him to contribute to the Group's wider ambitions.

He is an active member of the North-East's thriving digital and tech community.

Michele Faull

Non-Executive Director

Michele joined the Board in August 2021, having spent 15 years at the most senior levels in finance and risk within the financial services industry. Her previous roles include Chief Financial Officer at Coventry Building Society and Group Risk Director at Nationwide Building Society.

She brings significant building society knowledge and a wealth of valuable experience to the Society, as well as a passion for giving back and helping others succeed which will help guide the Society in delivering on its purpose.

Her wide ranging career has also incorporated roles with global insurer Aviva, accountants PwC where she was a Partner, and IT services provider, ICL.

Michele spent nine years as Trustee and Treasurer of the Bow Arts Trust and mentored for The Aspire Foundation, which supports women's development internationally. She currently serves on Coventry Cathedral's Finance Committee and volunteers with the Cranfield Trust. Michele is also a Non-Executive Director and Chair of the Audit Committee at IQUW Syndicate Management Limited. At the Society, Michele is a member of both the Society's Audit Committee and Group Risk Committee.

Been a customer for many years always had great customer service off the staff

Jacqueline and Michael, Cramlington customers

Directors' Report

The Directors present their Annual Report and Accounts and Annual Business Statement for the year ended 31 December 2021, which they consider to be fair, balanced and understandable, providing Members with the information necessary to assess the Group's position and performance, business model and strategy.

Objectives and activities

It is the intention of the Directors that the Society will continue to remain an independent regional building society. The Society's purpose and strategy are set out in the Strategic Report.

Business review and future developments

The Chief Executive's Review and Strategic Report set out the business activities and business performance in the year against our strategic objectives, as well as likely future developments. The Strategic Report also outlines the Group's key performance indicators (KPIs), which include customer, colleague and financial KPIs, details of the Group's customer focus, colleague agenda, financial analysis, mortgage credit quality, funding and capital position.

The Annual Business Statement and the Credit Risk Notes, 32 to 45, contain respectively the ratios and arrears disclosures required by the Building Societies Act 1986.

Going concern and long-term viability assessment

Financial planning, risk and stress testing

The Group's financial planning includes a detailed budget for the next financial year and an assumptive forecast for a number of financial years thereafter, which consider a range of outcomes relative to internal and external conditions. Achievement of long-term plans and goals is not guaranteed, given the uncertainty in predicting macro-economic factors long into the future, which may materially impact the Group's performance and could also lead to changes in the Group's business strategy.

The Strategic Report includes a description of the Group's business activities and any factors likely to affect its future development, as well as details of the Society's financial performance and position, including liquidity and capital structure. The Group's principal risks, including the strategy of managing these, are detailed in the Risk Management Framework. Further details in respect to interest rate risk, liquidity risk and capital risk are provided in the notes to the Accounts (see Notes 32 to 45).

The Group performs detailed capital and liquidity stress testing at least once per year in the ICAAP (Internal Capital Adequacy Assessment) and the ILAAP (Internal Liquidity Adequacy Assessment) in line with regulatory requirements.

The ICAAP stress test ensures that the Group's forecast for both capital requirements and capital generation are resilient to 'severe but plausible' stresses to the Group's external or internal environment, beyond the levels forecast in the most negative scenarios considered in the Group's longer-term plan. The stress test demonstrates that the Group's capital buffers are sufficient to absorb the level of capital erosion considered in the stress scenario, continuing to meet minimum regulatory capital requirements.

The ILAAP stress test ensures that the Group holds adequate liquid assets to meet both its business as usual liquidity needs and increased liquidity requirements that could occur as a result of entering a period of stress. The Group is forecast to hold a sufficient quantity and quality of liquid assets over the following three year period to be able to meet its liabilities as they fall due, even in the event of a severe but plausible stress scenario.

Assessment of the appropriateness of preparing the Annual Accounts on a going concern basis

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 and Society's forecasts, including different possible scenarios based on possible internal and external developments and arising risks. Together with regular stress testing, the 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 these financial statements. The Directors have concluded that there are no material uncertainties that may cast significant doubt upon the Society's ability to continue to apply the going concern basis of accounting.

Assessment of the Group's long-term viability

The Directors have assessed the viability of the Group and the Society over the three years to December 2024. The assessment took account of the Group's principal and emerging risks and relevant management actions and controls, including the Board's risk appetite and performance against risk limits. It considered the Group's financial forecasts, including profitability, capital and liquidity positions. It also considered the most recent ICAAP and ILAAP stress tests, complemented by stress tests and forecasts performed as at December 2021, to ensure the viability of the Society even in times of severe stress. The most significant stress scenario which was considered included an increase in unemployment to 11% and house price falls of 29% over the period 2022 to 2024.

Based on this assessment, the Directors have a reasonable expectation that the Society will continue in operation and meet its liabilities as they fall due over the period to December 2024.

The Directors consider three years the most appropriate period for the viability assessment, as it is within the period covered by the financial forecasts and the stress testing undertaken by the Society, but does not extend too far into the future, where forecasts become increasingly more uncertain.

Risk management, principal risks and uncertainties

The Risk Management Report sets out the principal risks and uncertainties faced by the Group together with the risk management framework and risk governance structure. The Risk Management Report also details how the Group mitigates the specific key risks to which it is exposed, which are credit risk (residential credit, commercial, investment), liquidity risk, market risk (interest rate, macro-economic), pension fund obligation risk, capital risk, conduct risk and climate change risks. In addition, the Credit Risk Notes, 32 to 45, set out the metrics associated with the key risks including sensitivity analysis and exposure level.

Mortgage arrears

As at 31 December 2021 there were 25 cases (2020: 25) where payments were 12 months or more in arrears. The capital balances of these loans were £3.0m (2020: £1.9m). The total amount of arrears on these loans was £0.8m (2020: £1.2m). The Society had granted payment holidays to a total of 4,749 borrowers as a result of the Government's support package in response to Covid-19, of which 551 continued into 2021. There were 83 newly granted requests in 2021 with no payment holidays remaining at year end.

Political and charitable gifts

The Society is pleased to be able to give back to its heartland communities, through charitable donations, colleague fundraising and volunteering. In 2021 a total of £279,602 was donated to the Newcastle Building Society Community Fund and a further £475,000 was donated to Newcastle United Foundation.

In 2021 our colleagues maintained a real commitment to our communities. A variety of fundraising activities, delivered mostly remotely, secured a colleague fundraising contribution of £14,772 (£16,129 including match funding) in aid of the Newcastle Building Society Community Fund and other charities including Children in Need, the Red Sky Foundation, Macmillan Cancer Support and Cash for Kids.

Our colleagues have also continued to volunteer in our communities in line with Covid-19 guidelines, supporting good causes and people across our region. One way colleagues volunteer is through our partnership with the volunteering app, onHand, and The National Innovation Centre for Ageing, completing small local tasks such as shop drops and prescription collection/drop-off. In 2021, through this and other volunteering commitments, colleagues have delivered more than 404 days of support to our communities.

The Group has not made any political donations during 2021 (2020: nil).

Supplier payment policy

The Group follows an internal policy that payment to suppliers will be made within 30 days from receipt of an invoice and endeavours to meet individual supplier payment terms which may be set at shorter timescales. At 31 December 2021, the number of creditor days was 27 (2020: 27 days).

Directors

As at 31 December 2021, the members of the Board, who have served at any time during the year and continue to act as Directors, are as follows:

Adam Bennett, Michele Faull (joined the Board on 23 August 2021), Bryce Glover, Andrew Haigh*, Karen Ingham, Anne Laverack (business name: Anne Shiels), Stuart Lynn, Stuart Miller*, James Ramsbotham (joined the Board on 23 August 2021), David Samper*, Mick Thompson and Ian Ward.

Phil Moorhouse retired from the Board on 23 August 2021.

At the Annual General Meeting (AGM), to be held on 27 April 2022, all of the current Directors will offer themselves up for either election or re-election, with the exception of Ian Ward who will step down at the conclusion of the meeting.

Directors and Officers insurance has been put in place by the Society.

*Executive Directors All Directors are Members of the Society.

Please see the Remuneration Committee Report for further information.

Independent auditors

A resolution to re-appoint Deloitte LLP will be proposed at the Annual General Meeting.

Statement of disclosure to auditors

So far as each Director is aware, there is no relevant audit information of which the Society's auditors are unaware. Each of the Directors, whose names and functions are listed in the, Our Directors, section have taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Post balance sheet events

After the year end, the Society has completed the sale of a Newcastle City Centre office building, which is held as available for sale as at 31 December 2021. See note 17 to the financial statements for more details.

Corporate governance

The Society's statement on corporate governance can be found in the Report of the Directors on Corporate Governance.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the statement of auditors' responsibilities, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, Annual Business Statement and Directors' Report.

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation. The Building Societies Act 1986 (the Act) requires the Directors to prepare Accounts for each financial year.

Under that law, the Directors have prepared the Group and Society Accounts in accordance with International Financial Reporting Standards (IFRSs). Under the Act, Directors must not approve the Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Society and of the profit or loss of the Group and Society for that period. In preparing the Accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the Accounts;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

The Directors consider that the Annual Report and Accounts are fair, balanced and understandable, when taken as a whole, and that they provide the information necessary for Members to assess the Society's and Group's performance, business model and strategy.

The Directors are also responsible for safeguarding the assets of the Group and Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Society's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Society and enable them to ensure that the Accounts comply with the Act, as regards the Group financial statements.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Group and Society Accounts, which have been prepared in accordance with IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Group and profit of the Society and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Society's auditors are unaware;
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Society's auditors are aware of that information; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Society's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 1 March 2022 and is signed on its behalf by:

On behalf of the Board
James Ramsbotham
1 March 2022

Report of the Directors on Corporate Governance

Introduction

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. The UK Corporate Governance Code (the Code), issued by the Financial Reporting Council (FRC) in July 2018, is addressed to companies with a premium listing, although the Society's Board considers it to be best practice to have regard to the Code when establishing and reviewing corporate governance arrangements.

The Code is designed to place emphasis on the culture and purpose of an organisation: putting the relationship between organisations and their stakeholders at the heart of a set of principles designed to promote long-term sustainable growth in the UK economy. The Code includes the responsibility for a Board to have appropriate workforce policies and practices, which re-inforce a healthy culture, and the Society has gone a long way to ensure compliance with this last point by setting up a "Colleague Forum", chaired by a member of the Executive team. This formally recognised group consists of colleagues who represent areas across the full organisation and who support leaders in the delivery of key organisational/people matters that are focused on creating a great colleague experience. The Code asks Boards to create a culture which aligns corporate values with strategy and to assess how they preserve value over the long-term. The Society has gone a long way to ensure compliance with this last point by, for example, putting in place a set of values and behaviours that all colleagues are expected to embrace. In addition, a third party agency has been used to organise surveys and capture, in confidence, comments made by colleagues, which are then acted upon by senior management. It has also been agreed that culture should be formally reviewed by the Board at regular intervals.

Corporate governance procedures and processes within the Society are regularly reviewed to ensure they are aligned appropriately with the Code, including when updates or revised guidance are published. This report outlines the approach taken by the Society and how the Board considers it has demonstrated application of the principles of the 2018 Code.

The Board

The Society recognises that it must be headed by an effective Board which is responsible for the long-term success of the Society. The composition of the Board is detailed in the Our Directors section. In carrying out its role, the Board aims to ensure that excellent service is delivered to its Members and customers. The Board has responsibilities for contributing to and supporting the values of the Group set by management and believes that the interests of all stakeholders can be best served by remaining a strong and forward looking mutual building society.

There is a clear division of responsibilities between the running of the Board and the Executive responsibility for the running of the Society's business. No one individual has unfettered powers of decision and the roles of Chair and Chief Executive are exercised by different people within the Society. The Nominations Committee (NomCo) carries out a review of the independence of Non-Executive Directors as set out within the Nominations Committee section of this report.

An effective Board should not necessarily be a comfortable place, with challenge, as well as teamwork, being an essential feature. Challenge by Non-Executive Directors is something which is encouraged by the Chair and, where appropriate, training is provided to support the challenge process. A culture of openness exists within the Society and Non-Executive Directors are encouraged to meet with members of the Executive team.

James Ramsbotham was appointed Chair of the Society in August 2021, Mick Thompson is the Deputy Chair and Ian Ward is the Senior Independent Director. The positions of Deputy Chair and Senior Independent Director provide a sounding board for the Chair and where necessary they serve as intermediaries for the other Directors.

Board balance and independence is important and the Board should include an appropriate combination of Executive and Non-Executive Directors (and in particular independent Non-Executive Directors) such that no individual or small group of individuals can dominate the Board's decision making. The composition of the Board, through NomCo, reflects an appropriate balance of skills and comprises of nine Non-Executive Directors and three Executive Directors.

Details of the various Board Committees in existence are set out later in this report.

Matters reserved to the board

The Board's Terms of Reference are reviewed on a regular basis and were last agreed by the Board in November 2021. A schedule is maintained of matters reserved to the Board which includes the following:-

- **Strategy and Management –** determining the overall strategy of the Group including approval of the Strategic Plan, with the responsibility for its implementation delegated to the Executive team; monitoring operational and financial performance in pursuit of the strategy; overseeing and approving the Society's recovery plans, playbook, and resolution pack on an annual basis; monitoring the indicators and overseeing any proposed actions in accordance with the playbook; approving budgets, forecasts and major capital expenditure or major disposal; approving any extension of the Society's activities into new business or geographical areas; and approving any decision to cease all, or a material part, of the Society's business.
- **Culture –** overseeing and setting the tone for the culture, values and behaviours of the Group; and overseeing and setting the tone for diversity and inclusion within the Group.
- **Structure, Capital and Liquidity –** approval of the Society's Internal Liquidity Adequacy Assessment Process (ILAAP); approval of the Society's Internal Capital Adequacy Assessment Process (ICAAP); approval of changes to the Group's corporate structure; approval of any programme for the issuance or buy back of long-term debt or capital; and approval of any utilisation of Bank of England emergency liquidity support.
- **Financial Reporting and Internal Controls –** approval of Stock Exchange announcements, half year and final annual results; approval of the Annual Report and Accounts including the Strategic Report, Risk Management Report, Report of the Directors on Corporate Governance, and the Remuneration Committee Report; approval of the Pillar 3 disclosures; ratification of the Going Concern and Business Viability review following review and approval by the Audit Committee; approval of any significant changes in accounting policies or practice based on the recommendations of the Audit Committee; and ensuring an adequate internal control environment is in existence. The Board delegates oversight of internal controls to the Audit Committee.
- **Risk Management and Regulatory –** ensuring an adequate risk management framework is in place. This includes approval of risk appetite, oversight of risk governance, reviewing the top risks, ensuring the strategy and risk appetite are consistent, and approving the ICAAP. The Board delegates oversight of risk management to the Group Risk Committee, as well as oversight of compliance with regulations (including by the Prudential Regulation Authority and the Financial Conduct Authority).

Report of the Directors on Corporate Governance

Continued

- **Senior Managers and Certification Regime –** ensuring that the Society meets its obligations under the Senior Managers Regime (SMR), including: reviewing at least annually the SMR Policy; and maintaining a responsibilities map for all prescribed responsibilities and ensuring all prescribed responsibilities have been allocated.
- **Operational Resilience –** the Board retains oversight and approval of the Operational Resilience strategy and matters prescribed in regulatory requirements.
- **Board Membership and Senior Management Issues –** approval of changes to the structure, size and composition of the Board, following recommendations from the Nominations Committee; ensuring that adequate succession planning for the Board and senior management is in place following recommendations from the Nominations Committee; and approving and overseeing appointments to the Boards of subsidiary companies.
- **Appointment and/or re-appointment or removal of the external auditor –** to be put to Members for approval, following a recommendation from the Audit Committee.
- **Remuneration –** agreeing the remuneration policy for the Directors and other Senior Executives, following recommendations from the Remuneration Committee.
- **Delegation of Authority –** approval of the responsibilities of the Chair, the Chief Executive and the Senior Independent Director; approval of the delegation of authorities to the Chief Executive; ratifying the terms of reference for Board Committees and Subsidiary Companies; and receiving minutes and/or reports from the Chairs of the Board Committees and Subsidiary Companies.
- **Corporate Governance Matters –** to ensure that a formal evaluation of the effectiveness of the Board is undertaken and to facilitate an assessment by external consultants, at an opportune time; determining the independence of Directors; reviewing the Group's overall corporate governance arrangements; agreeing the Directors' Conflicts of Interest Policy and other relevant policies; approval of the Notice of any General Meeting of the Society including all resolutions to be put forward to Members; and insurance: approval of overall levels of insurance for the Group, including Directors & Officers liability insurance.
- **The Society's Defined Benefit Pension Scheme –** consent to the Pension Scheme Trustees to amend the Pension Scheme's Trust Deed and Rules; and approval of the appointment/removal of Society nominated Trustees.

The Board's Terms of Reference are included on the Society's website (www.newcastle.co.uk).

Board changes and elections/re-elections

It is recognised that changes need to be made to the Board from time to time. In 2021, James Ramsbotham was appointed to the Board as a Non-Executive Director (and Chair) and Michele Faull was also appointed as a Non-Executive Director. Phil Moorhouse retired from the Board at the same time as James Ramsbotham took over the Chair of the Society.

Copies of the Terms of Engagement for all of the Society's Directors are available on request, and at the Annual General Meeting (AGM).

All of the Society's Directors are standing for either election or re-election at the AGM, with the exception of Ian Ward who will be retiring at the end of the meeting.

The biographies of all of the Directors are detailed in the Our Directors section.

Management Information

The Chair is responsible for ensuring that the Directors receive accurate, timely and clear information. Board members receive meeting packs on a monthly basis, bar August or December. Management Information is provided to Directors throughout the year. A rolling Board agenda is tabled at each Board meeting to ensure that all key areas are covered appropriately during the year and sufficient time is set aside at each meeting to ensure that constructive discussion and challenge can take place.

All Directors have access to independent professional advice, if required, and also access to the services of the Group Secretary.

Board effectiveness

The Board conducts an internal review of its effectiveness on a regular basis, usually based on feedback from Directors and the Principles at the heart of the UK Corporate Governance Code. The last review was undertaken in December 2020, where minor improvements had been identified, and when the Board concluded it was effective. No further internal review has been carried out since then as the Board has decided, as an alternative, to carry out an external review of the effectiveness of the Board in the first half of 2022.

Board committees

The Board has a number of Committees, all of which have their own Terms of Reference, which are reviewed on an annual basis and further details are provided below. The Chair of each Committee reports to the Board at a subsequent meeting on matters discussed at each Committee meeting.

Similar to the Board, each Committee carries out a review of its own effectiveness, and where improvement opportunities have been identified the individual Committees are responsible for tracking action points. These reviews are carried out on an annual basis and concluded satisfactorily.

Information concerning attendances at the meetings is detailed in the Board and Board Committee Membership Attendance Record section of this report. Terms of Reference for the Audit Committee, Group Risk Committee, Remuneration Committee and Nominations Committee are included on the Society's website (www.newcastle.co.uk).

Audit Committee

Details of the Audit Committee are contained in the Audit Committee Report. Through the work of the Audit Committee and the Internal Audit Services department during 2021, the Directors have carried out a review of the Group's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls.

Remuneration Committee

Details of the Remuneration Committee are contained in the Remuneration Committee Report.

Group Risk Committee

Details of the Group Risk Committee are contained in the Risk Management Report.

Group Technology Governance Committee

In December 2020, this Committee met for the first time, its authority being to govern the strategic direction of the Group's technology capabilities and to advise the Group Board with regard to progress against the agreed strategy. The Committee is chaired by Stuart Lynn, a Non-Executive Director.

Nominations Committee (NomCo)

The Society has a separate NomCo comprising only of Non-Executive Directors and which operates within the Terms of Reference agreed by the Board.

The main objectives of NomCo are summarised as follows:-

- To oversee the structure of the Board, Board Committees and subsidiary company Boards;
- To identify suitable candidates to fill Board vacancies;
- To ensure that the Board has the appropriate balance of skills, diversity and experience; and
- To oversee the Board's succession plan.

All key decisions of NomCo, for example, Board appointments, must also be ratified by the full Board.

Members of NomCo are James Ramsbotham (Committee Chair), Anne Shiels and Mick Thompson. NomCo operates to a rolling agenda to ensure it discharges its full responsibilities and in 2021 it met on four occasions.

NomCo is supported by the Chief Executive and the Chief People Officer who attend meetings in an advisory capacity only.

Appointments to the Board

NomCo follows a stringent recruitment process when making appointments to the Board. This process is tailored to meet the requirements of each particular vacancy and the method of attracting candidates is adapted depending on the nature of the skills required for the vacancy. External consultants and advisers are normally utilised to ensure there is a robust list of suitable candidates with which to fill a vacancy. During 2021, the Society utilised the services of independent recruitment specialists, Warren Partners, and Hitchenor Wakeford in the appointment of new Directors.

Whenever a new Director is appointed, the Financial Conduct Authority and Prudential Regulation Authority have the right, for certain key roles, to carry out formal Significant Influence Function (SIF) interviews in order that the Director becomes an Approved Person.

All Directors have been issued with Service Agreements, Role Descriptions and Terms of Engagement (for Non-Executive Directors), to ensure that all Directors fully understand and comply with their roles and the responsibilities of being a Director of the Society.

Diversity of the Board

The Board recognises and embraces the benefits of having a diverse Board which utilises a range of factors including skills, industry experience, background, race, gender and the other characteristics, experience and qualities of its Directors. Giving specific regard to gender ratios, there are three female Directors on the Board, namely Michele Faull, Karen Ingham and Anne Shiels.

It is important to note that all Board appointments are made on the basis of individual competence, skills and expertise measured against identified objective criteria. Appointment is therefore based on merit.

Election or re-election to the Board

All Directors are required to seek election or re-election at the forthcoming Annual General Meeting (AGM), to be held on 27th April 2022, with the exception of Ian Ward who, as mentioned beforehand, will be retiring at the end of the meeting.

Non-Executive Directors are usually expected to serve more than one three year term, subject to satisfactory performance evaluations and re-election by Members. Only in exceptional circumstances would Non-Executive Directors be able to seek re-election when they have served nine years on the Board. NomCo has in place a risk based succession plan which is reviewed on a regular basis.

Independence of Directors

The Terms of Engagement for Non-Executive Directors require that they declare to the Society any other external interests.

NomCo carries out an annual review of the independence of Non-Executive Directors, against the circumstances set out in the Code. This does not include the Chair of the Society, James Ramsbotham, who was appointed to that role on 23rd August 2021, and at the time of appointment was considered to be independent by the Board (the Code states that the Chair should be independent on appointment, when assessed against the circumstances set out in the Code). The last review of the independence of Non-Executive Directors was carried out by NomCo in January 2022, where it was confirmed they considered them to be independent; this was subsequently agreed by the Board, also in January 2022.

One of the Non-Executive Directors, Bryce Glover, is a Director of Recognise Bank Limited and he has advised the Board of the existence of the relationship under the Policy for dealing with Conflicts of Interest, and procedures exist within the Society to manage the position.

The Society recognises that it is good corporate governance to have a Senior Independent Director, a role currently carried out by Ian Ward, although upon his retirement at the end of the AGM on 27th April 2022 he will be replaced by Adam Bennett.

During 2021 the current Chair, James Ramsbotham, and the previous Chair, Phil Moorhouse, met separately with the Non-Executive Directors throughout the year, by means of videoconferencing, without the Executive Directors present.

Assessment of Directors

All Directors are subject to a formal appraisal of their performance on an annual basis. The Chair conducted the appraisals of the Chief Executive and Non-Executive Directors, the Chief Executive conducted the appraisals of the Executive Directors. The Senior Independent Director would normally lead the appraisal of the Chair, although since James Ramsbotham only took up this post in August 2021, this has been deferred to an appropriate time in 2022.

Skills and continuous development

All Directors are required, as part of their terms of engagement, to follow a process of continuous development to ensure their skills and experience meet the needs of the Society and the regulatory environment in which it operates. The training and development plans of Non-Executive Directors are reviewed at least annually during their performance appraisal.

NomCo oversees the ongoing training and development of Non-Executive Directors including a formal induction programme for newly appointed Directors. The Chief Executive oversees the programmes for Executive Directors.

In order to ensure that NomCo discharges its duties in this area effectively, a Board skills matrix and a training menu for Non-Executive Directors are in place.

Non-Executive Remuneration Committee

In January 2022, the Board established another Committee of the Board to be known as the Non-Executive Remuneration Committee ("NED RemCo"). NED RemCo reports to the Board and its overarching purpose is to consider, agree and recommend to the Board an overall remuneration approach for Non-Executive Directors together with recommendations for individual fees. The Committee is chaired by the Society Chair.

Report of the Directors on Corporate Governance

Continued

Newcastle Strategic Solutions Limited (NSSL)

NSSL Board members are:

James Ramsbotham (NSSL Chair), Karen Ingham, Ron McCormick, Stuart Lynn, Phil Grand (Managing Director NSSL) and Andrew Ward (Finance Director NSSL).

The main responsibilities of NSSL, as delegated by the Society's main Board, are as follows:-

- To oversee the strategic direction of NSSL ensuring this is consistent with the Society's agreed Strategic Plan;
- To evaluate and monitor the financial and operational performance of NSSL against pre-determined objectives, which includes assessing performance in terms of contract contribution, profitability, efficiencies, risk, compliance and development of the savings management proposition;
- To ensure that appropriate mechanisms are in place to inform the Society's Board about the performance of NSSL and any key issues identified;
- To ensure that NSSL complies with all relevant legislation, including the General Data Protection Regulation and associated data protection legislation and the appropriate regulations relating to NSSL activities;
- To establish and review a risk appetite statement for NSSL, and to review, at least annually, the position of NSSL against that risk appetite statement;
- To ensure that an annual review of service resilience is conducted and that there is ongoing development to enhance resilience;
- To approve the NSSL budget on an annual basis (prior to inclusion in the Group budget which is approved by the Society's Board);
- To approve the NSSL statutory accounts;
- To consider and act upon the findings of any external/internal audits or reviews;
- To ensure that information assets are protected sufficiently that their confidentiality, integrity and availability are maintained in line with the ISO27001 standard along with company and client requirements; and
- To ensure that a formal evaluation of the effectiveness of the NSSL Board is undertaken on an annual basis.

Further details of the activities of NSSL are given in the Strategic Report.

Newcastle Financial Advisers Limited (NFAL)

NFAL Board members are:

Ian Ward (NFAL Chair), Anne Shiels (Non-Executive Director), Stuart Dodson (Managing Director NFAL) (resigned from the NFAL Board with effect from 31st January 2022), and Stuart Miller (the Society's Chief Customer Officer).

The NFAL Board will also use external consultants to provide challenge and advice to the Board, as required. At least once a year Directors from Openwork Limited usually attend an NFAL Board meeting to provide a financial and market update; NFAL is an appointed representative of Openwork Limited.

The main responsibilities of NFAL, as delegated by the Society's main Board, are as follows:-

- To oversee the strategic direction of NFAL ensuring this is consistent with the Society's agreed Strategic Plan;
- To evaluate and monitor the performance of NFAL against the objectives set, which includes assessing performance in terms of sales quality, customer satisfaction and outcomes, complaints, risk and compliance oversight (including consideration of the aspects that are specifically the responsibility of Openwork Limited) and profitability;
- To review the performance of NFAL in terms of financial results including profitability, risk management and customer outcomes.
- To review and approve the NFAL variable remuneration scheme ensuring that quality and customer outcomes are central to performance assessment;
- To review, at least annually, the reputational and consumer risks associated with NFAL and the controls in place in respect of this risk. The review will be presented to the NFAL Board in the first instance and ratified by the Society's Group Risk Committee;
- To ensure that NFAL complies with all relevant legislation, including the General Data Protection Regulation and associated data protection legislation, and the appropriate regulations relating to NFAL activities;
- To approve the NFAL budget on an annual basis (prior to inclusion in the Group budget which is approved by the Society's Board);
- To approve the NFAL statutory accounts;
- To receive the minutes of strategic partner governance meetings and to be made aware of any changes to the framework for managing relationships with strategic partners;
- To consider and act upon the findings of any external/internal audits or reviews and make suitable recommendations as appropriate; and
- To ensure that a formal evaluation of the effectiveness of the NFAL Board is undertaken on an annual basis.

Relations with Members

Member engagement is at the heart of our strategy and the Society develops relationships with Members on a number of different levels. The first and most obvious is through the AGM voting process where Members are encouraged, as owners of the business, to use their vote to register their views. We try to make this process as easy as possible, providing the convenience of voting online or by post, and providing an additional incentive through a small charity contribution for every vote cast.

As part of our usual activity we normally run a number of Member engagement events every year in locations across the North East where Members can share their feedback with the Chief Executive, Executive team and Non-Executive Directors. These were curtailed due to Covid-19. We have a daily online Customer Satisfaction Survey which is reviewed every morning by the Chief Executive, Executive team and Senior Managers. In 2021 we introduced a digital Member forum (Connected Communities) where Members can share their views across a range of topics. The forum's feedback shapes a range of decision making, including grant giving, product and service development and what Members want in the future. Our social media channels are also used by customers to provide feedback / request additional information. As part of our branch refurbishment and expansion programme we invite local customers along to branch re-launch events taking the opportunity to gain their feedback and understand their perspectives. In addition, we have a range of marketing communications designed to inform Members about our progress, products, community activities and the numerous ways we can help them.

Through our community and charity support activities we are able to engage with both our Members and the communities we serve. Following the launch of the Newcastle Building Society Community Fund at the Community Foundation, we have provided a growing volume of financial grants to North East community projects, some of which are nominated by our Members. Through our branch network we have been sharing volunteering and regional assistance opportunities with Members, facilitated by our participation in and support of the onHand volunteering app. We intend this financial support for our heartland communities will continue to grow in scope and scale. We work hard to make a difference and help our communities make positive changes.

Further details regarding our Member and community engagement are given in the Supporting our Communities section.

Report of the Directors on Corporate Governance

Continued

Board and board committee membership attendance record

The table below sets out the number of meetings attended by Directors during 2021 with the number in brackets representing the maximum number of meetings the Director was eligible to attend.

Director	Board	Audit Committee	Group Risk Committee	Remuneration Committee	Nominations Committee	Group Technology Governance Committee	NSSL	NFAL
Adam Bennett	12 (12)	8 (8)	5 (5)	-	-	8 (8)	-	-
Michele Faull	4 (4)	3 (3)	2 (2)	-	-	-	-	-
Bryce Glover	12 (12)	-	5 (5)	6 (6)	-	-	-	-
Andrew Haigh	12 (12)	-	-	-	-	8 (8)	-	-
Karen Ingham	12 (12)	-	5 (5)	-	-	-	5 (6)	-
Stuart Lynn	12 (12)	-	-	-	-	8 (8)	6 (6)	-
Stuart Miller	12 (12)	-	-	-	-	-	-	7 (7)
James Ramsbotham	4 (4)	-	2 (2)	-	1 (1)	-	3 (3)	-
David Samper	12 (12)	-	-	-	-	-	-	-
Anne Shiels	12 (12)	8 (8)	-	6 (6)	4 (4)	-	-	7 (7)
Mick Thompson	12 (12)	8 (8)	-	6 (6)	4 (4)	-	-	-
Ian Ward	12 (12)	-	5 (5)	-	-	-	-	7 (7)
Phil Moorhouse	9 (9)	-	3 (3)	-	3 (3)	-	3 (3)	-

Annual General Meeting (AGM)

The AGM provides an opportunity for Members to question the Chair, Chief Executive, Committee Chairs and fellow Directors on the resolutions to be proposed at the meeting, the Annual Report & Accounts, and on any other aspect of the Society's business.

All Members who are eligible to vote at the Annual General Meeting are encouraged to participate, either in person or online, or by using their proxy voting form. The use of the online voting system is encouraged and for each vote placed online, the Society will be donating £1 to The Newcastle Building Society Community Fund at the Community Foundation.

All votes are counted by independent scrutineers. As soon as practicable after the AGM, full details of the results of the voting are placed on the Society's website.

On behalf of the Board
James Ramsbotham

1 March 2022

Audit Committee Report

Audit Committee

Members of the Audit Committee at 31 December 2021 were:

Mick Thompson (Committee Chair), Adam Bennett, Anne Shiels, and Michele Faull (appointed to the Committee on 23 August 2021).

The Audit Committee's extensive experience and qualifications are detailed in the Our Directors section of the Annual Report and Accounts. The Committee's combined financial sector experience and competence remains considerable and wide-ranging with specific relevance to the Group's core building society activities and commercial subsidiaries. At least one member of the Committee meets the requirements of the UK Corporate Governance Code to have significant recent, relevant financial experience. The Committee members were selected for appointment by recommendation of the Nominations Committee in consultation with the Audit Committee Chair.

Directors' remuneration, including for members of the Audit Committee, is detailed within the Remuneration Committee Report. The Report of the Directors on Corporate Governance also sets out the process for review of effectiveness of Board sub-committees, including the Audit Committee. The Committee concluded that it was operating effectively as part of its 2021 review on 29 November 2021.

Committee meetings:

The Committee meets at least four times each year, coinciding with key dates in the Group's financial reporting calendar, following a rolling schedule of items for discussion, agreed and reviewed on an ongoing basis. Meetings are attended by Audit Committee members with other regular attendees at meetings including the Chief Executive, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor and a representative of the External Auditor, Deloitte LLP, as well as other management, as the Committee feels is appropriate and necessary. For details of Committee meeting attendance see the Board and Board Committee Membership Attendance Record in the Report of the Directors on Corporate Governance.

After each meeting the Committee, as a general rule, formally invites the External Auditor, and the Chief Internal Auditor at least once a year, to meet the Committee without senior management present. These meetings cover matters relating to the Audit Committee's terms of reference and any issues arising from audits, including matters required to be discussed by relevant law or regulations. The Chair and Chief Internal Auditor also meet outside of the Committee on a regular basis.

Key roles and responsibilities as delegated by the Board:

The main function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of the following areas:

Financial reporting:

The Audit Committee's primary role regarding financial reporting is to monitor the integrity of the Group's financial statements, including the interim and annual reports, and any other formal announcements relating to the Group's financial performance.

The Committee's responsibilities are delegated from the Board and details of the delegated responsibilities are available on the Society's website: www.newcastle.co.uk/about-us/governance/our-committees/ All Board members have access to minutes from Audit Committee's meetings and the Chair of the Audit Committee provides a verbal update to the Board after each Audit Committee meeting.

This responsibility is discharged though:

- Review of interim and year-end announcements, the Annual Report and Accounts and Summary Financial Statement, covering their clarity, completeness and compliance with relevant accounting standards and other regulatory and legal requirements;
- Reporting to the Board on the consistency and appropriateness of critical accounting policies and any changes thereto, taking into account the views of the External Auditor;
- Review and challenge of significant financial reporting judgements, estimates and the actions and judgements of management;
- Advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for Members to assess the performance, strategy and business model of the Group;
- Review of any correspondence from regulators in relation to financial reporting;
- Review of the Going Concern and business viability assessment produced by the Chief Financial Officer on a six monthly basis;
- Evaluate the risks to the quality and effectiveness of the financial reporting process, especially in light of the External Auditor communications with the Audit Committee; and
- Review and monitor management's responsiveness to the External Auditor findings and recommendations.

The main areas of financial reporting significance considered by the Audit Committee in 2021 were as follows:

- **IFRS 9 provisioning:** The Audit Committee maintain oversight of the key model inputs driving the Group's IFRS 9 provisioning models for the residential and commercial books, with particular focus paid towards the Group's forward looking macroeconomic forecast inputs. The Group's Model Risk Committee makes non-binding recommendations on the Group's IFRS 9 scenarios, scenario inputs and scenario weightings. The Audit Committee's attention focused in 2021 towards the current economic environment and consideration of the impact of the Covid-19 pandemic on the Group's existing IFRS 9 scenarios (base, upside, downside and stress), also noting the potential impact of fire safety risks relating to securities pledged on a small portion of the book.
- **Equity release accounting and valuation:** The Group has previously accounted for the equity release mortgage assets at amortised cost and changed its accounting policy in the current financial year to a fair value approach, as permissible under IFRS 4 and IAS 8. 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.

  The Audit Committee considered the basis of the change provided information that was more relevant and not less reliable and also assessed the disclosure in respect of the change in policy.

  In respect to the valuation of the legacy equity release portfolio, the Audit Committee maintain review and challenge key model inputs, in particular the determination of the discount rate used to calculate the value of projected cash flows, the actuarial assumptions, determined with the advice of an independent actuary, and the assumptions used to value the No Negative Equity Guarantee, such as future property price growth and volatility.

Audit Committee Report
Continued

The Audit Committee also provided oversight and challenge to management's review of the historical hedge accounting position relating to the equity release book that was undertaken in the year and assessed management's conclusions.

The Committee considered whether and to what extent the hedge accounting position should be adjusted, but concluded that any quantification of such an adjustment would be impracticable.

The Committee notes that the historic hedge accounting position has now been fully de-recognised as part of the change in accounting policy to fair value.

- **Effective interest rate:** Loans and advances to customers are held at amortised cost, using the effective interest rate method (EIR). That implies that one-off charges and receipts, such as property valuations the Society pays for, arrangement fees and early repayment fees, are included as interest income and spread over the life of the product, rather than being recognised separately. Assumptions and estimates relating to the expected behaviour of the Society's current mortgages were reviewed based on recent experience, with the Audit Committee being satisfied with the EIR modelling and the 2021 year end asset.
- **Intangible assets:** The Audit Committee consider the Group's application of IAS 38 – Intangible Assets in the treatment of internally developed intangible assets. The Group's IT department develops a number of intangible assets, such as a banking app for savings customers and the infrastructure required by the Group's subsidiary Newcastle Strategic Solutions Limited to serve SME customers. The Group capitalised these assets in accordance with IAS 38 – Intangible Assets, which allows for internal development costs to be capitalised when certain criteria are met. The Audit Committee concluded at the beginning of the year that the criteria had been met and that development costs henceforth qualify for capitalisation.
- **Going Concern:** Preparing the Annual Report and Accounts under the Going Concern assumption requires the Board and Audit Committee to be satisfied that the Society will stay in business for at least 12 months from the date the accounts are signed. In addition, the accounts contain a statement that the Society and Group is considered viable over a longer time period. As a result, a detailed assessment of the Group's viability over the next 3 years is reviewed by the Committee, including the Group's business operations, business planning, business management and risk management. This includes forecasts and stress testing of long-term liquidity and capital resources. The Audit Committee concluded that the adoption of the Going Concern basis to prepare the accounts is appropriate and considers the Group viable over the next years.
- **Hedge accounting:** The Audit Committee is appraised of the Group's derivative and hedge accounting position and strategy and also agrees the accounting policy for hedging, including disclosures in the Annual Report and Accounts. The Group adopted amendments to IFRS 9, IAS 39 and IFRS 7 which allow hedge accounting to continue for hedge relationships impacted by the transition. The amendments also require additional disclosures relating to affected instruments and the transition. The Committee has concluded satisfactorily in this area.
- **Taxation:** The Audit Committee reviewed the Group Tax Risk Policy which sets out compliance with relevant jurisdictional legislation, identifying areas of tax risk for appropriate focus and managing the overall Group tax risk.
- The Committee considers matters raised by the External Auditor and concluded there were no adjustments required that were material to the Annual Report and Accounts.

Having undertaken the above responsibilities and considerations throughout the Group's 2021 financial year, the Audit Committee recommended to the Board that approval be given to the audited Annual Report and Accounts and Summary Financial Statement as at 31 December 2021.

Internal control and risk management:

The Audit Committee works closely with the Group Risk Committee to ensure that management and colleagues take appropriate responsibility for departmental, business unit and subsidiary risk mitigation and internal control. The Audit Committee also reviews Internal Audit and management reports on the effectiveness of systems for internal control and risk management across the Group.

Further details of risk management activities are given in the Risk Management report.

The Audit Committee is responsible for:

- Review of the scope and effectiveness of the Group's internal controls and risk management systems, including those for ensuring compliance with the regulatory environment in which the Group operates;
- Review of the Society's resolution pack arrangements and oversight of the Society's recovery plan self-assessment; and
- Review and approval of the statements to be included in the Annual Report concerning internal controls and risk management.

The Group's Internal Audit Services forms a core component of the Group's risk management and internal control process.

During the year, the Audit Committee, through Internal Audit Services and from other management reports, reviewed the scope and effectiveness of the Group's internal controls. The coverage of the reviews in 2021 included reviewing the controls in operation for; lending, savings, information technology and cyber security, treasury, finance, risk management, operational resilience, regulatory compliance and reporting, and key projects, and continued to take into account the risks and controls associated with ongoing remote working arrangements in response to the Covid-19 pandemic. Internal Audit Services utilised the services of PricewaterhouseCoopers LLP and BDO LLP during 2021 for co-sourced internal audits to provide specialist expert input and promote knowledge transfer to Internal Audit Services.

Internal Audit Services reflects the Audit Committee's primary available resource, however the Committee retains the authority to obtain outside legal or independent professional advice as it sees fit. Reports from the Chief Risk Officer, Internal Audit Services, the External Auditor and senior management provide input on key risks, uncertainties and controls directly to the Audit Committee.

Internal Audit Services:

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Group's Internal Audit Services in the context of the Group's risk management, and for ensuring that professional standards are applied, resource is adequate in terms of number, skills, knowledge, and standing within the Group to execute its responsibilities in an independent and objective manner. This review includes assessment of the Chief Internal Auditor with respect to appointment, remuneration, performance evaluation and assessment of their objectivity and independence.

A formal internal review of the qualification and effectiveness of Internal Audit Services is undertaken by the Committee annually and most recently in July 2021 and concluded positively, confirming that Internal Audit Services effectively met its responsibilities.

Additionally and in accordance with good practice, the Audit Committee also requires an external effectiveness review of Internal Audit Services at least every five years, which considers the quality, experience and expertise of the function. A review was carried out during 2019 by an external firm appointed by the Audit Committee. The review concluded that Internal Audit Services was operating effectively, and confirmed that Internal Audit Services conforms to the standards expected by the Institute of Internal Auditors. The next external review is planned for 2024, but the Audit Committee has discretion to require an earlier review if this is deemed appropriate.

The Committee approves and reviews the Internal Audit strategy, work programme and results, and ensures Internal Audit Services maintain sufficient access to the Board, management and the books and records of the Society and its subsidiaries. This oversight allows the Audit Committee to monitor and assess the role and effectiveness of Internal Audit Services in the overall context of the Group's internal control framework, ensure appropriate management responsiveness to audit findings and recommendations given and promote open communication between the Group's Risk, Compliance, Finance and Internal Audit functions and the External Auditor.

External audit:

The Audit Committee is responsible for overseeing the Group's relationship with the External Auditor Deloitte LLP. This role extends to:

- Appointment, reappointment, removal and assessment of independence, objectivity and effectiveness of the External Auditor;
- Approval of terms and remuneration in respect of audit services provided;
- Annual approval of the Group's policy on the use of the External Auditor for non-audit work; and
- Consideration of audit quality, including reports by the Audit Quality Review Team.

Due to limitations on the length of tenure for External Auditors, the previous External Auditor, PwC LLP, were unable to remain in their role after 2020. Therefore, Deloitte LLP were appointed as External Auditor for the financial year 2021 after a formal external audit tender process in 2020. Their appointment was approved by the Society's membership in the 2021 Annual General Meeting.

The Audit Committee assesses annually the qualification, expertise and resources of the External Auditor, seeking reassurance that the auditor and their staff have no family, financial, employment, investment or business relationship with the Group that is considered to impact their independence. The External Auditor communicates their formal independence annually and appraises the Audit Committee of policies, processes and monitoring in place for maintaining their independence. The Audit Committee seek annual feedback from internal stakeholders to facilitate a robust assessment of the effectiveness of the External Auditor.

Prior to an External Audit engagement, the Audit Committee discuss the nature and scope of the audit. They review findings of the auditor's work and assess the effectiveness of the audit process. This assessment reviews whether the auditor has met the agreed audit plan, considers the robustness and perceptiveness of the auditor in responding to questions from the Audit Committee and obtaining feedback about the conduct of the audit from key people involved.

The Audit Committee ensures that non-audit services provided by the External Auditor will not adversely impact the independence and objectivity of the audit firm in performing their duties. A formal policy on the use of the External Auditor for non-audit work is reviewed annually.

During 2021, the External Auditor did not perform any non-audit work for the Group. Where necessary to maintain independence, non-audit work is carried out by Deloitte partners and staff that have no connection to the External Audit team. The fees paid to the External Audit firm for audit and non-audit services are set out in the Administrative Expenses note to the Accounts.

Whistle blowing:

The Audit Committee reviews the Group's procedures for detecting fraud and policies related to its prevention and detection, including whistle blowing. This includes ensuring that arrangements are in place by which colleagues may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters, and to ensure that arrangements are in place for independent investigation and appropriate follow-up action. The outcome of the review is reported to the Board.

On behalf of the Board
Mick Thompson
Chair of the Audit Committee
1 March 2022

Remuneration Committee Report

Annual statement from the Chair of the Remuneration Committee

Introduction

I am pleased to share the Directors' Remuneration Report, on behalf of the Remuneration Committee, which details the Group's approach to pay, incentives and benefits for the period 1 January to 31 December 2021. It sets out the remuneration policy and remuneration details for the Group's Executive and Non-Executive Directors and how it applies the principles of the UK Corporate Governance Code 2018 relating to remuneration, the Regulators' Remuneration Code and the disclosure requirements arising under the EU Capital Requirements Directive IV (CRD IV).

The Committee

The Committee is comprised solely of Non-Executive Directors who have no personal financial interest in the recommendations and include members of the Board as well as the Risk and Audit Committees:

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

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

Rewarding with purpose

As a Society, our purpose is to connect our communities with a better financial future. This guides all of the Society's actions including how we reward our colleagues, leaders and Board members. Paying our people a fair and competitive wage not only contributes to their own financial wellbeing, but also ensures that we can attract and retain the best talent from our region and beyond. The shift to home working has opened up the national recruitment market, requiring an increased focus on ensuring our reward practices remain competitive. Having the right talent in the business enables us to deliver our ambitious strategy and objectives, deliver for our Members and ultimately continue our work to benefit and support the communities we are proud to serve.

The Remuneration Committee's purpose is to consider, agree and recommend to the Board an overall remuneration policy and approach that promotes this aim, while ensuring that it remains aligned with the long-term interests of the Society's Members and other stakeholders. We constantly strive to maintain the highest standards of governance in relation to Directors' remuneration and continued alignment with our risk appetite and regulatory requirements are also at the forefront of the Committee's consideration.

The Remuneration Committee 2021

2021 has proved to be another unprecedented year as the economic recovery from the Covid-19 pandemic has driven a very volatile labour market and economic landscape. Record levels of job vacancies and a shortage of key skills has led to a very competitive landscape for both the attraction and retention of talent. Rising inflation driving increased costs of living has prompted significant wage movement across most sectors. As such, the Committee has had to respond to these challenges in what has become a very complex and challenging reward landscape.

Despite the volatile external conditions the Society has responded quickly and effectively ensuring a continued outstanding level of service for our customers and an ongoing focus on our colleague wellbeing. Both customer and colleague net promoter scores remained ahead of our sector and the Society achieved an exceptional financial performance, while delivering competitive savings and mortgage products to customers. We continued to invest in both digital and face to face delivery, including our ongoing commitment to branches and high streets across our region.

The economic uncertainty experienced at the beginning of the global pandemic in early 2020 resulted in the Committee's decision not to make an award under either the Executive or Corporate Bonus Schemes in performance year 2020. Colleagues (excluding Executives) were however awarded a recognition payment to recognise their exceptional commitment through such a difficult time. Given the improving economic picture and strong Group performance across 2021, the Committee determined awards should be made under both schemes for this performance year.

The Committee remains focused on the provision of fair, equitable and inclusive reward practices. This has included close oversight of the Gender Pay Gap and progress against our Women in Finance targets. In 2021 we published our latest gender pay gap figures with progress against all Group metrics. The Women in Finance target of 40% female senior management representation by 2023 was achieved in 2021, two years ahead of plan. The Group is now focused on moving towards gender pay parity. The focus will continue to grow across 2022 as we broaden our oversight to encompass wider reward inclusion aims.

Director and Executive remuneration in respect of 2021

Significant work has been carried out over recent years to introduce a robust and fair performance and reward framework for colleagues across the Society, in a way that reflects market practice and ensures that the organisation offers competitive total reward practices. Colleague reward is now deemed to be competitive, equitable and ethical, ensuring we can attract, retain, motivate and reward the right people with the right skills to deliver our strategy for our Members. The Executive team were not included in this initial work to adopt market principles and practice.

However, we recognised that these practices should also extend to our Executive team as the Society remained significantly behind the market in this area. During late 2020 the Society began a similar exercise for Executive Directors and other members of the Executive team by commissioning Willis Towers Watson to conduct an independent review of Executive Director and Executive level remuneration, benchmarking against the external market. The review was undertaken as one of a number of inputs that has informed the development of a reward strategy that set out the approach and roadmap for Executive Director and Executive remuneration for the following three years. This will ensure the Group can deliver on our aim to attract and retain the right talent at all levels of the organisation and reward them fairly and competitively for performance and achievements.

We stated in the 2020 Remuneration Report that we would begin to put the outcome of this review into practice, and in 2021 we implemented the first phase of realigning our Executives' compensation to bring them more in line with the market place. This represented adjustments of between 4% and 23%. This will be continued in 2022 when further changes will be made, bringing our Executive pay closer in line with peers in our sector and the wider marketplace. This is a crucial step to ensuring our continued success and sustainability.

Directors' Remuneration Policy

Policy aims and principles

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

With regard to Executive Directors' annual pay rise, the percentage increases are dependent on performance in the same way that this applies to the Group's wider colleague base.

In designing the Remuneration Policy, the following key principles are to be observed:

- The policy is clearly linked to and influenced by the Group's purpose, Strategic Plan, objectives and values;
- Policy, process and practice are consistent with and promote effective risk management in line with the Group's Risk Appetite Statement and detailed policies;
- Basic pay and total remuneration are set at a reasonable and competitive level to attract and retain the appropriate calibre of people;
- The approach to pay and total remuneration is inclusive and equitable, supporting our wider diversity and inclusion aims;
- The approach to pay satisfies all regulatory requirements and good, responsible Corporate Governance practice;
- Remuneration arrangements are transparent and fair, reflecting individual responsibilities and performance;
- Remuneration arrangements are straightforward to understand, communicate and administer.

Directors' service agreements and notice periods

Executive Directors are employed on service agreements which can be terminated by either the Society or the Director giving six months' notice.

Non-Executive Directors do not have service agreements. Non-Executive Directors are appointed for an initial three-year term. They will generally be expected to serve more than one three-year term, but not longer than nine years in total, unless in exceptional circumstances and after approval by the Board.

Documents may be served on any of the Society's current Directors c/o Addleshaws Goddard LLP, One St Peter's Square, Manchester, M2 3DE.

All of the Society's Directors volunteer for annual re-election.

Policy on termination pay

The Committee aims to treat departing Executive Directors fairly, taking into account the circumstances of their departure, but is always careful to ensure that the interests of Members are considered and that there are no rewards for failure. Executive Directors are entitled to be paid their basic salary and contractual benefits (including pension contributions) during their notice period. The Society has the discretion to pay these as a lump sum in lieu of notice.

The rules of the Executive Bonus Scheme set out the treatment for an individual who ceases to be a colleague or Director of the Society.

Report on Directors' remuneration

The total remuneration received by Executive Directors is the Directors' Emoluments table. The information has been audited and shows remuneration for the years ended 31 December 2020 and 31 December 2021 as required under the Building Society (Accounts and Related Provisions) Regulations 1998. There is a requirement under Rule 14 of the Society's Rules to have deposits to the value of not less than £1,000 in a Society share account in order to qualify as a Director. This means all Directors are Members of the Society. There are no requirements for a Director to own shares in the Society's subsidiary companies.

Details of other non-Society Board positions held by the Group's Directors are shown in the Annual Business Statement in the Annual Report and Accounts. None of the current Executive Directors retained any remuneration as a result of their non-Society positions.

Chief Executive remuneration

The Chief Executive is the Group's most highly paid colleague and no colleague earns more than any Executive Director. The 2021 pay rise for all colleagues ranged from 0% to 12%, with an average 3% received.

Mr A Haigh received a 22.8% pay rise on base salary in April 2021. This increase is an outcome of the independent review of Executive reward, undertaken by the Committee's reward advisors Willis Towers Watson and represents the first of two stages of a reward roadmap adopted by the Committee in respect of Executive remuneration. As the second in this process to reposition base pay, Mr Haigh will receive a further increase of 18% from 1 March 2022.

Directors' Emoluments (Audited)

Emoluments of the Society's Directors from the Society and its subsidiaries are detailed below:

	Year	Salary or fees	Taxable benefits	Annual bonus (Note 1)	Pension contributions to defined contribution scheme (Notes 2,3 and 4)	Total contractual benefits
Executive Directors		£000	£000	£000	£000	£000
AS Haigh	**2021**	**381**	**48**	**160**	**-**	**589**
	2020	323	43	-	-	366
D Samper	**2021**	**243**	**34**	**118**	**-**	**395**
	2020	221	32	-	1	254
S Miller	**2021**	**187**	**29**	**90**	**-**	**306**
	2020	162	26	-	-	188
Total for Executive Directors	**2021**	**811**	**111**	**368**	**-**	**1,290**
	2020	706	101	-	1	808
Non-Executive Directors						
PJ Moorhouse (Retired 23 August 2021)	**2021**	**53**	**-**	**-**	**-**	**53**
	2020	82	-	-	-	82
J Morris (Retired 3 November 2020)	**2021**	**-**	**-**	**-**	**-**	**-**
	2020	45	-	-	-	45
IW Ward	**2021**	**52**	**-**	**-**	**-**	**52**
	2020	53	-	-	-	53
BP Glover	**2021**	**47**	**-**	**-**	**-**	**47**
	2020	45	-	-	-	45
A Laverack (Business name: Anne Shiels)	**2021**	**57**	**-**	**-**	**-**	**57**
	2020	50	-	-	-	50
K Ingham	**2021**	**48**	**-**	**-**	**-**	**48**
	2020	45	-	-	-	45
MR Thompson (Note 5)	**2021**	**75**	**-**	**-**	**-**	**75**
	2020	50	-	-	-	50
GA Bennett	**2021**	**48**	**-**	**-**	**-**	**48**
	2020	42	-	-	-	42
S Lynn (Appointed 22 April 2020)	**2021**	**46**	**-**	**-**	**-**	**46**
	2020	26	-	-	-	26
MJ Faull (Appointed 23 August 2021)	**2021**	**23**	-	-	-	**23**
	2020	-	-	-	-	-
JDA Ramsbotham (Appointed 23 August 2021)	**2021**	**40**	-	-	-	**40**
	2020	-	-	-	-	-
Total for Non-Executive Directors	**2021**	**489**	**-**	**-**	**-**	**489**
	2020	438	-	-	-	438
Total for all Directors	**2021**	**1,300**	**111**	**368**	**-**	**1,779**
	2020	1,444	101	-	1	1,246

Notes

1. During 2021 the Society's Executive Directors participated in the Group's annual Executive Bonus Scheme. A proportion of the Executive bonus payment is deferred and is payable in future years as shown in the Executive Bonus Payment table overleaf. During 2020 no Executive received a bonus or recognition payment.
2. Mr AS Haigh has elected to take his pension contribution amounting to £34,326 (2020: £29,104) as a cash payment. He is liable for his own tax and national insurance contributions on this payment.
3. Mr D Samper has elected to take his pension contribution amounting to £21,878 (2020: £18,254) as a cash payment. He is liable for his own tax and national insurance cotributions on this payment.
4. Mr S Miller has elected to take part of his pension contribution amounting to £16,825 (2020: £14,552) as a cash payment. He is liable for his own tax and national insurance contributions on this payment.
5. Mr M Thompson received £18,000 in relation to chairing the Newcastle Building Society Pension and Assurance Scheme Board.
6. No Directors received termination payments in 2021.

Remuneration for Executive Directors

The table below shows the elements of remuneration for Executive Directors and the way they operate. These elements would be expected to apply equally to any new Executive Directors appointed in the future.

How elements support our strategy	Operation	Maximum potential value	Performance conditions and assessment
Basic salary Supports the attraction and retention of Executive Directors, reflecting their individual roles, skills and contribution and ensuring internal pay equity.	Basic salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual. In setting appropriate salary levels, the Committee takes into account data for similar roles in comparable organisations as determined by the Group Job Evaluation Policy. The Society aims to position Executive Directors competitively within the reference group. Consideration is also given to internal pay equity.	Increases to base salary are determined annually by the Committee taking into account: - Individual performance; - The scope of the role; - Pay levels of comparable organisations; and - Pay increases elsewhere in the Group.	Individual performance is taken into account when considering base increases, as well as affordability and the performance of the Group. Increases are proposed by the CEO and approved by the Remuneration Committee.
Pension Supports attraction and retention of Executive Directors at a cost that can be controlled by the Society.	Generally, the Society contributes to a defined contribution pension scheme for the Executive Directors. The contribution can instead be paid in cash (which is excluded from bonus calculations) if the Executive Director is likely to be affected by the limits for tax approved pension saving.	9% of basic salary.	None applicable.
Benefits - Supports attraction and retention of Executive Directors; and - Provides a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including car allowance, private medical insurance, life insurance, and permanent health insurance. The Committee reviews benefits offered and may make changes, for example to reflect market practice or the needs of the business. The Society offers all colleagues the option to participate in a salary sacrifice scheme in order to make use of current incentives and encourage use of electric vehicles.	The Society chooses to invest in the cost of providing benefits which may vary from year to year.	None applicable.
Executive Bonus Scheme* - Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate strategy. Pay equity supports attraction and retention of Executive Directors; and - Supports the development of a high performance culture.	- Based on a number of performance measures and targets linked to the delivery of corporate strategy; - Measures include financial, customer, people and personal objectives; - Targets are set annually and payments are made at the discretion of the Remuneration Committee; and - Payments are made in cash in instalments over a three year period.	The maximum potential bonus opportunity is 50% of base salary. On-target bonus opportunity is 30% of base salary.	The measures will be assessed by the Remuneration Committee on an annual basis and will be subject to discretion. Bonus levels take affordability into account together with performance measures. For 2021, performance measures were weighted as follows: - 40% financial - 30% non-financial - 30% personal objectives A financial gateway exists in the operation of the scheme.

Notes to the table

*As noted above, the Committee has complete discretion to make payment under the Executive Bonus Scheme and also has discretion to amend or remove that Scheme where necessary to ensure the arrangements continue to meet the Committee's overriding remuneration principles.

Annual Executive bonus

An Executive Bonus Scheme, which Executive Directors and other Executives participate in, was introduced in 2019 as part of our move towards alignment to market practice. It is paid in three parts, with the first payment of 50% in the year after the bonus is earned and the remainder over two equal payments in the following two years. This allows the Committee to review whether the payment remains appropriate and in line with strategy and purpose, providing the ability to reduce or cancel the payment in cases such as, but not limited to, significant failures in risk management, material errors or the Society's financial underperformance. The Executive Bonus Scheme is dependent on performance, measured against personal objectives as well as financial and non-financial performance indicators. Should all metrics be met, on-target bonus payments are set at 30% of base salary, with a maximum bonus potential of 50% of base salary for exceptional business and personal performance.

In light of the economic uncertainty brought about at the beginning of the Covid-19 pandemic, it was agreed that there would be no award made under the Executive Bonus Scheme for performance year 2020.

Payments and deferred payments under the Executive Bonus Scheme for performance year 2021 are shown in the Executive Director Bonus Table.

Executive Director	Bonus deferred from	Bonus payable in 2022 £000	Bonus payable in 2023 £000	Bonus payable in 2024 £000	Total bonus deferred £000
Andrew Haigh	**2019**	36	-	-	-
	2020	-	-	-	-
	2021	80	40	40	80
	Total	**116**	**40**	**40**	**80**
David Samper	**2019**	21	-	-	-
	2020	-	-	-	-
	2021	59	30	30	60
	Total	**80**	**30**	**30**	**60**
Stuart Miller	**2019**	20	-	-	-
	2020	-	-	-	-
	2021	45	22	23	45
	Total	**65**	**22**	**23**	**45**
Total		**261**	**92**	**93**	**185**

Remuneration of Non-Executive Directors

A focus on Non-Executive Director remuneration is the final phase of the work we have undertaken over recent years to introduce a robust and fair performance and reward framework across the Society. This includes the introduction of a new separate Non-Executive Director Remuneration Committee who will approve the fees of Non-Executive Directors which will then be ratified by the Board. Membership of the Non-Executive Remuneration Committee consists of the Chair of the Board, Chief Executive and Chief Financial Officer and is attended by the Chair of the Remuneration Committee and Chief People Officer.

The table below set outs the elements of Non-Executive Directors' remuneration and the policy on how each element is determined.

Element	Approach
Basic fees	Reviewed annually, based on time commitment and responsibility required by Board and Board Committee meetings. The review takes into account fees paid by comparable financial services organisations. The basic fee currently paid is £35,000.
Additional fees	Additional fees are payable for additional responsibilities, such as Committee Chair or membership. Committee Chair fees range from £8,150 to £10,500 and Committee membership fees range from £2,400 to £5,800, depending on time commitments required.
Other items	Non-Executive Directors are not eligible to participate in any form of performance pay and do not receive pensions or other benefits in kind.

The Chief Executive reviews and makes recommendation on all Non-Executive fees and also determines the Chairman's fee.

Consideration of remuneration for colleagues who are not Directors

Code Staff and Executives who are not Directors

In addition to setting the remuneration of the Executive Directors, the Remuneration Committee approves the remuneration policy for Senior Managers who have a material impact on the Society's risk profile (Code Staff). The Committee also reviews recommendations from the Chief Executive for approval of the remuneration of other Executives.

The Group's colleagues

All colleagues receive basic salary and benefits consistent with market practice, and are eligible to participate in the Group's Corporate Bonus Scheme and pension arrangements. When setting salary increases for Executive Directors, the Committee considers the level of salary increases across the Society and Group. No colleague consultation on Executive Director remuneration has been undertaken.

No award was made under the 2020 Corporate Bonus Scheme due to the economic uncertainty created by the Covid-19 pandemic. The Remuneration Committee approved a payment of 5% of base pay (for Achievers) and 10% of base pay (for High Achievers) in respect of 2021 performance.

In addition, in recognition of exceptional performance in 2021, a further recognition payment was made to all colleagues below Executive level. The payment made was £750 for full-time colleagues and £325 for part-time colleagues below 20 hours.

The Corporate Bonus Scheme has now been replaced by the newly introduced 'Sharing in our Success Scheme'. The new Scheme has been introduced in light of the Society's 2021 review of market practices. Introduction of the scheme improves our reward practices and structures, ensuring the Society has the correct mix of base and variable pay to incentivise the level of performance required to deliver the ambitious strategic plans over the next 3-5 years.

Summary of the remuneration of code staff

Remuneration code staff are currently defined as senior management, control functions and any colleague receiving total remuneration that takes them into the same remuneration bracket as senior management, or whose professional activities have a material impact on the Group's risk profile. The table below shows the aggregate remuneration for Code Staff in relation to their services to the Society and Group.

Consideration of Member views

The Committee does not consult with the Society's Members on its Executive Remuneration Policy, but takes into account feedback given by Members. For a number of years, the Committee has invited Members to vote on the annual remuneration report, and Members have always voted in favour.

The Directors' Remuneration Report and Policy was last voted on in April 2021. Member approval was given to the 31 December 2020 Directors' Remuneration Report (92.46% approval with 17,177 votes for, 1,400 against and 341 withheld).

The Remuneration Committee and its advisers

The Committee's responsibilities

The Committee is responsible for the oversight and governance of the Group's overall compliance with the Remuneration Code.

The Committee's main objectives are:

- To ensure that fair and competitive remuneration packages are in place, in line with market rates, that attract, retain and reward the Group's Executive and Senior Management for delivering stated business objectives in support of the Group's strategy and purpose, whilst providing value for our Members, stakeholders and communities;

Category	Typical Functions	Year	Number	Salary or Fees £000	Other taxable benefits £000	Variable remuneration (Note 1) £000	Total remuneration £000
Executive Directors	Chief Executive Officer Chief Financial Officer Chief Customer Director	**2021**	**3**	**811**	**111**	**368**	**1,290**
		2020	3	706	102	-	808
Other Executives	Chief Information Officer Chief People Officer Chief Risk Officer Chief Transformation Officer Managing Director NSSL, Managing Director NFAL	**2021**	**6**	**861**	**128**	**323**	**1,312**
		2020	7	624	102	-	726
Control Functions	Balance Sheet Management Compliance Customer Outcomes Internal Audit IT Services Product Development Risk Treasury Underwriting	**2021**	**10**	**745**	**109**	**44**	**898**
		2020	7	528	95	18	641
Total		**2021**	**19**	**2,417**	**348**	**735**	**3,500**
		2020	17	1,858	299	18	2,175

Notes:

1. Variable remuneration reflects participation in the Group's Executive Bonus Scheme for Executive Directors and other members of the Executive Committee and the Group's annual Corporate Bonus Scheme for all other code staff. No corporate bonus payment was made to colleagues in respect of 2020 performance, instead a recognition payment was made to all colleagues. Recognition payments were not made to Executive Directors and other Executives.
2. The Society considers an extra Director should have been incorporated in the summary of Code Staff last year and as such they have been included in the 2021 and 2020 tables.

Remuneration Committee Report

Continued

- To ensure compliance with the Regulators' Remuneration Code through at least annual review and to ensure the Remuneration Policy is consistent with regulatory requirements and the Group's financial situation and future prospects;
- To determine and agree with the Board the framework for Executive and Senior Management remuneration and conditions of employment;
- To approve the salaries, and any salary adjustments, variable pay awards and payments for Executive and Material Risk Takers and to approve the terms of the annual pay review for all colleagues;
- Approve the design of any variable remuneration schemes and approve the total annual payments under such schemes;
- To approve the Society's Remuneration Policy Statement and Remuneration Committee Reports in the Group's Annual Report and Accounts and Summary Financial Statements, and the remuneration section of the Group's Pillar III disclosures;
- To approve service agreements, terms and conditions for the appointment of Executive Directors; and
- To consider and make recommendation to the Board on the general framework of colleague bonus schemes.

The Board believes remuneration should be sufficient to attract, retain and motivate colleagues and senior managers to continue to run the Group successfully and in line with our stated aims and purpose. The Remuneration Policy, therefore, focuses on rewarding colleagues and Executives in line with the achievement of the Group's goals set out in the Strategic Plan and Corporate Key Performance Indicators, thus ensuring long-term value for money for our Members.

The Remuneration Committee operates within the Terms of Reference (TOR) agreed by the Board. The TOR are reviewed annually and were last reviewed in January 2022. The effectiveness of the Committee is to be included in a broader Board effectiveness review which will take placed during 2022.

During the year, the Committee met 5 times, and activities included:

- Overseeing compliance of the Group's approach to remuneration against the requirements of the Regulators' Remuneration Code;
- Considering and agreeing pay and benefits for Executive Directors, Executives, Material Risk Takers and the Chair;
- Overseeing remuneration matters across the Society and its subsidiaries;
- Reviewing the performance for the full year and approving the level of Executive and Corporate Bonus to be paid based on achievement of various financial and non-financial key performance measures;
- Reviewing and benchmarking the level of pay for both colleagues and Executives; and
- Considering the disclosure requirements for the Remuneration Report including Pillar 3 disclosures.

External advice received

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

The fee for the advice was £13,192.

On behalf of the Board
Anne Shiels
Chair of the Remuneration Committee

1 March 2022

Risk Management Report

Overview

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

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

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

Risk framework

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

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

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

The risk framework includes the use of Board approved risk appetite statements covering a variety of principal risks that the organisation faces. Additionally, regular management information and performance data in respect of the overall framework is provided to GRC. There is a demonstrated level of balance within the framework with evidence of performance, stress testing, scenario analysis and recovery planning.

Overall, there is a high degree of awareness and understanding of risk across the organisation. Senior management understand and champion the basis for risk measures with detailed understanding of strengths and limitations. The culture across the organisation supports the development of risk skills which is articulated from the top down and gives due focus to risk management.

Risk governance

The Board is ultimately responsible for ensuring that adequate systems of risk management are in place, and that the Society's strategy, risk appetite, and risk management are aligned. To assist the Board, a GRC oversees the management of risk across the Group (see below). In addition, the Board is responsible for the establishment of risk appetites that ensure business activities and decisions are taken within our capacity for accepting risk. These are monitored by the Board and the GRC.

The GRC is supported by a second line of defence risk department, whose role is to ensure that appropriate risk management is applied across the organisation. This includes the provision of oversight reports on risks, and risk management for the GRC and its sub-committees.

The Chief Risk Officer provides formal updates on risk management to the Board, in relation to the Group, on a regular basis.

Group Risk Committee

The GRC oversees the Society's risk management and governance framework, and the Society's overall risk profile. The Committee meets at least quarterly and more frequently when required.

During 2021, the members of the GRC, all of whom are Non-Executive Directors, included Bryce Glover (Committee Chair), Adam Bennett, Ian Ward, Phil Moorhouse (retired from the Board in June 2021), James Ramsbotham (appointed to the Board in August 2021), Michele Faull (appointed to the Board in August 2021) and Karen Ingham.

The duties of GRC include:

- Oversight of overall risk appetite, risk management strategy and framework, including oversight of both prudential and conduct risk appetites, and the Society's Operational Resilience approach and preparedness;
- Oversight of compliance with risk policies;
- Oversight of the risk sub-committees (see below);
- Review and assessment of the adequacy of risk management information to monitor and control risks;
- Approval of risk management of new initiatives and projects, and in particular the risks those initiatives and projects expose the Group to;
- Consideration and approval of the top risks for the Society and Group including low likelihood, high impact risks; and
- Approval of stress testing and scenario testing.

During 2021 the Committee met on five occasions and in particular considered the following matters:

- Ongoing review of the Group's response to the Covid-19 pandemic, and adherence to the government imposed restrictions and requirements, including the management of risks associated with our colleagues' working arrangements (be they office, branch or remote based);
- Review of the risk appetites for prudential, and conduct risk;
- Review of the Group's Risk Management Strategy and performance;
- Oversight of the annual stress testing report including low likelihood high impact risks;
- Review and ratification of key risk policies covering lending, treasury, and operational risk;
- Review of the Group Operational Resilience plans and approach;
- Review and approval of the Society's compliance plan; and
- Review of compliance with Building Society Sourcebook limits.

The Credit Risk Committee (CRC) is responsible for the oversight of the retail and commercial credit risk framework. This Committee acts under the authority of the GRC and has delegated authority to make decisions and recommendations in accordance with the agreed terms of reference. The CRC ensures the use of regular stress testing and scenario modelling that are reflective of the nature of the associated risk. The CRC met thirteen times during 2021.

The Enterprise Risk Committee (ERC) has responsibility for overseeing the risk framework for Operational Risk, Conduct Risk, IT Risk and Operational Resilience. This Committee ensures that risk event trends are monitored appropriately with robust action plan management. The ERC also has the responsibility for key group-wide policies to ensure they are appropriate for the business before they are submitted to the GRC for final ratification. All relevant operational risk management information is reported to the ERC on a monthly basis to assess compliance with overall limits and corporate risk appetites. The ERC met eleven times during 2021.

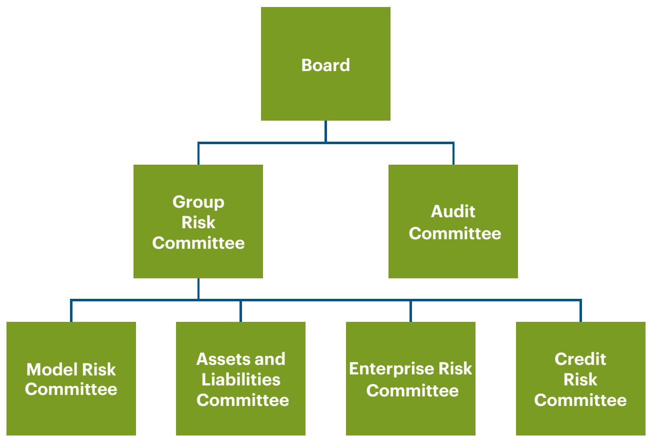
The Model Risk Committee (MRC) ensures compliance with SS3/18 'Model Risk Management'. The MRC acts under the authority of the GRC in an advisory capacity and makes non-binding recommendations concerning the Group's adherence to the Model Risk policy. Recommendations are made to the GRC on suitable macro-economic scenarios, model risk appetite, model performance (monitoring) and model limitations. Approval of the Group's macro-economic scenarios remain the responsibility of the Board. The MRC met three times during 2021.

The Assets and Liabilities Committee (ALCO) is charged by the GRC with setting the risk framework for the Society's balance sheet, including liquidity risk, funding risk, interest rate risk and basis risk. The tools available to ALCO include risk limits and guidelines, return on capital employed benchmarks and funds transfer pricing for all aspects of treasury risk management, including liquidity risk, interest rate risk, counterparty credit risk, and balance sheet management. The ALCO met fourteen times during 2021.

Principal risks

The following table provides an overview of the Group's principal and emerging risks and the way these risks are managed.

Risk governance structure



Risk and Impact	Mitigation	Commentary
Credit Risk The primary credit risks relate to the Society's residential, commercial and investment portfolios (see below).		
Residential Credit Risk ***(Principal Risk)*** Retail borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to unemployment rates, house prices, interest rates and the application of underlying assumptions and data within our credit loss modelling. For example, if a borrowing customer loses their job they may be unable to meet their repayments. If the Society takes possession of the property, it may not realise enough on subsequent sale to repay the loan balance. In a recession when unemployment rises and house prices can fall, the risk increases.	Loans are underwritten individually based on affordability, credit score and history, acceptable collateral (including loan to value), and the Society's lending criteria. The Society does not undertake sub-prime or self-certification lending. The Society's lending policy has been actively reviewed and enhanced through 2021 to ensure we respond appropriately to the macro economic environment and market challenges. The residential book is subject to monthly reporting to CRC in relation to its credit risk characteristics (including loan to value, loan to income, arrears, credit score profile, early delinquencies, and arrears arising from cohorts of lending). The Society's risk appetite is expressed in terms of losses arising in a stressed scenario, and stress testing is used to ensure that the portfolio is within the Society's risk appetite.	**Risk remained static in 2021** The Society has maintained a prudent approach to lending during 2021. Additionally, the Society has enhanced predictive modelling and scenario analysis to inform our lending approach and controls. The volume of loans that are 3 months or more in arrears remain within the Society's risk appetite and the overall retail book remains within the Society's risk appetite. Actual losses on the residential mortgages remain very low.
Commercial Credit Risk ***(Principal Risk)*** Commercial borrowers do not repay the Society and the Society's collateral is insufficient to meet the debt obligations. The risk is sensitive to economic conditions that can impact the viability of tenants and commercial real estate values. For example, if a commercial borrower loses the property's tenant, they may be unable to meet repayments. If the Society takes possession of the property it may not realise enough on subsequent sale to repay the loan balance. In a recession, when more tenants may fail and commercial property values can fall, the risk increases.	The commercial loan book is being actively managed down. Commercial loans over £500k are subject to annual reviews reporting to CRC. Higher risk loans are subject to quarterly reviews. In the event of a covenant breach, a report is provided to the CRC. Borrower and tenant watchlists are maintained by the credit risk team, and are reviewed monthly. Watchlists for borrowers and tenants are updated on a real-time basis. Enhanced Stress testing has been used through 2021 to determine the changes in risk due to the pandemic.	**Risk remained static in 2021** The Society withdrew from new commercial lending in 2008. Lending balances on commercial property continue to reduce. The legacy commercial book has remained performant through 2021. Loans to registered social landlords (RSL) are subject to the same controls as commercial loans. However, the risk of default in relation to an RSL loan is extremely low with no history of default within the portfolio.
Investment Credit Risk ***(Principal Risk)*** Wholesale counterparties the Society lends to default, or the value of the investment falls and the Society is obliged to crystallise that fall in value. This risk arises in relation to the treasury investments made by the Group in order to meet liquidity requirements. The risk is sensitive to market volatility and credit spreads (both general credit spreads and name specific credit spreads). For example, if the Society invests in Residential Mortgage Backed Securities, and subsequently the market value of the assets falls, the Society may have to sell the assets at a loss. The risk increases with increased market volatility.	Investments are subject to a GRC approved policy, which sets out what instruments, countries, and counterparties investments can be made in, and sets limits on exposures to instruments, countries and counterparties. Investments are monitored and reported daily to management, and monthly to ALCO, including compliance with the policy. The credit default swap rates for the Society's counterparties are monitored, and alerts raised if certain criteria are met in relation to those spreads. The mark to market value of the Society's investments in gilts, residential mortgage backed securities, and covered bonds are monitored daily and reported to ALCO monthly.	**Risk remained static in 2021** The Society has continued to invest exclusively in the highest quality securities, and credit risk at 31 December 2021 is immaterial. At this date, the value of the portfolio is above the book value, that is, if the Group was to sell the portfolio, a gain would crystalise.

Risk Management Report

Continued

Risk and Impact	Mitigation	Commentary
Climate Change Risk (emerging risk) Climate change risk recognises the risk associated with adverse climate change and the impact on the Group's operation, the impact on borrowers and the decrease in the value of security in support of mortgage lending. Climate risk is similarly relevant to Solutions clients, and the Group may be impacted by their exposure. The most tangible financial risk to the Group from climate change relates to flooding risk in respect to properties pledged as securities for mortgage loans, and it has therefore been included in the Credit Risk section.	The Group has robust operational resilience processes and responses to manage the impact of any transient localised climate change events. The Society has developed climate change scenarios which have been used in our capital modelling, stress testing, and ICAAP. The Group actively engages with the industry as a whole to consider the potential impacts and longer-term scenarios of climate changes and resulting risks.	**Risk increased in 2021** Scenario planning and modelling of climate change impacts is an evolving industry wide activity. The Group has an active programme in support of its overall climate change strategy, including targeted tCO2 reduction, product development and a wider programme of measures to support our strategic climate change objectives. However, the Society's exposure to losses from climate change related risks continues to be immaterial in the context of the Society's overall credit loss provisioning.
Liquidity Risk *(Principal Risk)* Liquidity risk is the risk of loss or failure caused by the Group being unable to meet its liabilities or commitments as they fall due, or to be able to do so only at excessive cost. For example, if there are exceptionally high withdrawals at a time when there is illiquidity in financial markets preventing the Society from selling its liquid assets, then it may have to sell assets at a discount to obtain cash.	Liquidity is subject to a GRC approved policy, which sets out limits in relation to liquidity. Liquidity is monitored and reported to management daily, and reported to ALCO on a monthly basis, including compliance with the policy. Cashflow forecasts are used to forecast liquidity, and ensure compliance with the limits in the future. Stress tests are used to ensure that liquidity risk is within the risk appetite.	**Risk remained static in 2021** Liquidity risk overall remains within our risk appetite and the Group maintains sufficient sources of liquidity to be able to avoid having to sell investments at a discount to raise cash, even in severely stressed circumstances.
Market Risk Market risk is the risk that the Group's business is negatively impacted by external market prices or factors. **Interest Rate Risk *(Principal Risk)*** Interest rate risk is the risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates. Basis risk is the risk that net interest income falls because of a change in the relationship between two market rates. For example, the Society has assets which earn interest based on an interbank indices rate, and liabilities where the rate is set by the Society. If interbank indices fall at a time when base rate and savings rate do not, then the Society's assets realise lower income, but the costs remain unchanged.	Interest rate risk is subject to a GRC approved policy. Interest rate risk and basis risk are subject to policy limits. They are monitored and reported to ALCO monthly, including compliance with policy. The Society uses interest rate swaps to manage interest rate risk. Derivatives are only used, in accordance with the Building Societies Act 1986, to mitigate risks arising from interest rates or indices. Forecasts are used to assess future compliance with limits and determine the need for management action. Stress tests are used to assess the Society's exposure to interest rate and basis risk.	**Risk remained static in 2021** The overall interest rate risk to which the Society is exposed is broadly unchanged. Note 37 gives details of the derivative financial instruments held at 31 December 2021.
Macro-Economic Risk *(emerging risks)* Macro-economic risk is the risk that a deterioration of the economic environment in the UK could negatively impact the Group's operations and performance. This includes the impact of increased risks, such as credit risk, and market risk (e.g margin compression). There is a risk of adverse impact on consumer demand and behaviour. The most significant factor for the UK's economic environment remains the impact of Covid-19. The overall macro-economic risk gives rise to uncertainty and reduces the predictability of outcomes. This risk applies to both the Society and the services provided to our NSSL clients who may also be impacted.	The Group actively monitors and responds to the key macro-economic indicators. The pandemic impacts across 2020 and 2021 have been managed. However the increase in Consumer Price Index, impact of the forthcoming National Insurance increase in April 2022, the rise in the Bank of England base rate in Q4 2021, and the impact on consumers of increased domestic energy costs, represent an increased risk. Competitive pressure within retail banking also remain significant. The Group continues to monitor and engage in wider industry economic forecasting to ensure management understand the range of possible outcomes in 2022 and beyond. We continue to use outcomes based scenario modelling, to inform the Group's strategic decisions and risk profiles.	**Risk increased in 2021** We continue to actively assess and consider the impact of macro-economic environment on our business and our customers. We consider a variety of scenarios and sensitivities to reflect outcomes and to ensure we have appropriate mitigation strategies in place.

Risk and Impact	Mitigation	Commentary
Pension Fund Obligation Risk *(Principal Risk)* The Group has funding obligations for a defined benefit scheme, which is closed to new entrants. It was closed to future benefit accrual with effect from 30 November 2010. Pension fund obligation risk is the risk that the value of the Scheme's assets, together with any agreed employer contributions, will be insufficient to cover the projected obligations of the Scheme over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. For example, if yields on gilts or corporate bonds fall, then the value of liabilities rises, resulting in a larger deficit. If the value of shares falls then the value of the pension fund assets fall and the deficit rises.	The pension fund is overseen by the Trustees of the Scheme, within an agreed investment strategy. Reports prepared by the Scheme's independent actuary are reviewed by the Trustees quarterly and, if appropriate, management action is taken. The Group performs stress testing on the pension scheme liabilities and assets at least annually.	**Risk decreased in 2021** In 2021 the Pension Trustees implemented a revised investment strategy. The pension fund remains in surplus on an IAS 19 basis. The Scheme is exposed to market volatility, particularly in long-term gilt and corporate bond rates. For accounting purposes, the IAS 19 asset has not been recognised on the balance sheet as the Group expects that surpluses will be used to reduce risk and volatility within the Scheme with the long-term objective of eliminating the pension obligation risk.
Capital Risk *(Principal Risk)* Capital risk is the risk that the Society is or becomes inadequately capitalised to address the risks to which it is exposed.	As a deposit taking institution, the Society's capital is highly regulated and the Group submits regular capital returns to regulators. The Group's capital position is forecast monthly and its adequacy monitored by the Board and senior management. The Group uses stress testing at least annually to assess whether its capital buffers and limits are sufficient to withstand even very severe economic and idiosyncratic conditions. The Group also maintains a recovery plan with detailed measures that could be used to rebuild the Group's capital if this was necessary. The Group maintains its capital at a level in excess of its regulatory Individual Capital Guidance and internal limits. The Group publishes further information about risk exposures in its Pillar 3 disclosures, available on the Society's website (www.newcastle.co.uk).	**Risk remained static in 2021** In line with the Society's growth plan, the Group's Common Equity Tier 1 ratio has decreased slightly from 14.1% to 13.8%, comfortably above the regulatory minimum of 4.5%. The decrease is the result of an increase in risk weighted assets due to growth of the Society's mortgage book outweighing capital generation in the year. The ratio is expected to further decrease over the coming year in line with the Society's plan to grow lending and to further invest in the Group's business.
Operational Risk *(Principal Risk)* Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. For the Group this definition includes legal risk, strategic risk and reputational risk. Operational risk covers examples such as a fire or accident, fraud or theft, or a failure of IT systems resulting in customers or staff being unable to log in to their accounts or system.	Operational risk is subject to a GRC approved policy, which covers the framework for operational risk, including the measurement and management of risk, operational risk appetite, operational resilience, the use of scenario testing for operational risk, tracking of risk events and operational losses, timescales for implementation of action plans and escalation procedures for more serious risk events that require immediate action to mitigate loss. Key risks and controls are identified for all areas of the business. Risk assessments remain the responsibility of the relevant departmental managers and line Executives, and are updated regularly for new risks, the results of risk events and following internal audit reviews. Corporate insurance policies are negotiated with regard to the key risks within the Group requiring greater mitigation.	**Risk remained static in 2021** As the Society's business model includes diversification via the Solutions business, this increases exposure to operational risk particularly in relation to IT systems capability and human error. The Society continues to invest in a programme of Operational Resilience which is predicated on reducing the impact of operational events within the business. Details of the Solutions business and the level of income for 2021 is detailed in the segment information note. Throughout 2021 the operational risk exposure has been actively managed through the necessary operating changes brought about by the pandemic including remote working and resource management. We have continued to ensure that we have remain within our overall operational risk appetite.

Risk Management Report
Continued

Risk and Impact	Mitigation	Commentary
Conduct Risk *(Principal Risk)* Conduct risk is the risk of customer detriment arising from the Society's activities. It is an operational risk particularly significant to the Society. Examples include products that do not perform as customers expected them to, or products being sold to customers for whom they are not suitable. Conduct risk and operational risk are closely aligned where the operational risk results in customer detriment (e.g. a failure to protect customer data is an operational risk which may result in customer detriment). For example, if the Society provides a mortgage product to a customer where the information the customer needed to make an informed decision was absent, and the product does not meet the customer's needs.	The Society maintains a risk appetite statement relating to customer outcomes and measures performance against this monthly, reporting to the ERC with oversight from the GRC. All new products are approved by a Mortgage and Savings Committee, which includes consideration of an assessment of risks to customer outcomes. The Society maintains a Customer Outcomes dashboard, which looks at evidence supporting good customer outcomes (or suggesting poor outcomes) and this is reviewed monthly and reported to ERC. The Society maintains an annual Compliance Plan, which is risk based, reporting to ERC with oversight from the GRC. In addition throughout 2021 the Society has continued to support customers experiencing challenges through the pandemic.	**Risk remained static in 2021** The Society has a simple product range covering mortgages, savings, insurance, and financial advice via Newcastle Financial Advisers Limited (an Appointed Representative of Openwork).

Bryce Glover
Chair of the Group Risk Committee
1 March 2022

Independent Auditor's Report
to the Members of Newcastle Building Society

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Newcastle Building Society (the 'Society') and its subsidiaries (the 'Group'):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2021 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- the Group and Society income statements;
- the Group and Society statements of comprehensive income;
- the Group and Society balance sheets;
- the Group and Society statements of movements in Members' interests;
- the Group and Society cash flow statements; and
- the related notes 1 to 46.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom international accounting standards.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - Fair value of equity release mortgages; - Expected credit loss (ECL) allowance on residential lending; - Expected credit loss (ECL) allowance on commercial lending; and - Fair value hedge accounting. Within this report, key audit matters are identified as follows, in comparison to the key audit matters presented in the prior year by our predecessor: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £1.2m, which was determined on the basis of 0.5% of net assets (consisting of reserves and subscribed capital).
Scoping	All material entities in the Group are within our audit scope and audited to a lower materiality for the purpose of individual entity reporting. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.
Significant changes in our approach	Last year, the predecessor auditor's report identified a key audit matter relating to the Group's and Society's ability to continue to adopt the going concern basis of accounting in response to the rapid spread of Covid-19. As of the date of approval of the current period financial statements, the level of uncertainty relating to the Covid-19 pandemic has diminished and as such we no longer consider this to be a key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls around management's going concern assessment;
- assessing management's considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- assessing the Group's and Society's compliance with regulation including capital and liquidity requirements;
- involving prudential risk specialists in assessing the information supporting the liquidity and capital forecasts, including the stress testing and reverse stress testing performed by management;

- assessing the assumptions such as cash flows, capital and liquidity, used in the forecasts prepared by management;
- assessing historical accuracy of forecasts prepared by management; and
- assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Fair value of equity release mortgages

Key audit matter description	The Group holds a legacy portfolio of equity release mortgages ("ERMs") at fair value in line with IFRS 4 and IFRS 13 and is classified within level 3 of the fair value hierarchy (see note 34 for a definition of level 3 measurements). The ERMs had a carrying value at 31 December 2021 of £232.6 million (2020: £268.8 million). The fair value of the ERMs is determined using a discounted cash flow model and is reliant upon several unobservable and judgemental inputs. The ERMs were held at amortised cost and designated in a fair value macro hedge in the 31 December 2020 financial statements. As detailed on page 120 management has undertaken a project where they reviewed the historical accounting for the ERMs which included a designation into a fair value macro hedge. Management concluded that it was impracticable to quantify any prior year adjustment to the comparatives in the financial statements, had the previous accounting policy continued to be applied. Given this outcome, management adopted a new accounting policy during the year as they consider fair value to give a more reliable presentation in the Annual Report and Accounts. The change in accounting policy decreased the opening reserves by £7.1 million. Our key audit matter relates to the risk of management bias in selecting the discount rate and future house price (HPI) assumptions used within the fair value model and the impact these assumptions have on the modelling of the no negative equity guarantee. This also includes consideration of repayment profiles and the credit risk associated with the assets. The Group's disclosure of the ERMs is detailed within note 13 and note 42 and the change in accounting policy is set out in note 35. Management's associated accounting policies are detailed on page 83 with detail about judgements in applying accounting policies and critical accounting estimates on page 86. The Audit Committee's consideration of the matter is described on page 51.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the fair valuation of ERM portfolios. We challenged management's valuation methodology for the ERM portfolio by: - involving our valuation specialists in the audit of management's valuation approach; - testing the accuracy of the valuation model by involving our modelling specialists in the audit of the model mechanics, which included an assessment of whether the model had been prepared in accordance with the contractual terms of the loans held with the third party; - assessing the rate used to discount the future cash flows to present value, including alternative approaches to calculating the discount rate. We utilised both internal and external data and taking account of the repayment profiles and credit risks associated with the assets and assessed the impact on the valuation from a reasonable range of outcomes; - testing and challenging the HPI assumptions used by benchmarking to external information and internal consistency with assumptions used in other modelling by the Group; - testing the appropriateness of the other elements inherent in the valuation of the underlying loan assets, such as no negative equity guarantees provided by the Group; and - challenging the appropriateness of the assumptions in light of Covid-19 and other market factors. We assessed and challenged the appropriateness of the change in accounting policy by: - assessing against the criteria in IFRS 4 and IAS 8 respectively, in particular to ascertain whether the change in accounting policy meets the key criteria in IFRS 4 providing either a more reliable but no less relevant result, or more relevant but no less reliable result than the previous accounting policy. We assessed and challenged the appropriateness of the disclosure over the outcome of management's historical accounting project by: - challenging the reasonableness of management's conclusion that it was impracticable to determine any prior period adjustments; and - assessing the disclosures made against the criteria in IAS 8 for determination of prior period adjustments and impracticability of quantification of the same.
Key observations	Based on the work performed, we concluded that the change in accounting policy is in line with the requirements of IFRS 4 and IAS 8, and concur with management's assessment that the resulting accounting is more reliable and no less relevant and it has been disclosed in line with IAS 8. The Group's valuation methodology for the ERM portfolio was in line with the accounting standards and the valuation was within a reasonable range.

5.2 Expected credit loss (ECL) allowance on residential lending

Key audit matter description	Under IFRS 9 provision is required for the expected credit loss ('ECL') on loans measured at amortised cost. Estimating expected credit losses requires judgement and estimation on assumptions relating to customer default rates, likelihood of repossession, future property values, forced sale discounts and indicators of significant increases in credit risk. These assumptions are informed using historical behaviour and experience through different economic cycles as well as credit bureau data. The Group held £3.4m of impairment provisions at year-end in accordance with IFRS 9 (2020: £5.2m) against total loans and advances to customers of £3,769.4m (2020: £3,540.7m). The Group applies four macro-economic scenarios when determining the ECL calculation: a central outlook, a downside, a severe downside and a growth scenario. The selection and probability weighting of relevant macro-economic scenarios is judgemental and has a significant impact on the ECL calculation. We have identified the selection of macro-economic assumptions and scenario weightings as a key audit matter; as it is highly judgemental, particularly given the current uncertainty created by Covid-19 and has a significant impact on the ECL calculation. There exists a risk of management bias in selecting the weightings and assumptions applied in the IFRS 9 model. The Group's loan loss provision balances are detailed within note 12. Management's associated accounting policies are detailed on pages 82-83 with detail about judgements in applying accounting policies and critical accounting estimates on page 86. Management's consideration of the effect of the future economic environment is disclosed in note 41. The Audit Committee's consideration of the matter is described on page 51.
How the scope of our audit responded to the key audit matter	We tested the relevant controls over the loan impairment provisioning process. This included assessment of the level of challenge at key management review forums that formed part of these controls. With the involvement of our credit risk specialists, we assessed the compliance of the modelling approach and methodology with the requirements of IFRS 9. With the involvement of our IT and credit risk specialists we assessed whether the documented modelled approach was implemented in practice. We challenged management's consideration of the future economic environment by engaging our economic specialists to review management's approach as well as comparing modelled assumptions to publicly available data from peer organisations, regulators and economic commentators. We challenged management as to whether there was sufficient evidence for the level of provisions held compared to the low levels of historical loss data. We assessed, using publicly available data, whether the combination of management's modelled downside and alternative downside scenarios appropriately captured credit risk relating to the future economic environment. We reconciled the mortgage book to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate.
Key observations	Based on the work performed, we concluded that the Group's ECL applied to the residential mortgage book was within a reasonable range.

5.3 Expected credit loss (ECL) allowance on commercial lending

Key audit matter description	As noted above, under IFRS 9 a provision is required for the expected credit loss (ECL) on loans measured at amortised cost. The Group holds a legacy mortgage portfolio secured against commercial properties, which totalled £32.0m as of 31 December 2021 (31 Dec 2020: £39.2m). The portfolio includes a wide variety of property types, however as a legacy portfolio only a small number of loans with individually material exposures remain. This portfolio includes loans secured against serviced apartments (hotel rooms) in London with a total exposure of £17.5m (31 Dec 2020: £18.0m) shared between c. 100 borrowers. The expected credit loss provision balance of £4.3m as of 31 December 2021 (31 Dec 2020: £8.6m) for the main portfolio and £0.8m as of 31 December 2021 (31 Dec 2020: £0.9m) for the serviced apartments is determined using an excel based model. We consider the most significant areas of judgement within the Group's commercial ECL allowance to be: - the macro-economic assumptions used and assigned probability scenario weightings used; and - underlying collateral valuations, given the uncertainty in the market over the past eighteen months because of the Covid-19 pandemic. The Group's loan loss provision balances are detailed within note 12. Management's associated accounting policies are detailed on pages 82-83 with detail about judgements in applying accounting policies and critical accounting estimates on pages 86. Management's consideration of the effect of the future economic environment is disclosed in note 41. The Audit Committee's consideration of the matter is described on page 51.
How the scope of our audit responded to the key audit matter	We tested the relevant controls over the loan impairment provisioning process. This included assessment of the level of challenge at key management review forums that formed part of these controls. We challenged the assumptions made by management by: - utilising our real estate specialists to assess the reasonableness of the underlying collateral valuations of properties within the commercial portfolio; - engaging with an internal economic advisory specialist to assess the reasonableness of the macro-economic variables and scenario weightings; and - challenging the macro-economic assumptions using publicly available data, as well as benchmarking against peer organisations.
Key observations	Based on the work performed, we concluded that the Group's ECL applied to the commercial mortgage book was within a reasonable range.

5.4 Fair value hedge accounting

Key audit matter description	The Group has designated the majority of their derivative financial instruments in hedge relationships in order to minimise fair value volatility in the Income Statement. We have identified a key audit matter in relation to the residential mortgages fair value macro hedge relationship which is a portfolio hedge accounted for in line with the requirements of IAS 39. Over the life of the hedge, hedged items (mortgages) and instruments (derivatives) incept and de-designate from the hedge relationship. In line with the requirements, management carries out prospective and retrospective effectiveness testing on a monthly basis. The fair value hedge adjustment on balance sheet totalled £62.1m as at 31 December 2021 (2020: £116.1m), out of which (£12.0m) relates to the fair value macro hedge. There is a risk of management bias in relation to the designation of the portfolio hedge, including: - eligibility of the hedge relationship; - appropriateness of the hedge effectiveness testing methodology; and - inappropriate identification of fair value hedge adjustments required for items either designated into or de-designated from the portfolio hedge relationship, including the risk that these adjustments are incomplete and/or inaccurate. The Group's disclosure of the fair value macro hedge is detailed within note 39. Management's associated accounting policies are detailed on pages 82-83. The Audit Committee's consideration of the matter is described on page 42.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over hedge accounting. We worked with our financial instruments specialists and tested the balances by: - assessing management's prospective and retrospective testing. This included obtaining evidence of management's testing and understanding and testing management's methodology for assessing items that have designated and de-designated from hedge relationship; - evaluating manual adjustments made in relation to designation and de-designation of fair value adjustments to the hedged item; - re-performing hedge effectiveness testing to determine that hedge relationships continue to meet certain criteria and that any ineffectiveness is reported in a timely manner; and - assessing the designation and classification.
Key observations	Based on the work performed, we concluded that the overall treatment adopted in relation to the macro hedge relationship was materially appropriate.

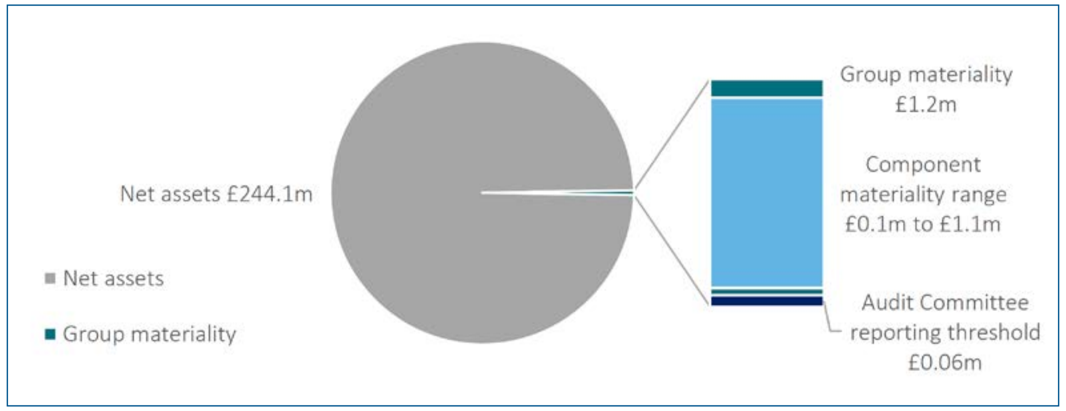
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Society financial statements
Materiality	£1.2m (2020 previous auditor: £1.1m)	£1.1m (2020 previous auditor: £1.1m)
Basis for determining materiality	0.5% of Group's net assets (2020 previous auditor: 0.5% of Group's net assets)	0.5% of net assets (2020 previous auditor: 0.5% of net assets) Society materiality is capped at 90% of Group materiality.
Rationale for the benchmark applied	In determining materiality we considered a range of possible benchmarks with a particular focus on net assets (consisting of reserves and subscribed capital) given the users of financial statements, including the focus of the Society's members and regulators to maintain a strong capital base that will allow the Group to invest in activities for its members including increasing future lending.	



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Society financial statements
Performance Materiality	70% (2020 previous auditor: 75%) of Group materiality	70% (2020 previous auditor: 75%) of Society materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. Our risk assessment, including our assessment of the quality of the control environment and whether we were able to rely on controls; b. the nature, volume and size of misstatements in the previous audit; and c. that this is our first year of performing the audit.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £60k (2020 previous auditor: £57k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and material subsidiaries. This provided 99% coverage of revenue, profit before tax and net assets of the Group, executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £0.1m to £1.1m (2020: £83k to £1.1m).

We, as the Group auditor, were responsible for performing the audit of each subsidiary. At the Group level, we also tested the consolidation process.

7.2 Our consideration of the control environment

Our approach in relation to the Group's business cycles

We relied on controls over the following business cycles for the Group:

- Residential mortgage lending (loans and advances to customers and interest income); and
- Saving accounts (due to Members and interest payable)

We obtained an understanding of the relevant controls of the above-mentioned business cycles and tested the operating effectiveness of these. We also assessed the design and implementation of controls that relate to our identified significant audit risks. We have shared observations from our procedures with management and the Audit Committee. The Committee's assessment of the Group's internal control environment is set out on page 52.

Our approach in relation to the Group's IT systems

We planned to take a controls reliance approach over the following IT systems as being the key to the financial reporting processes in the Group:

- core mortgage system;
- core savings system; and
- underlying databases for the above systems

Together with IT specialists, we tested the general IT controls related to these systems and were able to rely on the IT controls as planned. We also tested the relevant automated controls associated with the business cycles noted in the preceding section and were able to rely on these controls as originally planned.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on page 64.

As a part of our audit, we have obtained management's climate-related risk assessment and held discussions with the Group Chief Risk Officer to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions and did not identify any additional risks of material misstatement.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the ociety'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 Group or the Society or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including relevant internal specialists, including tax, financial instruments, pensions, IT, economic, credit risk, pricing and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: fair value of equity release mortgages, ECL allowance for residential and commercial lending and fair value hedge accounting. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Building Societies Act 1986 for the Society and UK Companies Act for the subsidiaries.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulations set by the Prudential Regulatory Authority (PRA) relating to regulatory capital and liquidity requirements.

11.2 Audit response to risks identified

As a result of performing the above, we identified fair value of equity release mortgages, ECL allowance for residential and commercial lending and fair value hedge accounting as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and those responsible for legal and compliance matters concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- the annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In the light of the knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 46 to the financial statements for the financial year ended 31 December 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 42;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 42;
- the Directors' statement on fair, balanced and understandable set out on page 44;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 43;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 52; and
- the section describing the work of the Audit Committee set out on pages 51-59.

15. Matters on which we are required to report by exception

15.1 Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

16. Other matters which we are required to address

16.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Society at the Annual General Meeting on 28 April 2021 to audit the financial statements for the year ending 31 December 2021. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year, covering the year ending 31 December 2021.

16.2 Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

17. Use of this report

This report is made solely to the Society's Members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's Members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's Members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
1 March 2022


Big Smile walk, Consett

Income Statements for the year ended 31 December 2021

	Note(s)	GROUP 2021 £m	GROUP 2020 restated £m	SOCIETY 2021 £m	SOCIETY 2020 restated £m
Interest receivable and similar income					
Interest income calculated using effective interest rate	2	**92.0**	91.6	**92.4**	93.1
Interest income recognised in respect of insurance contracts	2	**11.9**	12.7	**11.9**	12.7
Net expense on derivatives hedging mortgage assets	2	**(13.1)**	(13.3)	**(13.1)**	(13.3)
Total interest receivable and similar income	2	**90.8**	91.0	**91.2**	92.5
Interest payable and similar charges	3	**(31.8)**	(42.7)	**(31.7)**	(42.7)
Net interest income		**59.0**	48.3	**59.5**	49.8
Other income	4	**46.2**	40.0	**12.4**	11.5
Other charges	4	**(0.5)**	(0.3)	**(0.5)**	(0.3)
Fair value gains less losses on financial instruments and hedge accounting	39	**(5.2)**	(10.3)	**(5.2)**	(10.3)
Income from shares in subsidiary undertakings (dividends)	4	**-**	-	**1.0**	1.9
Total operating income		**99.5**	77.7	**67.2**	52.6
Administrative expenses	6	**(65.8)**	(57.9)	**(41.7)**	(36.6)
Depreciation and amortisation	16,18,19	**(5.2)**	(4.9)	**(2.4)**	(2.7)
Operating profit before impairments and provisions		**28.5**	14.9	**23.1**	13.3
Impairment reversals / (charges) on loans and advances to customers	12	**2.8**	(9.6)	**2.8**	(9.6)
Impairment of tangible and intangible assets	16,18,19	**(2.0)**	(3.8)	**(0.2)**	(3.8)
Impairment charges of intercompany investment in subsidiaries	15	**-**	-	**(0.1)**	(2.3)
Provisions for liabilities and charges	27	**(0.2)**	(0.1)	**(0.1)**	-
Profit / (loss) for the year before taxation		**29.1**	1.4	**25.5**	(2.4)
Taxation	8	**(5.2)**	(0.3)	**(4.5)**	0.3
Profit / (loss) after taxation for the financial year		**23.9**	1.1	**21.0**	(2.1)

Following a change in accounting policy, comparative balances have been restated to ensure comparability. Please see note 35 for details.

The notes on pages 82 to 150 form part of these Accounts.

Statements of Comprehensive Income for the year ended 31 December 2021

	Note	GROUP 2021 £m	GROUP 2020 restated £m	SOCIETY 2021 £m	SOCIETY 2020 restated £m
Profit / (loss) for the financial year		**23.9**	1.1	**21.0**	(2.1)
Other comprehensive income					
Items that may be reclassified to income statement					
Movement on fair value of debt securities through other comprehensive income		**(0.2)**	0.6	**(0.2)**	0.6
Income tax on items that may be reclassified to income statement	20	**0.3**	(0.2)	**0.3**	(0.1)
Total items that may be reclassified to income statement		**0.1**	0.4	**0.1**	0.5
Items that will not be reclassified to income statement					
Post-retirement defined benefit remeasurements	21	**-**	(0.2)	**-**	(0.2)
Other non-classified items		**-**	0.1	**(0.1)**	-
Total items that will not be reclassified to income statement		**-**	(0.1)	**(0.1)**	(0.2)
Total comprehensive income / (loss) for the financial year		**24.0**	1.4	**21.0**	(1.8)

The notes on pages 82 to 150 form part of these Accounts.

	Note(s)	GROUP 2021 £m	GROUP 2020 restated £m	GROUP 2019 restated £m	SOCIETY 2021 £m	SOCIETY 2020 restated £m	SOCIETY 2019 restated £m
Assets							
Cash and balances with the Bank of England		**382.2**	474.6	215.7	**382.2**	474.6	215.7
Loans and advances to banks	10	**183.5**	266.4	230.5	**170.7**	250.7	219.8
Debt securities	11	**390.7**	368.7	416.3	**390.7**	368.7	416.3
Derivative financial instruments	37	**14.5**	-	0.1	**13.9**	-	0.1
Loans and advances to customers	12	**3,794.5**	3,567.1	3,374.2	**3,793.6**	3,565.0	3,371.9
Deemed loan asset	14	**-**	-	-	**2.3**	-	-
Fair value adjustments for hedged risk	39	**62.1**	116.1	98.9	**62.1**	116.1	98.9
Non-current assets available for sale	17	**2.4**	4.9	-	**2.4**	-	-
Investments	15	**3.9**	0.6	-	**43.8**	41.9	43.2
Intangible assets	16	**7.5**	5.7	2.5	**1.3**	0.6	0.5
Property, plant and equipment	18,19	**31.0**	34.8	46.5	**12.2**	16.6	20.6
Deferred tax assets	20	**4.6**	2.9	2.4	**4.2**	3.1	2.5
Current tax assets		**-**	0.7	-	**-**	1.0	-
Other assets	22	**17.5**	14.9	17.8	**8.4**	15.4	15.1
Total assets		**4,894.4**	4,857.4	4,404.9	**4,887.8**	4,853.7	4,404.6

The notes on pages 82 to 150 form part of these Accounts.

Balance Sheets as at 31 December 2021

	Note(s)	GROUP 2021 £m	GROUP 2020 restated £m	GROUP 2019 restated £m	SOCIETY 2021 £m	SOCIETY 2020 restated £m	SOCIETY 2019 restated £m
Liabilities							
Due to Members	23	**3,731.8**	3,776.3	3,400.9	**3,731.8**	3,776.3	3,400.9
Due to other customers	24	**159.1**	121.0	189.8	**162.6**	121.0	189.8
Deposits from banks	25	**587.6**	507.0	389.6	**587.6**	507.0	389.6
Derivative financial instruments	37	**147.6**	214.3	185.9	**146.7**	214.3	185.9
Current tax liabilities		**0.6**	-	1.2	**0.3**	-	0.6
Other liabilities	26,27	**22.2**	18.3	18.8	**22.3**	19.7	21.1
Deferred tax liabilities	20	**1.4**	0.4	-	**0.5**	0.4	-
Subscribed capital	28	**20.0**	20.0	20.0	**20.0**	20.0	20.0
Reserves		**224.1**	200.1	198.7	**216.0**	195.0	196.7
Total liabilities		**4,894.4**	4,857.4	4,404.9	**4,887.8**	4,853.7	4,404.6

Notes 1 to 47 to the financial statements form an integral part of these financial statements.

Following a change in accounting policy, comparative balances have been restated to ensure comparability. Please see note 35 for details.

These accounts were approved by the Board of Directors on 1 March 2022 and signed on its behalf by

James Ramsbotham, Chair of the Board
Andrew Haigh, Chief Executive
Mick Thompson, Chair of Audit Committee

The notes on pages 82 to 150 form part of these Accounts.

Group

	General Reserve £m	Fair Value Through Other Comprehensive Income £m	Total reserves £m
At 1 January 2021	198.3	1.8	200.1
Profit for the year	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**

	General Reserve restated £m	Fair Value Through Other Comprehensive Income restated £m	Total restated £m
At 1 January 2020	197.3	1.4	198.7
Profit for the year	1.1	-	1.1
Net movement in fair value through other comprehensive income	-	0.4	0.4
Net remeasurement of defined benefit obligations	(0.2)	-	(0.2)
Other non-classified items	0.1	-	0.1
At 31 December 2020	**198.3**	**1.8**	**200.1**

Society

	General Reserve £m	Fair Value Through Other Comprehensive Income £m	Total £m
At 1 January 2021	193.2	1.8	195.0
Profit for the year	21.0	-	21.0
Net movement in fair value through other comprehensive income	-	0.1	0.1
Other non-classified items	(0.1)	-	(0.1)
At 31 December 2021	**214.1**	**1.9**	**216.0**

	General Reserve restated £m	Fair Value Through Other Comprehensive Income restated £m	Total restated £m
At 1 January 2020	195.5	1.3	196.8
Profit for the year	(2.1)	-	(2.1)
Net movement in fair value through other comprehensive income	-	0.5	0.5
Net remeasurement of defined benefit obligations	(0.2)	-	(0.2)
At 31 December 2020	**193.2**	**1.8**	**195.0**

Movement in the year reflects changes disclosed in the Statements of Comprehensive Income, net of tax.

The notes on pages 82 to 150 form part of these Accounts.

	Note	GROUP 2021 £m	GROUP 2020 restated £m	SOCIETY 2021 £m	SOCIETY 2020 restated £m
Net cash (outflows) / inflows from operating activities	30	**(62.6)**	227.3	**(59.0)**	216.7
Corporation tax paid		**(4.4)**	(2.2)	**(4.4)**	(2.2)
Payment into defined benefit pension scheme		**-**	(0.2)	**-**	(0.2)
Cash (outflows) / inflows from operating activities		**(67.0)**	224.9	**(63.4)**	214.3
Cash (outflows) / inflows from investing activities					
Purchase of property, plant and equipment		**(7.7)**	(5.6)	**(1.5)**	(1.0)
Sale of property, plant and equipment		**4.9**	-	**-**	-
Increase in loans to subsidiary undertakings		**-**	-	**(2.0)**	1.0
Purchase of investment securities		**(106.6)**	(110.7)	**(106.6)**	(110.7)
Sale and maturity of investment securities		**84.6**	158.8	**84.6**	158.8
Net cash (outflows) / inflows from investing activities		**(24.8)**	42.5	**(25.5)**	48.1
Cash outflows from financing activities					
Interest paid on subscribed capital		**(2.3)**	(2.3)	**(2.3)**	(2.3)
Payment for finance lease arrangements		**(1.2)**	(1.2)	**(1.2)**	(1.2)
Net cash outflows from financing activities		**(3.5)**	(3.5)	**(3.5)**	(3.5)
Net (decrease) / increase in cash		**(95.3)**	263.9	**(92.4)**	258.9
Cash and cash equivalents at start of year		**490.3**	226.4	**474.6**	215.7
Cash and cash equivalents at end of year	30	**395.0**	490.3	**382.2**	474.6

The notes on pages 82 to 150 form part of these Accounts.

1 Significant accounting policies

Basis of preparation

The Annual Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the UK and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and in accordance with the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998 as applicable to building societies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments measured at fair value at the end of each reporting period.

The Board has reviewed medium and long-term plans with particular emphasis on examining the Group's liquidity, capital and profitability, using a variety of stress testing scenarios to determine the risk that long-term plans cannot be achieved. As a result, the Directors are satisfied that the Society and the Group have adequate resources to continue in business and meet their liabilities throughout the period of assessment.

Accordingly, the financial statements of the Society and the Group have been prepared on a going concern basis with no material uncertainties that the going concern basis of accounting is appropriate.

The Group has chosen to present the financial statements in Pound Sterling, which aligns with the Group's primary functional currency.

A summary of the Group's principal accounting policies is set out below.

Basis of consolidation

The Group Accounts include the results of the Society and its subsidiary undertakings, all of which have accounting periods ending 31 December. Subsidiaries are entities over which the Society has the power to control financial and operating policies so as to obtain benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Upon consolidation, inter-company transactions, balances and unrealised gains on transactions are eliminated. The accounting policies of subsidiaries are consistent with Group accounting policies.

Income recognition

Interest income and expense

Interest receivable and interest payable for all interest-bearing financial instruments are recognised within 'Interest receivable and similar income' and 'Interest payable and similar charges' in the consolidated income statements, using the effective interest rate method (EIRM).

EIRM is used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument. In calculating the effective interest rate, all contractual terms of the financial instrument are taken into account. Historical and forecast mortgage redemption data and management judgement are used to estimate the expected lives of mortgage assets.

Fees and commissions income and charges

Fees and commissions relating to creating loans and advances to customers are deferred and spread using the EIRM and included in interest income. Other fees and commissions are recognised as 'Other income' on the accruals basis as services are provided.

Other income

Other income relates to property income recognised under IFRS 16 and income from contract with customers recognised under IFRS 15. Please see note 5 for details on income from contracts with customers.

Financial assets

In accordance with IFRS 9 Financial Instruments: Recognition and Measurement, the Group classifies its financial assets into the following categories:

Financial assets held at amortised cost

Under IFRS 9, assets may be held at amortised cost, where the asset's contractual cash flow reflects solely payments of principal and interest on the principal amount outstanding (SPPI) and the business model is to hold the asset to collect the contractual cash flows. In this case, income is recognised under the EIRM.

In assessing the business model applicable to its financial assets, the Society has considered how financial asset performance is evaluated and reported to senior management, the key risks affecting this performance and how these are managed, and how managers of the business are compensated in respect of asset performance.

The Society's mortgage lending, other than insurance contracts, meets the definition of SPPI and the Society originates the mortgages with the intention to hold the asset until maturity, collecting contractual cash flows. Mortgage assets are recognised on the Balance Sheet as 'Loans and advances to customers'. Interest is recognised in accordance with the EIRM.

The Society's non-mortgage lending, typically loans and advances to banks, is similarly undertaken with a view to recovery of contractual cash flows and with interest charged that meets the SPPI requirements.

The Society's cash balances, where interest generative, are held to collect contractual interest flows and to ensure appropriate liquidity is available to meet the Society's liabilities as they fall due.

The Society's trade receivables, whether due from third parties or intra-group companies, are held to collect the contractual cash balances as they fall due. The Society does not engage in debt factoring activities.

Financial assets held at fair value through other comprehensive income

Under IFRS 9, where the contractual cash flow characteristics of an asset reflect SPPI, an asset may be classified at 'fair value through comprehensive income', whether the assets are held for sale or to collect contractual cash flows. In this case, the fair value of the asset is recognised on the Balance Sheet, whilst the fair value movement is recognised in other comprehensive income. Interest received on these assets continues to be recognised in the Income Statement using the effective interest rate method.

Whilst the Group does not trade in financial instruments, it holds a portfolio of debt securities for liquidity management purposes, primarily consisting of covered bonds, residential mortgage backed securities (RMBS) and government gilts. The instruments meet the definition of SPPI, but may be sold if liquidity is required. They are therefore held at fair value through other comprehensive income.

Financial assets held at fair value through profit and loss

Under IFRS 9, where the contractual cash flow characteristics of an asset do not reflect SPPI, or where assets are neither held for sale or to collect contractual cash flows, the asset is classified at 'fair value through profit or loss', with fair value movements recognised through the Income Statement.

1 Significant accounting policies (continued)

The Group has a small portfolio of equity investments. As return on these assets are not SPPI, they have to be held at fair value on the balance sheet, with fair value changes and any dividends recognised in the income statement. Equity investments are included in 'Investments' on the balance sheet.

The Group enters into derivative financial instruments to hedge its exposures relating to interest rates. Derivatives are recognised at fair value on the date the derivative contract is entered into, and subsequently re-measured at their fair value. Changes in fair values are recognised through the Income Statement. In accordance with the Group's Treasury Policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives may be designated in formal accounting hedge relationships. At the balance sheet date, this included micro fair value hedges accounted for under IFRS 9 and portfolio (macro) fair value hedges accounted for under IAS 39.

The fair value of the hedged risk is included on the balance sheet under the heading "Fair value adjustments for hedged risk". Any gain or loss arising from hedge ineffectiveness is recognised immediately in the Income Statements under the heading "Fair value gains less losses on financial instruments and hedge accounting".

Micro fair value hedges are assessed before the hedge is incepted and regularly thereafter, ensuring there continues to be an economic relationship between the hedged item and the hedging derivative and that value changes are not primarily due to credit risk, as required by IFRS 9.

The hedge effectiveness of macro hedges is assessed both pro- and retrospectively. In accordance with IAS 39, only highly effective hedges are incepted or continued.

When a hedging instrument expires, is sold, or no longer meets the criteria for hedge accounting, then hedge accounting is discontinued and any cumulative gain or loss is recognised in the Income Statements.

Insurance contracts

The Group's equity release mortgage assets are accounted for under IFRS 4 Insurance Contracts, as they contain no-negative-equity guarantees that meet the IFRS 4 criteria for classification as insurance contracts, as they expose the Society to insurance risk. Equity release mortgage assets are held at fair value through profit and loss.

Fair value is the present value of the forecast portfolio cash flows less the value of the no-negative equity guarantee, which is calculated using an option pricing model. Where possible inputs are market driven or where no market driven data is available, based on management judgement informed by observable data to the extent possible. Movements in the fair value of the equity release mortgage assets are included in Fair value gains less losses on financial instruments and hedge accounting.

Interest on equity release mortgage assets recognised in accordance with the EIRM, and based on contractual interest rates. Included in the equity release mortgage assets is a fixed reversion book. For this book, the repayment amount is determined at completion, but the timing of redemption is uncertain. Interest on fixed reversion loans is recognised based on the interest rate implicit in the mortgage contract.

The Group recognises all insurance obligations arising from no-negative equity guarantees. As such, the Group is not required, and has not elected to 'unbundle' the insurance and deposit components of its equity release mortgages, with the mortgages therefore accounted in full under IFRS 4. The Group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities is sufficient to cover current estimates of future cash flows. See note 13 to the accounts for further information.

Insurance contracts: Change in accounting policy

The Group has previously accounted for the equity release mortgage assets at amortised cost and changed its accounting policy in the current financial year to a fair value approach, as permissible under IFRS 4 and IAS 8. 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. More details in respect to the change in accounting policy can be found in note 35.

Cash and cash equivalents

For the purpose of the Cash Flow Statements, 'Cash and cash equivalents' comprises 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. For operational purposes, the Group's debt security portfolio is maintained for liquidity purposes with the assets therein demonstrably convertible into cash regardless of maturity. The Group does not include encumbered assets in its cash and cash equivalents.

The Group does not consider the timing of derivative collateral inflows to be sufficiently reliably estimated to include such collateral placed with counterparties as a liquid asset for cash flow presentation.

Impairment of financial assets

Loss allowances for expected credit losses are recognised on all financial assets held at either amortised cost, in which case loss allowances impact the Income Statement, or at fair value through other comprehensive income, in which case loss allowances impact other comprehensive income and become reserves reductions.

The Group provides for expected credit losses across applicable financial assets based on whether there has been a significant increase in credit risk since the asset's origination. Internal provisioning models are used to determine expected credit losses for each individual asset, based on four different economic scenarios (base, upside, downside, stressed downside). The four scenarios are assigned a probability weighting to determine the loss allowance recognised.

Where an asset has not seen a significant increase in credit risk since its origination ('Stage 1 assets'), 12 month expected credit losses are recognised as a loss allowance. These are the portion of lifetime expected credit losses that result from default events on the asset expected within the 12 months after the reporting date.

Where an asset has seen a significant increase in credit risk since origination, but there is no objective evidence of impairment at the reporting date ('Stage 2 assets'), lifetime expected credit losses are recognised.

Where an asset has seen significant increase in credit risk since origination and there is objective evidence of impairment at the reporting date ('Stage 3 assets'), lifetime expected credit losses are recognised and interest income is to be calculated against the net carrying amount of the financial asset, rather than the gross amount.

A simplified approach is adopted for trade receivables and contract assets. These are not classified into different stages and lifetime expected credit losses are recognised.

See note 41 for more details on the Group's provisioning methodology.

1 Significant accounting policies (continued)

Securitisations

The Group securitises mortgage loans by transferring the beneficial ownership of a mortgage pool to a Special Purpose Vehicle (SPV), which issues debt secured on the transferred mortgage loans. The Society is deemed to control the SPV, and therefore the SPV is fully consolidated into the Group accounts under IFRS 10 – Consolidated Financial Statements.

Since the Society is entitled to any residual profits or losses of the SPV, it retains substantively all risks and rewards of holding the mortgage loans. As a result, the transfer of the beneficial ownership of the mortgage loans to the SPV does not meet the criteria for derecognising the mortgages from the Society's Balance Sheet under IFRS 9. The Society therefore continues to recognise the securitised mortgages on its balance sheet. The proceeds received by the Society from the transfer are accounted for as a deemed loan from the SPV. Any loan notes retained by the Society are netted off the deemed loan.

Financial liabilities

All financial liabilities are initially measured at fair value, being the issue proceeds, net of premia, discounts and transaction costs incurred. Derivative financial liabilities remain accounted for at fair value on the balance sheet date. Hedged risk fair value adjustments are also held on the balance sheet at fair value. The remaining Group financial liabilities including shares, deposits, debt securities and Permanent Interest Bearing Shares are subsequently measured at amortised cost, using the EIRM.

Property, equipment and intangible assets

Intangible assets

Intangible assets relate to computer software purchased from third parties, development costs for internally generated software, and customer lists acquired from third parties. Computer software and development costs are initially recognised at cost, which includes the original purchase price of the asset and the costs directly attributable to acquiring the asset and bringing it into working condition for its intended use. Customer lists are initially recognised at fair value. Subsequently, intangible assets are recognised at their initial value less accumulated amortisation and any provisions for impairment.

Research expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is also charged to the income statement, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. Where all capitalisation criteria specified in IAS 38 Intangible Assets are met, the expenditure directly attributable to a project is capitalised.

Amortisation of intangible assets commences when they are ready for their intended use and is provided at rates calculated to write down the assets to their estimated residual values over the course of their anticipated useful lives, on the following bases:

Computer software	- 20% per annum, straight line
Development costs	- 20% per annum, straight line
Customer lists	- 20% per annum, straight line

At each balance sheet date, the Group reviews the carrying value of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable value of the asset is estimated to determine the extent of the impairment loss (if any). If the recoverable value of an asset is estimated to be less than the current carrying value, the carrying value of the asset is reduced to its recoverable value. Where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable value.

Freehold property and equipment

Freehold property and equipment are stated at cost less accumulated depreciation and any provisions for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation on assets commences when they are ready for their intended use and is provided at rates calculated to write down the assets to their estimated residual values over the course of their anticipated useful lives, on the following bases:

Freehold buildings:

Freehold buildings	- 2% per annum, straight line

Equipment, fixtures and fittings:

Refurbishment expenditure	- 6.67% to 10% per annum, straight line
Equipment, fixtures and fittings	- 10% per annum, straight line
Motor vehicles	- 20% per annum, straight line
Computer equipment	- 20% per annum, straight line

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount of the asset and are included in the income statement in the period in which they arise.

Leasehold property

Leased property and equipment is accounted for in accordance with IFRS 16 Leases. The standard requires the lessee to recognise a right of use asset and a corresponding liability on the balance sheet for all leases, with the exception of short-term leases or leases of a low value asset. The liability is initially measured by discounting variable and fixed lease payments, as well as other payments inherent to the lease, to its present value. Where possible, the discount rate used is the rate implicit in the lease. However, where this cannot be readily determined, the Group's incremental borrowing rate is used. The incremental borrowing rate is set using the Society's base funding cost and the costs of any asset buffers required. The right of use asset is initially measured at cost, including the amount of the initial measurement of the lease liability, any lease payments made before the commencement date of the lease, less any incentives received, any initial direct costs and any restoration costs. Where a change to lease payments is agreed, the lease liability is re-measured and a corresponding adjustment is made to the right of use asset.

Leasehold with terms greater than 50 years	- 2% per annum, straight line
Other leasehold buildings	- over the term of the lease

Interest charged on the lease liability is calculated based on the rate used as discount factor to calculate the lease liability and is included in interest payable and similar charges.

1 Significant accounting policies (continued)

Investment property

The Group's investment properties reflect purchased or leased properties that are rented out in full or part to external tenants. All of the Group's investment properties have been elected to be held at their depreciated cost in line with IAS 40. Cost includes the purchase price of the assets and any directly attributable expenditure, primarily legal fees associated with the purchases. Depreciation commenced when the properties were purchased and is provided for over a 50 year term on the same basis as properties used by the business.

Non-current assets held for sale

In accordance with IFRS 5, non-current assets are classified as held for sale where management is committed to a plan to sell the asset and it is unlikely that the plan will be significantly changed or withdrawn, the asset is available for immediate sale at a sales price reasonable in relation to the asset's fair value, an active programme to locate a buyer is initiated, and a sale within 12 months is highly probable.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured and resulting adjustments are recognised in accordance with the applicable accounting standard. Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A gain for any subsequent increase in fair value less costs to sell of an asset can be recognised in the income statement to the extent that it is not in excess of the cumulative impairment loss that has been recognised in respect to the asset. No depreciation is charged for non-current assets held for sale.

Taxation

Corporation tax is charged on profits adjusted for tax purposes. Deferred tax on temporary differences arising between the tax bases and carrying amounts of assets and liabilities is provided in full, using the liability method. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Pension scheme costs

The Society operates a defined contribution scheme on behalf of Directors and staff. For the defined contribution scheme, contributions are charged to the Income Statements, as they become payable, in accordance with the rules of the Scheme.

The Society historically operated a defined benefit scheme; this was closed to future accrual from 30 November 2010, and was funded by contributions partly from colleagues and partly from the Society at rates determined by an independent actuary. These contributions are invested separately from the Group's assets.

Under the revised IAS 19, the Scheme assets are measured at bid value at each Balance Sheet date and the obligations are measured by an independent actuary using the projected unit valuation method, discounted using a high quality corporate bond rate.

The Group does not recognise IAS 19 pensions surpluses on its Balance Sheet as the Society does not have an unconditional contractual right to benefit economically from the surplus. IAS 19 pension deficits are recognised immediately with relevant actuarial re-measurements recognised in the Statement of Comprehensive Income. IAS 19 service costs are recognised in the Income Statements.

Provisions

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. Contingent liabilities have not been recognised. A contingent liability is a possible obligation which is not probable or not reliably measureable.

Segment information

The operating segments disclosed (Member business and Solutions business) are those used in the Group's management and internal reporting structures (for the Chief Operating Decision Maker) in accordance with IFRS 8. No segment information is presented on geographical lines, because substantially all of the Group's activities are in the United Kingdom.

Accounting developments

At the date of approval of these financial statements the following amendments to International Financial Reporting Standards relevant to these accounts are mandatory for the first time for the financial year beginning 1 January 2021:

Following the financial crisis, regulators have taken action to replace interest rate benchmarks, such as LIBOR, with the transition period ending on 31 December 2021. Amendments have been made to IFRS 9, IAS 39 and IFRS 7 to accommodate direct effects of the interest rate benchmark reform. The amendments were implemented in two phases. Phase 1 was mandatory for financial years beginning 1 January 2020, with phase 2 being mandatory for accounting periods starting 1 January 2021. However, the Group early adopted phase 2 of the amendments for the year ended 31 December 2020, which the amendments permit.

The amendments provide reliefs where, as a direct effect of the interest rate reform, hedge accounting could not be applied, hedging relationships would have to be discontinued or financial instruments would have to be de-recognised. See Note 40 for details.

Developments not effective at 31 December 2021

There are a number of new or amended standards which become effective in 2022, and beyond. Early adoption is permitted, but the Society does not intend to adopt the standards before their mandatory date.

Amendments to IAS 1, Presentation of financial statements' on classification of liabilities are effective from 1 January 2022.

Amendments to IFRS 3, Reference to the Conceptual Framework are effective from 1 January 2022.

Amendments to IAS 16, Property, Plant and Equipment – Proceeds before intended use are effective from 1 January 2022.

Amendments to IAS 37, Onerous Contracts – Cost of Fulfilling a Contract are effective from 1 January 2022.

Amendments to IAS 8, Definition of Accounting Estimates are effective from 1 January 2022.

Amendments to IAS 12, Deferred Tax relating to Assets and Liabilities arising from a single transaction, are effective from 1 January 2022.

IFRS 17, Insurance Contracts, which is currently applied to the Society's legacy equity release assets, is expected to replace IFRS 4, Insurance Contracts on 1 January 2023. On transition, the Society will have a policy choice to transition to either IFRS 17 or IFRS 9. The Society intends to adopt IFRS 9. Due to the change in accounting policy in the current year (see note 35), the impact of adopting IFRS 9 will be immaterial.

1 Significant accounting policies (continued)

Critical accounting estimates and judgements in applying accounting policies

The Group has to make judgements in applying its accounting policies, which affect the amounts recognised in the Annual Accounts. 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. The most significant areas where judgements and estimates are made are as follows.

Estimates

Fair value of the equity release mortgage assets

The valuation of the Group's Equity Release Mortgage asset 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 34.

Impairment of financial assets

The impairment of mortgage assets is determined by a weighted average of the expected credit losses of 4 different possible economic scenarios. Each scenario is based on a range of assumptions, including property price growth rates and unemployment rates. The scenario weightings are based on management's current expectation about the future probability of each economic scenario. Further details and sensitivity analysis are provided in notes 41 and 42.

Pensions

In estimating the value of the pension scheme surplus or deficit, management relies 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. The Board receives independent external advice from actuarial consultants in arriving at the scheme assumptions, which are outlined together with sensitivity analysis in Note 21 to the Annual Accounts.

Judgements

Fair value of derivatives and financial assets

Fair values are determined in line with the three tier valuation hierarchy as defined within IFRS 7. Judgement can be required to determine the classification of valuations into the different tiers.

Impairment of financial assets

The modelling of impairment of mortgage assets includes a range of management judgements, including the Society's definition of default, significant increase in credit risk and the use of post model adjustments. Further detail is provided in note 41.

2 Interest receivable and similar income

	GROUP		SOCIETY	
	2021 **£m**	2020 restated £m	**2021** **£m**	2020 restated £m
On loans and advances to customers	**88.9**	87.2	**89.3**	88.7
On debt securities				
- interest and other income	**2.5**	3.3	**2.5**	3.3
- profits net of losses on realisation	**0.1**	0.2	**0.1**	0.2
On other liquid assets				
- interest and other income	**0.5**	0.9	**0.5**	0.9
Interest recognised in respect to insurance contracts	**11.9**	12.7	**11.9**	12.7
Net expense on derivatives hedging assets	**(13.1)**	(13.3)	**(13.1)**	(13.3)
	90.8	91.0	**91.2**	92.5

Interest receivable and other income includes **£0.7m** (2020 restated: £0.9m) from fixed income securities.

3 Interest payable and similar charges

	GROUP		SOCIETY	
	2021 **£m**	2020 £m	**2021** **£m**	2020 £m
On amounts due to Members	**28.3**	37.8	**28.3**	37.8
On subscribed capital	**2.3**	2.3	**2.3**	2.3
On deposits and other borrowings	**1.0**	2.4	**0.9**	2.4
On finance leases	**0.2**	0.2	**0.2**	0.2
	31.8	42.7	**31.7**	42.7

4 Other income and charges

	GROUP		SOCIETY	
	2021 **£m**	2020 £m	**2021** **£m**	2020 £m
Other income				
Fee and commission income	**7.1**	5.9	**1.7**	1.5
Other operating income	**39.1**	34.1	**10.7**	10.0
	46.2	40.0	**12.4**	11.5

	GROUP		SOCIETY	
	2021 **£m**	2020 £m	**2021** **£m**	2020 £m
Other charges				
Fee and commission expense	**0.5**	0.3	**0.5**	0.3

	GROUP		SOCIETY	
	2021 **£m**	2020 £m	**2021** **£m**	2020 £m
Dividend income				
Received from subsidiary undertakings	**-**	-	**1.0**	1.9

5 Revenue from contracts with customers

1. Disaggregation of revenue from contracts with customers

The Group and Society derives revenue from the transfer of services at a point in time and over time in the following business segments and service areas.

	GROUP		SOCIETY	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Solutions Business				
Savings management services recognised over time	**32.6**	31.6	**-**	-
Savings management project and change services recognised over time	**0.9**	1.2	**-**	-
IT services recognised over time	**0.6**	0.7	**-**	-
	34.1	33.5	**-**	-
Member Business				
Regulated advice services recognised at a point in time	**4.2**	1.8	**-**	-
Regulated advice services recognised over time	**1.2**	2.5	**-**	-
Third party services recognised at a point in time	**0.5**	0.6	**0.5**	0.6
Other services recognised over time	**0.1**	0.1	**0.1**	0.1
	6.0	5.0	**0.6**	0.7
Total revenue from contracts with customers	**40.1**	38.5	**0.6**	0.7

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. 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.

Disaggregation of intercompany income for the Society is included in the Related parties note.

5 Revenue from contracts with customers (continued)

2. Unsatisfied long-term service contracts

The following table shows partially unsatisfied performance obligations resulting from fixed-price long-term contracts as at 31 December 2021:

	GROUP	
	2021 £m	2020 £m
Aggregate amount of transaction price allocated to long-term savings management contracts	**4.2**	5.8
Aggregate amount of transaction price allocated to long-term IT services	**1.8**	2.4
	6.0	8.2

In relation to savings management contracts, the Group expects to recognise approximately £1.3m of the unearned amount in 2022, and £2.9m thereafter. In relation to IT contracts, the Group expects to recognise approximately £1.7m of the unearned amount in 2022, and £0.1m thereafter.

3. Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	GROUP	
	2021 £m	2020 £m
Asset recognised for costs incurred to fulfil a contract	**-**	0.1
Contract liability for IT savings management systems	**-**	0.1

In adopting IFRS 15, the Group recognised an asset in relation to costs to fulfil a long-term IT contract, and a liability for income received in advance of performance under a long-term IT contract. The amounts for each were included within "Other assets" and "Other liabilities" respectively on the balance sheet.

5 Revenue from contracts with customers Continued

4. Descriptions of different types of income from contracts with customers

Savings management services, and savings management project and change services

Savings management, and savings management project and change services are provided by the Society's subsidiary, Newcastle Strategic Solutions Limited (NSSL).

NSSL provides outsourced savings management services to the Society and other financial institutions. This includes managing retail savings on behalf of the Society and third parties. Revenue relating to this is recognised as savings management services.

Significant work may be required to implement the requirements of a new customer, to implement changes required by existing customers or to decommission NSSL's services. Revenue relating to such services are recognised as savings management project and change services.

Revenue for implementation, project, and change services is recognised over time, in line with milestones achieved by NSSL. Each milestone has a corresponding transaction price which represents the portion of the service provided to the customer at that point in time.

Revenue for savings management services is recognised over time in discrete monthly amounts which are calculated based on actual work completed by NSSL in the relevant month. Revenue for providing an ongoing savings management service is recognised monthly in line with the time elapsed in each individual contract. The amount of revenue recognised for ongoing savings management is spread evenly throughout the contractual term, consistent with the pattern of transfer of the service to the customer.

IT services

NSSL provide managed IT services to the Group and external customers, which includes managed IT solutions for savings management and client account systems, and data storage services. Revenue for all services is recognised monthly in line with the time elapsed in each individual contract. The amount of revenue recognised for savings management systems and data storage services is spread evenly throughout the contractual term, consistent with the pattern of transfer of the service to the customer. The amount of revenue recognised for client account systems is calculated based on the actual asset balance held by a customer in the relevant month.

Regulated advice services

Regulated advice services are provided by the Society's subsidiary, Newcastle Financial Advisers Limited (NFAL). All services derive from the company's principal activity, the provision of financial planning services, and include regulated advice, ongoing advice, and life protection plans. The company is an appointed representative of Openwork Limited, and provides services on behalf of Openwork Limited. For the purposes of IFRS 15, Openwork Limited is the sole customer of the company and all consideration for the services provided by the company is received from Openwork Limited.

Revenue for regulated advice and protection plans is recognised when confirmation of the investment or plan is received by Openwork Limited, and the service is complete. Revenue for ongoing advice is recognised on a straight-line basis at the end of each month the service is in place. Consideration for regulated advice and protection plans is calculated using contractually stated and agreed rates, on an ad valorem basis for regulated advice, and dependent upon specific product lines for protection plans. Consideration for ongoing service is calculated on an annual basis as a percentage of an investment portfolio.

Third party services

Third party services are provided by the Society through its branch network and online. The Society introduces customers to third parties who provide funeral plans, estate management services, and general insurance. The Society is the principal in the relationship with each third party provider and has no contractual relationship for the third party service with the customer.

The service provided by the Society of introducing or referring customers to a third party is complete once the third party provider has agreed a sale with the customer. Revenue for all services is recognised when cash is received, which in all instances is in line with, or shortly after, completion of the third party contract in line with contractual payment terms. Consideration for all services is calculated based on discrete, and contractually agreed, transaction prices which are noted as a commission amount to the Society. The Society receives consideration based on an invoicing schedule agreed with each third party and all payments received relate to performance completed up to the invoice date.

All services

Due to the nature of services provided, IFRS 15 is more material to NSSL and NFAL than to the Society. Details of transactions which are not material to the Group, but are material to the individual companies, can be found in the specific company's annual report and accounts.

The transaction prices for all services provided by the Group are calculated using contractually stated and agreed rates. There are no elements of variable consideration and no critical judgements in allocating the transaction price.

The Group measures impairment losses on receivable balances as of the end of the reporting period at an amount equal to lifetime expected credit losses in accordance with IFRS 9, 'Financial Instruments'. Provisions held against receivable balances at 31 December 2021 are not material.

6 Administrative expenses

	Note	GROUP **2021 £m**	GROUP 2020 £m	SOCIETY **2021 £m**	SOCIETY 2020 £m
Staff costs	7	**47.5**	41.2	**25.1**	20.7
Short term leases for land and buildings					
- payable to third parties		**0.7**	0.5	**0.1**	0.1
- payable to subsidiary undertaking		**-**	-	**-**	0.1
Other administrative expenses		**17.6**	16.2	**16.5**	15.7
		65.8	57.9	**41.7**	36.6

During the year the Group and Society obtained the following services from the Society's external auditor and these are included in other administrative expenses.

	GROUP **2021 £'000**	GROUP 2020 £''000	SOCIETY **2021 £'000**	SOCIETY 2020 £'000
Fees payable to the Society's auditors for the audit of Society and consolidated financial statements	**406**	176	**406**	176
Additional fees payable for the audit of the Society and consolidated financial statements due to scope changes relating to Covid-19	**-**	55	**-**	55
Fees payable to the audit of subsidiaries	**62**	146	**-**	20
Fees payable for the other audit related assurance services	**48**	60	**48**	60
Fees payable for non-audit services	**-**	15	**-**	15
	516	452	**454**	326

For the financial year 2021, the Group appointed a new auditor, Deloitte LLP. The 2021 accounts were audited by PricewaterhouseCooper LLP, who could not be reappointed due to mandatory audit firm rotation requirements.

7 Staff costs

	Note	GROUP 2021 £m	GROUP 2020 £m	SOCIETY 2021 £m	SOCIETY 2020 £m
Wages and salaries		**38.5**	33.4	**20.3**	16.7
Social security costs		**4.1**	3.5	**2.0**	1.6
Pension costs for defined contribution scheme		**4.9**	4.3	**2.8**	2.4
	6	**47.5**	41.2	**25.1**	20.7

Directors' emoluments are disclosed in the Remuneration Committee Report.

The monthly average number of persons employed, including Executive Directors, during the year was:

	GROUP 2021	GROUP 2020	SOCIETY 2021	SOCIETY 2020
Full time	**1,032**	992	**443**	420
Part time	**252**	263	**157**	164
	1,284	1,255	**600**	584
Head Office	**1,083**	1,040	**420**	392
Branches	**201**	215	**180**	192
	1,284	1,255	**600**	584

8 Tax expenses

	Note	GROUP 2021 £m	GROUP 2020 restated £m	SOCIETY 2021 £m	SOCIETY 2020 restated £m
Current tax					
Current year		**4.9**	0.5	**4.6**	-
Adjustments in respect of previous years		**0.8**	-	**0.7**	(0.1)
Total current tax		**5.7**	0.5	**5.3**	(0.1)
Deferred tax					
Current year		**1.0**	(0.1)	**0.4**	(0.1)
Adjustments in respect of prior years		**(1.1)**	0.2	**(0.7)**	0.1
Effect of changes in tax rates		**(0.4)**	(0.3)	**(0.5)**	(0.2)
Total deferred tax		**(0.5)**	(0.2)	**(0.8)**	(0.2)
Total taxation expense / (credit) in Income Statements	20	**5.2**	0.3	**4.5**	(0.3)

Analysis of taxation for the year

The tax on the Group and Society profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits as follows:

	GROUP 2021 £m	GROUP 2020 restated £m	SOCIETY 2021 £m	SOCIETY 2020 restated £m
Analysis of taxation for the year				
Profit / (loss) for the year before taxation	**29.1**	1.4	**25.5**	(2.4)
Profit / (loss) before taxation at the standard rate of corporation tax in the UK of **19%** (2020: 19%)	**5.5**	0.3	**4.8**	(0.5)
Expense not deductible for tax purposes:				
Non-taxable dividend income received	**-**	-	**(0.2)**	(0.4)
Expenses not deductable for tax	**-**	-	**-**	0.1
Transfer pricing adjustment	**-**	-	**0.2**	-
Timing differences	**0.4**	0.1	**0.2**	0.7
Change in forward tax rates	**(0.4)**	(0.3)	**(0.5)**	(0.2)
Adjustments in respect of previous years	**(0.3)**	0.2	**-**	-
Total taxation expense / (credit)	**5.2**	0.3	**4.5**	(0.3)

Factors affecting future tax charges

The Society has brought forward trading losses for tax purposes which are expected to affect future taxable profits (see further details in note 20).

9 Segment information

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

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

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

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	**(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 tangible and intangible assets			**(2.0)**
Profit before taxation			**29.1**
Taxation expense			**(5.2)**
Profit after taxation for the financial period			**23.9**

Year to 31 December 2020	Member business restated £m	Solutions business restated £m	Total restated £m
Net interest income	49.9	(1.6)	48.3
Other income and charges	(9.6)	39.0	29.4
Administrative expenses	(24.8)	(33.1)	(57.9)
Depreciation	(2.8)	(2.1)	(4.9)
Operating profit before impairments and provisions	12.7	2.2	14.9
Impairment charges on loans and advances to customers	(9.6)	-	(9.6)
Provisions for liabilities and charges	-	(0.1)	(0.1)
	3.1	2.1	5.2
Impairment charges on tangible and intangible assets			(3.8)
Profit before taxation			1.4
Taxation expense			(0.3)
Profit after taxation for the financial period			1.1

10 Loans and advances to banks

Repayable from the date of the Balance Sheets in the ordinary course of business as follows:

	GROUP		SOCIETY	
	2021 £m	2020 £m	**2021 £m**	2020 £m
On demand	**12.8**	15.7	**-**	-
In not more than three months	**170.7**	250.7	**170.7**	250.7
	183.5	266.4	**170.7**	250.7

No provisions are held against loans and advances to banks (2020: none).

11 Debt securities

	GROUP and SOCIETY	
Transferable debt securities	**2021 £m**	2020 £m
Issued by public bodies – listed	**36.2**	41.1
Issued by other borrowers – unlisted	**354.5**	327.6
	390.7	368.7

In addition to the securities above, the Society has retained notes issued by Tyne Funding No.1 PLC, an entity controlled by Group. These are presented net of the deemed loan from the issuing special purpose vehicle. See note 14 (Deemed loan) for details.

The Directors consider that the primary purpose of holding securities is to comply with prudential requirements. All transferrable debt securities are held with the intention of use on a continuing basis in the Group's activities. They are designated by management on initial recognition as available for sale and are recognised both initially and subsequently, at fair value with changes recognised in other comprehensive income.

Unlisted securities are AAA rated holdings of residential mortgage backed securities and covered bonds.

No provisions are held against debt securities (2020: none).

12 Loans and advances to customers

	GROUP 2021 £m	GROUP 2020 restated £m	SOCIETY 2021 £m	SOCIETY 2020 restated £m
Loans fully secured on residential property	**3,769.4**	3,540.7	**3,768.6**	3,538.6
Loans fully secured on land	**32.0**	39.2	**32.0**	39.2
Other loans	**1.6**	1.9	**1.5**	1.9
Gross loans and advances	**3,803.0**	3,581.8	**3,802.1**	3,579.7
Less: allowance for losses on loans and advances	**(8.5)**	(14.7)	**(8.5)**	(14.7)
	3,794.5	3,567.1	**3,793.6**	3,565.0

Impairment provisions for loans and advances to customers

Group and Society

	Loans fully secured on residential property £m	Loans fully secured on land £m	Other loans £m	Total £m
Balance at 1 January 2021	5.2	9.5	-	14.7
Credit for the year	(0.3)	(2.5)	-	(2.8)
Utilised during the year	(1.5)	(2.1)	-	(3.6)
Interest suspended adjustment	-	0.2	-	0.2
Balance at 31 December 2021	**3.4**	**5.1**	**-**	**8.5**

Group and Society

	Loans fully secured on residential property restated £m	Loans fully secured on land restated £m	Other loans restated £m	Total restated £m
Balance at 1 January 2020	3.2	1.8	-	5.0
Charge for the year	2.0	7.6	-	9.6
Utilised during the year	-	(0.1)	-	(0.1)
Interest suspended adjustment	-	0.2	-	0.2
Balance at 31 December 2020	**5.2**	**9.5**	**-**	**14.7**

Equity release mortgage assets

Included in loans and advances to customers secured on residential property is a balance of £232.6m relating to equity release mortgages. Equity release mortgages are held at fair value, which includes a provision for insurance liabilities. Details on the balances and valuation of the equity release portfolio are included in notes 13 and 34

Loans and advances to customers – Securitisation

In the current year, the Society has transferred beneficial ownership of a pool of mortgages of £282.7m to Tyne Funding No.1 PLC, a securitisation vehicle. The Society continues to be exposed to all risk and rewards of ownership of these mortgages, and therefore the mortgages continue to be recognised on the Society's Balance Sheet. See note 14 for details on the securitisation.

No loans and securities were transferred to securitisation vehicles in the previous period.

Notes to the Accounts for the year ended 31 December 2021

13 Insurance contracts

The Group's equity release mortgage assets are accounted for as insurance contracts under IFRS 4. The mortgages were advanced as indeterminate length fixed interest rate contracts, to be repaid in full at maturity through sale of the mortgaged properties. Most equity release contracts contain a no-negative-equity guarantee; that is, where the value of a mortgaged property at the point of sale falls short of the contractual amount due to the Group, the shortfall is written off. Equity release mortgages are presented on Balance Sheet as part of the Group's loans and advances to customers at fair value. The fair value includes an allowance for any anticipated recovery shortfall identified through IFRS 4 liability adequacy testing.

	Gross mortgage balances £m	Fair value uplift £m	Fair value presented on balance sheet £m
31 December 2021	**169.1**	**63.5**	**232.6**
31 December 2020 (restated)	182.0	86.8	268.8

The gross mortgage balances above reflect the Group's maximum pre-collateral exposure to credit risk at 31 December. 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 sales proceeds required to repay a borrower's mortgage at the time of sale. Property collateral of **£433.5m** (2020: £467.8m) is held against the Group's equity release exposures. By their nature, equity release mortgages are not considered to hold a pre-determined maturity date.

The fair value is the present value of the forecast portfolio cash flows less the value of the no-negative equity guarantee, which is calculated using an option pricing model. See note 34 for details.

Against equity release insurance contract assets the following income and charges have been recognised through the income statements:

	Interest income £m	Fair value change £m
31 December 2021	**11.9**	**(23.3)**
31 December 2020 (restated)	12.7	9.1

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.

For fixed reversion contracts, the effective interest rate is considered to be the rate implicit in the mortgage contract, with interest recognised being adjusted on a regular basis for actual repayment experience. The balances recognised in respect to fixed reversion mortgages included in the total above are as follows:

	Book value £m	Interest income £m	Fair value gains included in interest income £m
31 December 2021	**18.2**	**1.2**	**-**
31 December 2020	22.7	1.6	0.3

The Group's equity release books are closed to new entrants with limited further advances available to existing customers at the discretion of the Group. The Group's equity release lending was conducted at low loan to values, protecting the Group from adverse movements in originally expected mortality and house price growth.

14 Deemed loan

In 2021, the Society securitised a pool of mortgage loans with a book value of £282.7m, by transferring their beneficial ownership at net book value to Tyne Funding No.1 PLC. Tyne Funding No. 1 PLC has subsequently issued debt securities with a total value of £282.7m secured on the transferred mortgage loans. All notes have subsequently been purchased by the Society and are available as security for repurchase agreements with the Bank of England or third parties. Since the securitised mortgage loans do not meet the criteria for de-recognition from the Society's Balance Sheet, they continue to be held on the Society's Balance Sheet. The consideration received from Tyne Funding No.1 PLC is accounted for as a deemed loan. As permissible under IFRS 9, the Society has elected to present the deemed loan net of the retained loan notes issued by Tyne Funding No.1 PLC, as the notes constitute essentially the same asset as the transferred mortgages, and presenting them gross results effectively in presenting the same assets twice on the Society's Balance Sheet.

The net deemed loan liability presented on the Balance Sheet consists of the following items:

Society

	2021 £m	2020 £m
Retained loan notes	282.7	-
Consideration received for transfer of mortgages	(280.1)	-
Net value of derivatives integral to the transaction	(0.3)	-
	2.3	-

At the balance sheet date, the securitised mortgage loans had a book value of £280.1m. Class A notes have a coupon rate of SONIA + 58bp and a call date of 25 November 2026.

The Group did not have any secured notes in issue as at 31 December 2020.

15 Investments

	GROUP 2021 £m	GROUP 2020 £m	SOCIETY 2021 £m	SOCIETY 2020 £m
Equities	**3.9**	0.6	**0.2**	0.3
Subsidiaries	**-**	-	**43.6**	41.6
	3.9	0.6	**43.8**	41.9

Investments in equities
Equity investments relate to the Society's holdings in Abrdn PLC after demutualisation of Standard Life, and Newcastle Financial Advisers Limited's holding in units in Openwork LLP, a network of independent financial advisers, under the licence of which it operates. Equity investments are held at fair value through profit and loss. See note 34 for more details.

Investments in subsidiaries

Society

Investments in subsidiary undertakings	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2021	13.0	31.5	44.5
Additions	-	4.1	4.1
Repayments received	-	(1.9)	(1.9)
At 31 December 2021	**13.0**	**33.7**	**46.7**
Provisions at 31 December 2021			
At 1 January 2021	2.9	-	2.9
Impairment in intercompany investment	0.2	-	0.2
	3.1	**-**	**3.1**
Net book amount at 31 December 2021	**9.9**	**33.7**	**43.6**

15 Investments Continued

Investments in subsidiary undertakings	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2020	13.0	30.8	43.8
Additions	-	1.7	1.7
Repayments received	-	(1.0)	(1.0)
At 31 December 2020	**13.0**	**31.5**	**44.5**
Provisions			
At 1 January 2020	0.6	-	0.6
Impairment in intercompany investment	2.3	-	2.3
	2.9	**-**	**2.9**
Net book amount at 31 December 2020	**10.1**	**31.5**	**41.6**

The Society directly holds 100% of the issued ordinary share capital of all its subsidiary undertakings.
The Directors believe that the carrying value of the investments in subsidiary undertakings is supported by their underlying net assets.

Name of principal subsidiary undertakings	**Principal activity**
Newcastle Financial Advisers Limited	Provision of financial services
Newcastle Mortgage Loans (Jersey) Limited	Mortgage lending
Newcastle Portland House Limited	The company has not been trading after Portland House, formerly the Group's head office, was sold to a third party in 2021.
Newcastle Strategic Solutions Limited	Provision of specialised savings management and IT services
Newcastle Systems Management Limited	The company has not been trading since its assets were transferred into Newcastle Strategic Solutions Limited in 2019.

Newcastle Mortgage Loans (Jersey) Limited is incorporated and operates in Jersey. All other of the above subsidiary undertakings are incorporated in England and Wales and operate in the United Kingdom.

Further information on transactions between Group entities can be found in Note 31 Related Parties.

Other controlled entities
The following entity is deemed to be controlled by the Society. Although the Society does not have a controlling shareholding, it has the right of variable returns from the entity and is able to influence these returns. In substance, the entity is therefore no different than if it was wholly-owned by the Society. As a result, it is consolidated into the Group accounts. The carrying value of the entity in the Society's Balance Sheet is nil.

Tyne Funding No.1 PLC
Tyne Funding No.1 PLC was incorporated on 30 September 2021. It is a special purpose vehicle (SPV) to facilitate the securitisation of a mortgage pool previously owned by the Society (see note 14 for more details). The entity's first accounting period ends on 31 December 2022 and it will be subject to an independent audit. Its registered office is 1 Bartholomew Lane, London, EC2N 2AX.

16 Intangible assets

Group

	Purchased software £m	Internally developed software: Work in progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2021	10.4	1.2	0.9	0.4	12.9
Additions	1.1	2.9	-	-	4.0
Transfers	-	(2.9)	2.9	-	-
At 31 December 2021	**11.5**	**1.2**	**3.8**	**0.4**	**16.9**
Accumulated depreciation					
At 1 January 2021	7.0	-	0.1	0.1	7.2
Charge for the year	1.0	-	0.4	0.1	1.5
Impairment	0.3	-	0.4	-	0.7
Disposals	-	-	-	-	-
At 31 December 2021	**8.3**	**-**	**0.9**	**0.2**	**9.4**
Net book amount at 31 December 2021	**3.2**	**1.2**	**2.9**	**0.2**	**7.5**

Group

	Purchased software £m	Internally developed software: Work in progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2020	8.4	-	-	0.3	8.7
Additions	2.0	1.2	0.9	0.1	4.2
At 31 December 2020	**10.4**	**1.2**	**0.9**	**0.4**	**12.9**
Accumulated depreciation					
At 1 January 2020	6.2	-	-	-	6.2
Charge for the year	0.8	-	0.1	0.1	1.0
At 31 December 2020	**7.0**	**-**	**0.1**	**0.1**	**7.2**
Net book amount at 31 December 2020	**3.4**	**1.2**	**0.8**	**0.3**	**5.7**

Society

	Purchased software £m	Internally developed software: Work in progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2021	2.5	-	-	-	2.5
Additions	0.9	-	-	-	0.9
At 31 December 2021	**3.4**	**-**	**-**	**-**	**3.4**
Accumulated depreciation					
At 1 January 2021	1.9	-	-	-	1.9
Charge for the year	0.2	-	-	-	0.2
At 31 December 2021	**2.1**	**-**	**-**	**-**	**2.1**
Net book amount at 31 December 2021	**1.3**	**-**	**-**	**-**	**1.3**

16 Intangible assets Continued

Society

	Purchased software £m	Internally developed software: Work in progress £m	Internally developed software: In use £m	Acquired customer lists £m	Total £m
Cost					
At 1 January 2020	2.2	-	-	-	2.2
Additions	0.3	-	-	-	0.3
At 31 December 2020	**2.5**	**-**	**-**	**-**	**2.5**
Accumulated depreciation					
At 1 January 2020	1.7	-	-	-	1.7
Charge for the year	0.2	-	-	-	0.2
At 31 December 2020	**1.9**	**-**	**-**	**-**	**1.9**
Net book amount at 31 December 2020	**0.6**	**-**	**-**	**-**	**0.6**

Purchased software

Purchased software relates to IT systems purchased from external providers, with a useful economic life longer than one year.

Internally developed software

Internally developed software relates to capitalised staff costs for developing new IT systems or enhancing the functionality of existing ones. The software is either used by the Group or licenses are sold to third parties. Internally developed software assets are classified as work in progress until the software is ready to use. Once it is ready to use, it is reclassified as internally developed software in use and amortised over its useful economic life.

Acquired customer lists

Acquired customer lists relate to customer lists acquired by Newcastle Financial Advisers Limited. In 2019, Newcastle Financial Advisers bought Fidelis Financial Solutions Limited and integrated its trade and assets into its own operations. In 2020, the customer list of Carter James Associates Limited was acquired and integrated into Newcastle Financial Advisers Limited.

17 Non-current assets held for sale

	GROUP		SOCIETY	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Fixtures and fittings	**0.1**	-	**0.1**	-
Freehold land and buildings	**2.3**	-	**2.3**	-
Leasehold land and buildings	**-**	4.9	**-**	-
	2.4	4.9	**2.4**	-

The balance recognised in respect to the current year relates to a property in Newcastle owned by the Society and previously classified as an investment property. In 2021, the Board decided to sell the property and a buyer was identified. Contracts were exchanged in January 2022 and completion of the sale took place in February 2022.

The balance recognised in the prior year as non-current assets held for sale relates to Portland House, formerly the Group's head office. In September 2020, the Board took the decision that the property would no longer play a part in the Group's property strategy. Negotiations to sell the property started immediately and led to an exchange of contracts in December 2020. The sale completed in April 2021.

18 Property, plant and equipment

Group

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2021	3.0	22.8	23.2	49.0
Additions	-	0.2	3.5	3.7
Transfers to available for sale assets	-	-	(0.7)	(0.7)
At 31 December 2021	**3.0**	**23.0**	**26.0**	**52.0**
Accumulated depreciation				
At 1 January 2021	0.8	2.5	13.9	17.2
Charge for the year	0.1	1.4	2.1	3.6
Impairment	-	-	1.0	1.0
Transfer to available for sale assets	-	-	(0.6)	(0.6)
At 31 December 2021	**0.9**	**3.9**	**16.4**	**21.2**
Net book amount at 31 December 2021	**2.1**	**19.1**	**9.6**	**30.8**

Group

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2020	2.9	34.1	28.1	65.1
Additions	-	0.4	1.0	1.4
Transfers to available for sale assets	-	(11.5)	(5.6)	(17.1)
Adjustments	0.1	-	-	0.1
Disposals	-	(0.2)	(0.3)	(0.5)
At 31 December 2020	**3.0**	**22.8**	**23.2**	**49.0**
Accumulated depreciation				
At 1 January 2020	0.7	5.4	15.4	21.5
Charge for the year	-	1.6	2.2	3.8
Impairment	-	1.8	2.0	3.8
Transfers to available for sale assets	-	(6.3)	(5.6)	(11.9)
Adjustments	0.1	0.1	-	0.2
Disposals	-	(0.1)	(0.1)	(0.2)
At 31 December 2020	**0.8**	**2.5**	**13.9**	**17.2**
Net book amount at 31 December 2020	**2.2**	**20.3**	**9.3**	**31.8**

The impairment charge in the prior year relates to the Group's previous head office which was disposed of. See note 17 for details.

Notes to the Accounts for the year ended 31 December 2021

18 Property, plant and equipment Continued

Society

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2021	3.0	7.9	12.3	23.2
Additions	-	0.2	0.4	0.6
Transfer to available for sale assets	-	-	(0.7)	(0.7)
At 31 December 2021	**3.0**	**8.1**	**12.0**	**23.1**
Accumulated depreciation				
At 1 January 2021	0.9	1.8	6.9	9.6
Charge for the year	0.1	1.1	0.9	2.1
Transfer to available for sale assets	-	-	(0.6)	(0.6)
At 31 December 2021	**1.0**	**2.9**	**7.2**	**11.1**
Net book amount at 31 December 2021	**2.0**	**5.2**	**4.8**	**12.0**

Society

	Freehold buildings £m	Leasehold land and buildings £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost				
At 1 January 2020	2.9	7.6	17.7	28.2
Additions	-	0.4	0.3	0.7
Transfer to available for sale assets	-	-	(5.6)	(5.6)
Adjustments	0.1	0.1	-	0.2
Disposals	-	(0.2)	(0.1)	(0.3)
At 31 December 2020	**3.0**	**7.9**	**12.3**	**23.2**
Accumulated depreciation				
At 1 January 2020	0.9	0.6	9.2	10.7
Charge for the year	-	1.1	1.4	2.5
Impairment	-	-	2.0	2.0
Transfer to available for sale assets	-	-	(5.6)	(5.6)
Adjustments	-	0.1	-	0.1
Disposals	-	-	(0.1)	(0.1)
At 31 December 2020	**0.9**	**1.8**	**6.9**	**9.6**
Net book amount at 31 December 2020	**2.1**	**6.1**	**5.4**	**13.6**

18 Property, plant and equipment Continued

Leases

The right of use assets recognised for leases is included in the table above as "Leasehold land and buildings".

The corresponding lease liability is included in Other liabilities (note 26).

Lease liabilities are expected to amortise as follows:

	GROUP and SOCIETY 2021 £m	2020 £m
Within one year	**1.1**	1.0
In one to five years	**3.4**	3.9
In more than five years	**1.5**	2.1
	6.0	7.0

The following charges are included in the income statement in respect to leases:

	GROUP		SOCIETY	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Depreciation of right of use assets included in administrative expenses	**1.4**	1.6	**1.1**	1.1
Interest charges on lease liabilities (note 3)	**0.2**	0.2	**0.2**	0.2
Expenses relating to short term and low value leases included in administrative expenses				
- payable to third parties	**0.7**	0.5	**0.1**	0.1
- payable to subsidiary undertakings	**-**	-	**-**	0.1
	2.3	2.3	**1.4**	1.5

There is no expense recognised in the income statement in respect of variable lease payments that are not included in the measurement of the leases liabilities.

19 Investment property

	GROUP		SOCIETY	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Cost				
At 1 January	**4.1**	4.0	**4.1**	4.0
Transfer to available for sale assets	**(3.0)**	-	**(3.0)**	-
Adjustments	**-**	0.1	**-**	0.1
At 31 December	**1.1**	4.1	**1.1**	4.1
Accumulated depreciation				
At 1 January	**1.1**	1.1	**1.1**	0.9
Charge for the year	**0.1**	0.1	**0.1**	-
Impairment	**0.4**	-	**0.4**	-
Transfers	**(0.7)**	-	**(0.7)**	-
Adjustments	**-**	(0.1)	**-**	0.2
At 31 December	**0.9**	1.1	**0.9**	1.1
Net book amount at 31 December	**0.2**	3.0	**0.2**	3.0

Included within Investment property are freehold and leasehold commercial buildings, which are owned by the Society and Group, and held to earn rental income. The transfer relates to a property which was held for sale at the balance sheet date (see note 17).

Management considers the purchase price less depreciation to represent a fair value for properties held. No formal third party valuation of the Society or Group investment property holdings was undertaken during 2021 with the properties managed to facilitate continued operation (via rental to third parties or otherwise) and not towards view of speculative sale.

During 2021 rental income from investment properties of **£0.2m** (2020: £0.2m) was recognised by the Group and the Society. Directly attributable operating expenses to investment property are not measured as both Group and third parties occupy the properties.

20 Deferred tax

The movement on the deferred tax account is shown below.

	GROUP 2021 £m	GROUP 2020 restated £m	SOCIETY 2021 £m	SOCIETY 2020 restated £m
At 1 January	**2.5**	2.5	**2.7**	2.6
Income Statement expense	**(1.0)**	0.1	**(0.4)**	0.2
Other	**-**	-	**-**	(0.1)
Previous year adjustment	**1.1**	(0.2)	**0.7**	(0.1)
Effect of change in tax rates	**0.4**	0.3	**0.5**	0.2
Credited on items taken directly through reserves	**0.2**	(0.2)	**0.2**	(0.1)
At 31 December	**3.2**	2.5	**3.7**	2.7

Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	**0.9**	0.3	**0.5**	0.6
Deferred tax asset to be recovered in more than 12 months	**3.7**	2.6	**3.7**	2.5
	4.6	2.9	**4.2**	3.1

Deferred tax liabilities				
Deferred tax liability to be recovered in more than 12 months	**(1.4)**	(0.4)	**(0.5)**	(0.4)
	(1.4)	(0.4)	**(0.5)**	(0.4)

For deferred tax assets recognised on the balance sheet, the Group considers that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax assets.

The table below shows the items deferred tax are attributable to and how movements in the deferred tax assets and liabilities are reflected in the Income Statement and the Statement of Other Comprehensive Income.

Group

	2020 restated £m	Charge credited to Income Statements £m	Other Comprehensive Income £m	2021 £m
Trading losses	**0.7**	1.2	**-**	1.9
Depreciation in excess of capital allowances	**0.4**	0.2	**-**	0.6
Adjustments relating to historic changes in accounting policies	**1.8**	-	**0.3**	2.1
Equity investments held at fair value through the Income Statement	**-**	(0.9)	**-**	(0.9)
Debt securities held at fair value through other comprehensive income	**(0.4)**	-	**(0.1)**	(0.5)
	2.5	0.5	**0.2**	3.2

Society

	2020 restated £m	Charge credited to Income Statements £m	Other Comprehensive Income £m	2021 £m
Trading losses	**0.7**	1.2	**-**	1.9
Depreciation in excess of capital allowances	**0.6**	(0.4)	**-**	0.2
Adjustments relating to historic changes in accounting policies	**1.8**	-	**0.3**	2.1
Debt securities held at fair value through other comprehensive income	**(0.4)**	-	**(0.1)**	(0.5)
	2.7	0.8	**0.2**	3.7

21 Retirement benefit obligations

Group and Society Pension schemes

The Society operates a UK registered trust based pension scheme, Newcastle Building Society Pension and Assurance Scheme, that provides defined benefits. The Scheme was closed to new entrants in 2000 and closed to the future accrual of benefits in 2010. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier).

The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that at least one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:

- Deferred members: current and former employees of the Society who are not in receipt of a Scheme pension; and
- Pensioner members: in receipt of Scheme pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit obligations (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The proportion of benefits receive increases linked to inflation (subject to a cap of no more than 5% pa). The valuation method used is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2021 was 16 years (2020: 17 years).

Future funding obligation

The Trustees are required to carry out an actuarial valuation every 3 years. The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 30 June 2019. This valuation revealed the Scheme had no funding deficit relative to the Scheme's statutory funding objective and so no deficit reduction contributions are payable. However, the Society has agreed to pay contributions of currently £312k per annum in respect of Scheme expenses and levies.

Assumptions

The results of the actuarial valuation as at 30 June 2019 have been updated to 31 December 2021 by a qualified independent actuary. The assumptions used for the IAS 19 year end valuation are as follows:

Significant actuarial assumptions	**2021**	2020
Discount rate	**1.90%**	1.40%
RPI inflation	**3.35%**	2.95%
CPI inflation	**2.35%**	2.20%
Mortality assumptions		
Mortality (post-retirement)	**SAPS 'S3'CMI 2020 [1.25%] (yob)**	SAPS 'S3'CMI 2018 [1.25%] (yob)
Other actuarial assumptions		
RPI pension increases	**3.30%**	2.90%
Pension increases in deferment	**2.60%**	2.20%
Life expectancies (in years)		
For an individual aged 62		
Male	**24.4 years**	24.6 years
Female	**27.1 years**	27.0 years
At age 62 for an individual aged 42 in 2021		
Male	**25.8 years**	26.0 years
Female	**28.4 years**	28.5 years

21 Retirement benefit obligations Continued

Risks

Through the Scheme, the Society is exposed to a number of risks:

- **Asset volatility:** The Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, however the scheme invests in some growth assets. These assets are expected to outperform corporate bonds in the long-term, but provide volatility and risk in the short term.
- **Changes in bond yields:** A decrease in corporate bond yields would increase the Scheme's defined benefit obligations. The Scheme invests in Liability Driven Investments (LDI) assets, which are designed to offset the impact of changes to market yields. Changes in bond yields are therefore not expected to be a significant source of balance sheet volatility other than significant changes in credit spreads.
- **Inflation risk:** A significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place), although the Scheme's LDI holding is expected to offset the impact of inflation rate changes.
- **Mortality risk:** If Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's defined benefit obligation.

The Trustees and Society manage risks in the Scheme through the following strategies:

- **Diversification:** Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- **Investment strategy:** The Trustees are required to review their investment strategy on a regular basis.
- **Liability driven investment (LDI):** The Scheme invests in LDI assets, whose long-term investment returns are expected to partially hedge interest rate and inflation rate movements.
- **Pension increase exchange:** The Trustees currently offer retiring members an option to exchange future pension increases for a higher immediate pension. This has reduced the Scheme liabilities for retired members who have already taken up the option and, based upon the assumption of future take up, for deferred members who will retire in future.

Sensitivity analysis Assumption	Change in assumption	Change in defined benefit obligation
Discount rate	+ / – 0.5%	– 7% / + 8%
Inflation	+ / – 0.5%	+ 4% / – 4%
Assumed life expectancy	+ / – 1 year	+ 5% / – 5%

Limitations of the sensitivity analysis

These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

Asset class at market value

The assets of the Scheme were invested as follows:

	2021 %	2020 %
Equities	**11.3**	21.6
Diversified growth funds	**10.5**	13.8
Corporate bonds	**30.0**	27.4
Fixed interest and index linked gilts	**44.3**	36.7
Cash	**3.9**	0.5
Total	**100.0**	100.0
Actual return on assets over the period (£m)	**1.0**	14.6

All assets listed above are held as Legal & General Pooled Investment Vehicles with the exception of the small amount in the Trustees bank account. The Multi Asset class consists of a single diversified fund with underlying assets of equities, bonds, commodities and listed infrastructure, property, private equity and global real estate companies.

21 Retirement benefit obligations Continued

Reconciliation to the Balance Sheet

	2021 £m	2020 £m
Total value of assets	**121.5**	125.7
Present value of defined benefit obligation	**(110.7)**	(120.1)
Funded status	**10.8**	5.6
Adjustment in respect of minimum funding requirement	**(10.8)**	(5.6)
Pension asset recognised in the Balance Sheet before allowance for deferred tax	**-**	-

Analysis of changes in the value of the defined benefit obligation over the period

	2021 £m	2020 £m
Value of defined benefit obligations at start of the period	**120.1**	108.1
Interest cost	**1.7**	2.2
Benefits paid	**(5.9)**	(5.2)
Past service cost	**-**	0.1
Actuarial (gains) / losses: experience differing from that assumed	**1.2**	(0.8)
Actuarial gains: changes in demographic assumptions	**(0.8)**	-
Actuarial (gains) / losses: changes in financial assumptions	**(5.6)**	15.7
Value of defined benefit obligation at end of period	**110.7**	120.1

Analysis of changes in the value of the Scheme assets over the period

	2021 £m	2020 £m
Market value of assets at start of period	**125.7**	116.1
Interest income	**1.7**	2.3
Actual return on assets less interest	**-***	12.3
Employer contributions	**0.3**	0.6
Benefits paid	**(5.9)**	(5.2)
Administration costs	**(0.3)**	(0.4)
Market value of assets at end of period	**121.5**	125.7

*Actual return on assets less interest was £(0.7)m which was offset by £0.7m income in respect of insured death benefits.

Amount recognised in Income Statements

	2021 £m	2020 £m
Administration costs	**0.3**	0.4
Amount charged to Income Statements	**0.3**	0.4

Amounts recognised in Statements of Comprehensive Income

	2021 £m	2020 £m
Actuarial losses on defined benefit obligation	**5.2**	(14.9)
Actual return on assets less interest	**-**	12.3
Limit on recognition of assets less interest	**(5.2)**	2.4
Amounts recognised in Statements of Comprehensive Income	**-**	(0.2)

21 Retirement benefit obligations Continued

Guaranteed minimum pension equalisation

On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that trustees are under a duty to make sure that equal benefits are paid, including where these benefits are in the form of GMP. As a result, all schemes with GMP rights will have to act to allow for equalisation of benefits for the effect of unequal GMPs. This is known as GMP equalisation. As a result of this judgment, it is generally expected companies make an allowance for any increase in the defined benefit obligation that they expect as a result of GMP equalisation. As per previous years, an approximate allowance for the impact of GMP equalisation of 0.5% of the defined benefit obligation has been made. This considers current members of the Scheme only.

Past transfers

The 2018 judgment did not consider whether trustees needed to include past transfers within the perimeter of GMP equalisation. However, this question was addressed in a further judgment handed down on 20 November 2020. This judgment confirmed, broadly, that past individual transfers do need to be included (to the extent they related to relevant GMP benefits), but that actuarially certified bulk transfers do not. The 2020 judgement has resulted in an increase in the Group's estimated scheme liabilities of £0.1m.

Insured members

The pension obligation for some members of the scheme are insured by a third party. The pension liability relating to insured members and the corresponding insurance assets in respect to these members always net to £nil. At 30 June 2021, they were estimated to be £1.4m (2020: 1.5m). They have no effect on any primarily financial statement. The pension liability and pension asset have therefore been presented net of the insured pension liability and related insurance asset.

22 Other assets

	GROUP		SOCIETY	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Receivable from subsidiary undertakings	**-**	-	**1.5**	5.4
Prepayments and accrued income	**13.0**	11.4	**5.2**	8.4
Other*	**4.5**	3.5	**1.7**	1.6
	17.5	14.9	**8.4**	15.4

*In 2020, investments of £0.6m (Group) and £0.3m (Society) were included in other assets. This has been reclassified to investments.

23 Due to Members

	GROUP and SOCIETY	
	2021 £m	2020 £m
Held by individuals	**3,731.6**	3,776.1
Other shares	**0.2**	0.2
	3,731.8	3,776.3

24 Due to other customers

	GROUP		SOCIETY	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Due to other customers	**159.1**	121.0	**162.6**	121.0
	159.1	121.0	**162.6**	121.0

25 Deposits from banks

	GROUP and SOCIETY	
	2021 £m	2020 £m
Deposits from banks	**587.6**	507.0
	587.6	507.0

26 Other liabilities

	GROUP		SOCIETY	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Amounts payable to subsidiary undertakings	**-**	-	**4.5**	3.0
Lease liabilities	**6.0**	7.0	**6.0**	7.0
Other creditors	**2.0**	2.1	**1.0**	1.3
Accruals and deferred income	**13.4**	8.5	**10.2**	7.8
	21.4	17.6	**21.7**	19.1

27 Provisions for liabilities and charges

	GROUP		SOCIETY	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Opening Provision at 1 January 2021	**0.7**	0.8	**0.6**	0.8
New Provisions for the year	**0.3**	0.2	**0.2**	0.1
Released Provisions for the year	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Amounts utilised / transferred during the year	**(0.1)**	(0.2)	**(0.1)**	(0.2)
Closing Provision at 31 December 2021	**0.8**	0.7	**0.6**	0.6

Provisions include an estimate of the costs of potential consumer redress and restructure costs.

28 Subscribed capital

	GROUP and SOCIETY 2021 £m	2020 £m
12.625% permanent interest bearing shares	**10.0**	10.0
10.750% permanent interest bearing shares	**10.0**	10.0
	20.0	20.0

The 12.625% and 10.750% subscribed capital issues were issued for an indeterminate period and are only repayable in the event of the winding up of the Society.

29 Guarantees, contingent liabilities and commitments

(i) Until 11 June 1996, under Section 22 of the Building Societies Act 1986, the Society had an obligation to discharge the liabilities of its subsidiary undertakings insofar as they were unable to discharge the liabilities out of their own assets. Subsequently, the Society has voluntarily agreed to provide continued support to all of its subsidiary undertakings, insofar as any liabilities are not covered by legislation.

(ii) Commitments

The Society has no capital commitments for the acquisition of property, plant, and equipment at 31 December 2021.

Commitments in respect to leases classified as short term or small under IFRS 16 are disclosed in note 18.

	GROUP and SOCIETY 2021 £m	2020 £m
Irrevocable undrawn committed loan facilities	**227.9**	237.4

30 Note to the Cash Flow Statements

	GROUP 2021	GROUP 2020 restated	SOCIETY 2021	SOCIETY 2020 restated
Reconciliation of profit / (loss) before taxation to net cash inflow	**£m**	£m	**£m**	£m
Profit / (loss) before taxation	**29.1**	1.4	**25.5**	(2.4)
Depreciation and amortisation	**5.2**	4.9	**2.4**	2.7
Interest on subscribed capital	**2.3**	2.3	**2.3**	2.3
(Decrease) / Increase in derivative financial instruments	**(81.2)**	28.5	**(81.5)**	28.5
Decrease / (Increase) in other financial liabilities at fair value through profit or loss	**54.0**	(17.2)	**54.0**	(17.2)
Changes in retirement benefit obligations	**-**	0.3	**-**	0.3
Other non-cash movements	**(4.1)**	15.4	**(7.8)**	14.6
Net cash inflow / (outflow) before changes in operating assets and liabilities	**5.3**	35.6	**(5.1)**	28.8
Increase in loans and advances to customers	**(221.2)**	(204.0)	**(222.4)**	(204.2)
Decrease / (Increase) in cash collateral pledged	**79.9**	(30.9)	**79.9**	(30.9)
(Decrease) / Increase in shares	**(44.5)**	375.4	**(44.5)**	375.4
Increase in amounts due to other customers and deposits from banks	**118.7**	48.6	**122.2**	48.6
(Increase) / Decrease in investments, other assets, prepayments and accrued income	**(5.9)**	2.3	**7.1**	(0.6)
Increase / (Decrease) in other liabilities	**5.1**	0.3	**3.8**	(0.4)
Net cash (outflow) / inflow from operating activities	**(62.6)**	227.3	**(59.0)**	216.7
Cash and cash equivalents				
Cash and balances with the Bank of England	**382.2**	474.6	**382.2**	474.6
Loans and advances to banks repayable on demand	**12.8**	15.7	**-**	-
At 31 December	**395.0**	490.3	**382.2**	474.6

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.

IAS 7 "statement of cashflows" requires enhanced disclosures around changes in liabilities from financing activities arising from cash flows and non cash changes.

30 Note to the Cash Flow Statements Continued

Changes of liabilities arising from financing liabilities in the year were as follows:

		Non-cash changes		**Cash Flows**			
	Balance sheet 31 December 2020	**Day 1 adjustment***	**Accrued interest/lease charge**	**Interest payment flows**	**Capital repayment flows**	**Other**	**Balance sheet 31 December 2021**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Subscribed capital (PIBS)	**20.2**	**-**	**2.3**	**(2.3)**	**-**	**0.2**	**20.4**
Finance lease arrangements	**7.0**	**-**	**0.2**	**(0.2)**	**(1.0)**	**-**	**6.0**

		Non-cash changes		Cash Flows			
	Balance sheet 31 December 2019	Day 1 adjustment*	Accrued interest/lease charge	Interest payment flows	Capital repayment flows	Other	Balance sheet 31 December 2020
	£m	£m	£m	£m	£m	£m	£m
Subscribed capital (PIBS)	20.2	-	2.3	(2.3)	-	-	20.2
Finance lease arrangements	7.9	0.1	0.2	(0.2)	(1.0)	-	7.0

Opening and closing balance sheet positions include applicable accrued interest. The Group's financing liabilities are held on balance sheet at their amortised cost under IFRS 9 and are denominated in Sterling. Accordingly, the accounting value of the Group's financing liabilities has not been impacted by changes in fair value or foreign exchange rates during the years to 31 December 2020 or 2021.

* Day 1 adjustment relates to finance lease arrangements on the recognition of IFRS16 lease liability on balance sheet.

31 Related parties

The Group is controlled by Newcastle Building Society which is registered in England and Wales and operates in the United Kingdom. Further details of subsidiary undertakings are disclosed in Note 15 to these Accounts. The Directors are considered to be the only key management personnel as defined by IAS 24.

Transactions with Directors and their close family members

Directors and their close family members have entered into the following transactions with Newcastle Building Society in the normal course of business.

Loans to Directors and their close family members

	2021 £000	2020 £000
At 31 December	**258**	266

These loans were made on normal commercial terms and a register of them is available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

Deposits and investments held by Directors and their close family members

	2021 £000s	2020 £000s
At 31 December	**261**	291

Amounts deposited by Directors and members of their close families earn interest on the same terms and conditions applicable to other customers. There were no other transactions with Directors or their close family members during 2021 or 2020.

Transactions with other Group undertakings

The Society receives managed IT, property and business support services from Newcastle Strategic Solutions Limited, a wholly owned subsidiary of the Society. The Society provides financial and administrative services to Newcastle Strategic Solutions Limited.

During the year, the following transactions were carried out with related parties:

(a) Sales of financial and administrative services

	2021 £000s	2020 £000s
Newcastle Strategic Solutions Limited	**10,148**	9,588

Sales of services are negotiated with related parties on commercial terms.

(b) Purchases of services:

	2021 £000s	2020 £000s
Business Support Services		
Newcastle Strategic Solutions Limited	**6,593**	5,400
Property Rental		
Newcastle Portland House Limited	**-**	66

Purchased services are negotiated with related parties on commercial terms.

31 Related parties Continued

At 31 December 2021 the following unsecured balances remained outstanding with related parties:

(c) Outstanding balances:

	Amounts owed to Society		Amounts owed by Society	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Newcastle Systems Management Limited	**42**	41	**-**	-
Newcastle Strategic Solutions Limited	**1,451**	5,325	**769**	118
Newcastle Financial Advisers Limited	**-**	9	**792**	3
Newcastle Portland House Limited	**-**	19	**2,900**	2,885
Newcastle Mortgage Loans (Jersey) Limited	**16**	16	**-**	-

At 31 December 2021 the following borrowings and cash deposits remained outstanding with related parties:

(d) Borrowings/ cash deposits:

	Amounts borrowed from Society		Amounts deposited with Society	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Newcastle Strategic Solutions Limited	**30,735**	29,969	**-**	-
Newcastle Mortgage Loans (Jersey) Limited	**410**	1,562	**-**	-

	Interest paid to Society		Interest paid by Society	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Newcastle Systems Management Limited	**-**	-	**-**	-
Newcastle Strategic Solutions Limited	**1,057**	1,560	**-**	-
Newcastle Mortgage Loans (Jersey) Limited	**59**	96	**-**	-

32 Accounting for financial instruments

Disclosures relating to financial instruments and related risks in notes 33 to 45 are given on a Group basis, as the risks of the organisation are managed on a Group basis. The Society basis is not considered to be materially different from the Group basis for any of these disclosures.

Note 1 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following measurement basis acronyms are used throughout this disclosure:

FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss

The Group has reclassified the legacy equity release mortgage assets from amortised cost to fair value, notes 1, 13 and 34 for further detail. The Group has also reclassified certain equity investments from level 3 to level 2, see note 34 for further details. The Group has not reclassified any other financial assets during the year.

Notes 33-35 provide further information on the classification and valuation of financial instruments.
Notes 36-40 provide further information on the Group's interest rate risk management
Notes 41-43 provide further information on the Group's credit risk management
Note 44 provides further information on the Group's liquidity risk management
Note 45 provides further information on the Group's capital risk management

33 Categories of financial instruments

The following table analyses the financial assets and liabilities in the balance sheet by the class of financial instrument to which they are assigned and by the measurement basis.

		Amortised Cost	FVOCI	FVTPL	Total
Group as at 31 December 2021	**Note**	**£m**	**£m**	**£m**	**£m**
Cash in hand and balances with the Bank of England		382.2	-	-	382.2
Loans and advances to banks*	10	183.5	-	-	183.5
Debt securities	11	-	390.7	-	390.7
Derivative financial instruments	37	-	-	14.5	14.5
Fair value adjustments for hedged risk	39	-	-	62.1	62.1
Loans and advances to customers	12	3,561.9	-	232.6	3,794.5
Other assets, of which financial	22	5.6	-	3.9	9.5
Total financial assets		**4,133.2**	**390.7**	**313.1**	**4,837.0**
Financial liabilities					
Due to Members – shares	23	3,731.8	-	-	3,731.8
Fair value adjustments for hedged risk	39	-	-	-	-
Due to other customers	24	159.1	-	-	159.1
Deposits from banks	25	587.6	-	-	587.6
Derivative financial instruments	37	-	-	147.6	147.6
Subscribed capital	28	20.0	-	-	20.0
Other liabilities, (of which financial)	26	7.4	-	-	7.4
Total financial liabilities		**4,505.9**	**-**	**147.6**	**4,653.5**

33 Categories of financial instruments Continued

Group as at 31 December 2020 (restated)	Note	Amortised Cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England		474.6	-	-	474.6
Loans and advances to banks*	10	266.4	-	-	266.4
Debt securities	11	-	368.7	-	368.7
Derivative financial instruments	37	-	-	-	-
Fair value adjustments for hedged risk	39	-	-	116.1	116.1
Loans and advances to customers	12	3,298.3	-	268.8	3,567.1
Other assets, of which financial	22	3.9	-	0.6	4.5
Total financial assets		**4,043.8**	**368.7**	**385.5**	**4,797.4**
Financial liabilities					
Due to Members - shares	23	3,776.3	-	-	3,776.3
Fair value adjustments for hedged risk	39	-	-	-	-
Due to other customers	24	121.0	-	-	121.0
Deposits from banks	25	507.0	-	-	507.0
Derivative financial instruments	37	-	-	214.3	214.3
Subscribed capital	28	20.0	-	-	20.0
Other liabilities, of which financial	26	1.7	-	-	1.7
Total financial liabilities		**4,426.0**	**-**	**214.3**	**4,640.3**

*Loans and advances to banks includes £7.0m (2020: £15.7m) in cash held by the Society's subsidiary entities.

Loans and advances to customers held at FVTPL relates to the Society's legacy equity release portfolio, which is accounted for under IFRS 4 (see notes 13 and 34 for details). All other of the Group's FVTPL financial assets and liabilities are mandatorily measured at fair value under IFRS 9. The Group has not elected to hold at any financial assets or liabilities at FVTPL under IFRS 9 that could otherwise have been held at amortised cost or at FVOCI.

Cash in hand and balances with the Bank of England
Cash held for liquidity and operational purposes.

Loans and advances to banks
Cash lent to financial institutions to generate an interest income return, operational bank accounts and cash collateral placed with derivative counterparties to be repaid to the Society in future periods.

Debt securities
Assets comprising covered bonds, residential mortgage backed securities, and government gilts. Investments made to utilise liquid cash reserves to generate interest income.

Derivative financial instruments
Financial instruments whose value is derived from an underlying asset, index or reference rate it is linked to. The Group does not operate a derivative financial instruments trading book. Derivatives are held for hedging purposes.

Fair value adjustments for hedged risk
Adjustments to reflect the fair value of financial instruments that are designated as hedged items as part of the Group's interest rate risk hedging activities.

Loans and advances to customers
Cash lent to individual Members of the Society, corporates and housing associations.

Due to Members – shares
Cash deposits made by customers held by the Society.

Due to other customers
Cash deposits made by non-Members of the Society.

Deposits from banks
Deposits made by financial institutions with the Society.

Subscribed capital
Permanent Interest Bearing Shares issued by the Society, with further details given in Note 28.

34 Financial instruments held at fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value hierarchy and summary of assets and liabilities held at fair value

For assets held at fair value, the following table summarises the basis for measuring the fair value, using the three levels defined in IFRS 13:

	Level	2021 £m	2020 restated £m
Financial assets			
Debt securities at FVOCI	1	**390.7**	368.7
Equity investments	1	**0.2**	0.3
Derivative financial instruments	2	**14.5**	-
Equity investments	2	**3.7**	0.3
Fair value adjustments for hedged risk	2	**62.1**	116.1
Loans and advances to customers held at fair value	3	**232.6**	268.8
Financial liabilities			
Derivative financial instruments	2	**147.6**	214.3

Level 1: Unadjusted quoted prices 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 instruments in Openwork LLP have been reclassified from level 3 to level 2 during the year, as a market for these instruments has been established in the current year. Prices of equity units are not publicly quoted, but they are observable to members of the LLP.

Gains and losses on disposal of assets and liabilities held at fair value

The Society does not trade in financial instruments but is required to demonstrate the liquidity of its debt security holdings for regulatory purposes on a periodic basis. As a result, the Society crystallised gains of £0.1m during the year (2020: losses of £0.2m) through sale of FVOCI debt securities.

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 summarised 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 31 December 2021 the fair value of the mortgage assets held at fair value was **£232.6m** (2020: £268.8m). 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%	(9.3)/9.9
Long-term property price growth	+/- 1.5%	(4.5)/6.3
Property price volatility	+/- 3%	5.1/(4.3)

35 Insurance contracts: Changes in Accounting Policy

The Society has legacy equity release mortgages with an amortised cost of £169.1m (2020: £182.3m). The Society is exposed to interest rate risk that arises from this portfolio of assets, and, to mitigate this risk, a portion of the assets have historically been designated into a macro fair value hedge. As previously disclosed, at 31 December 2020, the fair value of the hedged risk was included on the balance sheet under the heading "Fair value adjustments for hedged risk" and totalled £98.2m (31 December 2019 £87.7m). By design, the Society's hedges are expected to be economically effective, with notional balances, durations and rates on interest rate swaps agreed only where they are expected to be a good fit to the same characteristics of the underlying assets that are to be hedged.

As disclosed in note 1, as at 31 December 2020, the Society accounted for its equity release portfolio under IFRS 4: Insurance Contracts. IFRS 4 is to be replaced by IFRS 17 Insurance Contracts from 1 January 2023. The Society has the choice to account for these assets as Insurance Contracts under IFRS 17 or apply IFRS 9 Financial Instruments. Both of these standards consider current value (i.e. fair value) of such assets to be the expected basis of accounting, with amortised cost only permitted by IFRS9 if certain conditions are met. As such, from 1 January 2023, the Society will be required to record these equity release mortgage assets at a fair value under IFRS 17 or IFRS 9.

Whilst the Society has historically held these assets at amortised cost under IFRS 4 Insurance Contracts, IFRS 4 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors allow for a change in accounting policy (from amortised cost to fair value) where the information following the change improves the reliability or relevance of the accounting and disclosures.

Acknowledging that the financial statements will be prepared on a fair value basis for equity release mortgages from 2023 onwards and reflecting that IFRS 4 permits a change of accounting policy, the Society has changed its accounting policy for equity release mortgages from amortised cost to fair value for the year ended 31 December 2021, and all comparatives have been restated as if the new fair value policy had been in place in previous years.

As disclosed in the Society's 2021 half-year results announcement, a review of all our interest rate swaps, historical accounting entries and policies associated with this legacy equity release mortgage portfolio since pre-2008 was completed in the final quarter of 2021. The review highlighted the significant complexity in applying hedge accounting to equity release mortgage portfolios reflecting the behavioural aspects of the underlying assets over the lifetime of the associated borrowers. Acknowledging the challenge in gathering relevant documentation for over 15 years and retrospectively validating the application of IAS 39 hedge accounting, the review resulted in an extensive range of alternate financial outcomes. Management concluded that it was impracticable to quantify any prior year adjustment to the comparatives in the financial statements, had the previous accounting policy continued to be applied. Given this outcome, Management considers the above change in accounting policy to fair value for the equity release mortgages will provide a more reliable basis of measurement going forward.

In making this change, as at 31 December 2021, the reviewed historical hedge accounting and all associated policies relating to the existing interest rate swaps on the equity release portfolio are no longer required, and as a result, the fair value hedge asset has been fully derecognised with the underlying accounting restated to reflect the fair value of the mortgage asset at each reporting date.

The change in accounting policy reduced opening reserves as at 1 January 2020 by £7.3m and adjusted profit after tax in the previously published 31 December 2020 Income Statement by £0.3m. Going forward, the Society believes the adopted accounting policy will improve the financial reporting associated with the equity release portfolio's returns caused by predictive changes in expected repayment dates, basis risk and property price volatility, thus also providing more relevant financial information for users of the accounts.

The new accounting policy is included in note 1. Further information on the effect of the change in accounting policy on the comparative financial information is provided below. Further information on the legacy equity release asset is also provided in this note and in note 13.

Reconciliation of the Income Statement for the year ended 31 December 2020

	GROUP			SOCIETY		
	As previously stated £m	Adjustment £m	As restated £m	As previously stated £m	Adjustment £m	As restated £m
Net expense on derivitives hedging assets (included in interest receivable and similar income)	(21.4)	8.1	(13.3)	(21.4)	8.1	(13.3)
Net interest income	40.2	8.1	48.3	41.7	8.1	49.8
Gains less losses on financial instruments and hedge accounting	(0.7)	(9.6)	(10.3)	(0.7)	(9.6)	(10.3)
Total operating income	79.2	(1.5)	77.7	54.1	(1.5)	52.6
Impairment charges on loans and advances to customers	(10.5)	0.9	(9.6)	(10.5)	0.9	(9.6)
Profit / (loss) for the year before taxation	2.0	(0.6)	1.4	(1.8)	(0.6)	(2.4)
Taxation expense	(0.6)	0.3	(0.3)	-	0.3	0.3
Profit / (loss) for the year before taxation	1.4	(0.3)	1.1	(1.8)	(0.3)	(2.1)
Total comprehensive income / (loss) for the financial year	1.7	(0.3)	1.4	(1.5)	(0.3)	(1.8)

35 Insurance contracts: Changes in Accounting Policy Continued

Reconciliation of the Balance Sheet as at 31 December 2020

	GROUP			SOCIETY		
	As previously stated £m	Adjustment £m	As restated £m	As previously stated £m	Adjustment £m	As restated £m
Loans and advances to customers	3,477.9	89.2	3,567.1	3,475.8	89.2	3,565.0
Fair value adjustments for hedged risk	214.3	(98.2)	116.1	214.3	(98.2)	116.1
Deferred tax asset	0.8	1.7	2.5	1.0	1.7	2.7
Reserves	207.5	(7.4)	200.1	202.4	(7.4)	195.0

Reconciliation of the Balance Sheet as at 31 December 2019

	GROUP			SOCIETY		
	As previously stated £m	Adjustment £m	As restated £m	As previously stated £m	Adjustment £m	As restated £m
Loans and advances to customers	3,295.1	79.1	3,374.2	215.7	79.1	294.8
Fair value adjustments for hedged risk	186.6	(87.7)	98.9	186.6	(87.7)	98.9
Deferred tax asset	1.0	1.4	2.4	1.1	1.4	2.5
Reserves	205.8	(7.1)	198.7	203.9	(7.1)	196.8

Reconciliation of the Statement of Movements in Members interests

	GROUP			SOCIETY		
	As previously stated £m	Adjustment £m	As restated £m	As previously stated £m	Adjustment £m	As restated £m
Total reserves as at 1 January 2021	205.8	(7.1)	198.7	203.9	(7.1)	196.8
Movement in year	1.7	(0.3)	1.4	(1.5)	(0.3)	(1.8)
Total reserves as at 31 December 2021	207.5	(7.4)	200.1	202.4	(7.4)	195.0

*The adjustments relate exclusively to General Reserves

36 Fair value of assets held at amortised cost

Fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's or Society's balance sheets at their fair value. These assets and liabilities are held at values reflecting their intended use. In all cases, this is via collection of contractual amounts due and not through disposal. This is deemed to also reflect their best use. If the Society's intended use of an asset or liability changes, the accounting adopted for the item is revisited for reclassification. The carrying values below reflect the Group's maximum exposure to counterparty credit risk at 31 December 2021.

Group

			Carrying value		Fair value	
	Note	Level*	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Financial assets						
Cash and balances with the Bank of England		1	**382.2**	474.6	**382.2**	474.6
Loans and advances to banks	10	1	**183.5**	266.4	**183.5**	266.4
Loans and advances to customers	12	3	**3,561.9**	3,298.3	**3,724.0**	3,600.9
Other assets, of which financial	22	1	**5.6**	3.9	**5.6**	3.9
Financial liabilities						
Due to Members – shares	23	3	**3,731.8**	3,776.3	**3,738.9**	3,822.2
Due to other customers	24	3	**159.1**	121.0	**159.2**	122.1
Deposits due to other banks	25	3	**587.6**	507.0	**587.6**	507.1
Subscribed capital	28	1	**20.0**	20.0	**38.7**	35.0
Other liabilities, of which financial	26	1	**7.4**	1.7	**7.4**	1.7

*Levels are defined in note 34.

The Group does not trade in financial instruments. Against level three assets there is no expectation that a deferred gain or loss on initial recognition will be recognised in future periods: the transaction price at inception is considered to reflect an appropriate day one fair value. For short-term receivables and payables within other assets and other liabilities, the carrying value of amounts due and owed is considered to approximate the fair value of the amounts due and owed. IFRS 9 based impairment allowances against other assets is not material.

Loans and advances to banks

The fair value of floating rate and overnight deposits is their carrying amount. The fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Due to Members – shares

The fair value of shares represents the discounted amount of estimated future cash flows paid to shareholders.

Deposits due to other banks

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Subordinated liabilities

The fair value of subordinated liabilities is calculated based on discounted cash flows reflecting the contractual liabilities.

Subscribed capital

The fair value of subscribed capital is calculated based on discounted cash flows reflecting the contractual liabilities.

37 Interest rate risk and derivative financial instruments

Interest rate risk is the exposure of the Group's net interest income to movement in interest rates. This is managed using a combination of limits set by the Board and by the use of derivative financial instruments.

The sensitivity to interest rate movements is measured using dynamic stress tests for a series of parallel rate shifts over various time periods.

	2021 +2% £m	**-2% £m**	**2020 +2% £m**	**-2% £m**
Next 12 months	(0.3)	0.3	0.4	(0.4)
Next 24 months	(1.4)	1.4	(1.1)	2.3
Next 36 months	(2.1)	2.1	(2.3)	4.6

Please see notes 37-40 for details about instruments used for managing interest rate risk.

The exposure to interest rate risk due to the Group's defined benefit pension scheme is detailed in note 21.

The Group uses interest rate swaps to hedge against interest rate risk. Offsetting collateral is pledged and received in line with underlying Credit Support Annexes (CSA) with the Group's financial counterparties. The table below shows the fair value of the Group's derivative portfolios and the collateral pledged/received against these.

Group as at 31 December 2021

	Gross Amount **£m**	Master netting arrangements **£m**	Financial collateral **£m**	Net amount **£m**
Financial assets				
Interest rate swaps	14.5	(13.9)	-	0.6
Financial liabilities				
Interest rate swaps	(147.6)	13.9	137.7	(4.0)

Group as at 31 December 2020

	Gross Amount **£m**	Master netting arrangements **£m**	Financial collateral **£m**	Net amount **£m**
Financial assets				
Interest rate swaps	-	-	-	-
Financial liabilities				
Interest rate swaps	(214.3)	-	218.6	4.3

Cash collateral is posted and received on a daily basis to minimise the Group's and the counterparty's credit risk. Collateral posted is measured against counterparty mark-to-market values and may not reflect the Society's internal valuation of its financial instruments.

The Society has entered into International Swaps and Derivatives Association (ISDA) master agreements with financial counterparties in line with standard industry practice. Netting agreements contained within are not alone considered sufficient to satisfy the offsetting criteria of IAS 32. The netting agreements are intended to protect the Society against fair value loss in the unlikely future event of counterparty default.

The Society has continued to make use of the London Clearing House (LCH), minimising its exposure to non-LCH counterparties. The protected manner of LCH collateral placements mitigates counterparty credit risk with respect to collateral that would otherwise be pledged to non-centralised derivative counterparties.

Financial collateral of **£33.0m** (2020: £32.0m) has been placed with LCH with respect to 'initial margin': an amount calculated by central counterparties to protect against potential future exposures that could arise from valuation changes. This is in addition to the 'variation margin', covering LCH's current net exposure to the Society. The Society's collateral pledged against initial margin requirements is not included in the collateral column above, but it is included in note 38. The remaining under-collateralization of **£4.0m** (2020: overcollateralization of £4.3m) shown above relates to differences between internal valuations used for reporting purposes and counterparty valuations which collateral is based on, changes in the valuation since the last margin call and thresholds to minimum margin calls.

Where the Society holds multiple financial assets and liabilities with a single counterparty, and a master netting agreement is in effect, the net fair value exposure for each counterparty is calculated. Net exposures placed with counterparties are consolidated into the financial assets disclosure above, net exposures received from counterparties are similarly consolidated into the financial liabilities.

38 Encumbered assets

Some of the Society's assets are used as security for funding with the Bank of England or other third parties. Alternatively, assets may be used as collateral in line with Credit Support Annexes relating to derivatives, as detailed in Note 37 (Derivative Financial Instruments). Assets that are used for such purposes are classified as encumbered and cannot be used for other purposes.

The following table provides an overview of the Group's encumbered and un-encumbered financial assets.

Group as at 31 December 2021	Encumbered assets		Unencumbered assets				Consolidation	Total
	With counterparties other than central banks	With central banks	Prepositioned with central banks	Readily available as security	Available as security in principle	Not available as security		
	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances with the Bank of England	-	10.1	-	372.1	-	-	-	**382.2**
Loans and advances to banks	170.7	-	-	12.8	-	-	-	**183.5**
Debt securities	-	-	319.9	38.7	-	32.1	-	**390.7**
Retained loan notes securitised on the Society's loans and advances to customers*	-	-	-	250.0	-	32.7	(282.7)	**-**
Loans and advances to customers*	280.2	872.2	165.2	-	2,476.6	-	-	**3,794.2**
Derivative financial instruments	-	-	-	-	-	14.5	-	**14.5**
Other assets	-	-	-	-	-	129.0	-	**129.0**
Total	**450.9**	**882.3**	**485.1**	**673.6**	**2,476.6**	**208.3**	**(282.7)**	**4,894.1**

* Loans and advances to customers encumbered with counterparties other than central banks relate to mortgage assets used as a security in the Society's securitisation programme. Loan notes secured on these mortgage assets totalling £282.7m have been retained by the Group and are included in retained loan notes securitised on the Society's loans and advances to customers. These notes are not presented on the Group balance sheet, but are available as securities to the Group. See note 14 for details on the Society's securitisation programme.

Notes to the Accounts for the year ended 31 December 2021

38 Encumbered assets Continued

Group as at 31 December 2020	Encumbered assets		Unencumbered assets				Consolidation	Total
	With counterparties other than central banks	With central banks	Prepositioned with central banks	Readily available as security	Available as security in principle	Not available as security		
	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances with the Bank of England	-	8.0	-	466.6	-	-	-	**474.6**
Loans and advances to banks	250.6	-	-	15.8	-	-	250.6	**266.4**
Debt securities	-	-	-	368.7	-	-	-	**368.7**
Loans and advances to customers*	-	821.7	-	-	2,745.4	-	-	**3,567.1**
Derivative financial instruments	-	-	-	-	-	-	-	**-**
Other assets	-	-	-	-	-	180.6	-	**180.6**
Total	**250.6**	**829.7**	**-**	**851.1**	**2,745.4**	**180.6**	250.6	**4,857.4**

Encumbered assets are assets pledged as collateral for credit or derivative liabilities with either the Bank of England or a different counterparty.

Unencumbered assets prepositioned with central banks are loan pools or debt securities that have already been placed with the Bank of England, which enables the Society to draw down funds under one of the Bank's schemes where required.

Unencumbered assets readily available as security are highly liquid assets, such as cash and publicly traded debt securities that have not been prepositioned with the Bank of England. Loans and advances to customers are included in this category where they have been securitised and the resulting notes have been retained by the Society and can therefore pledge them as collateral.

Unencumbered assets available as security in principle are assets that are not highly liquid, but could be turned into collateral where required. This includes loans and advances to customers that are not securitised and are not prepositioned with the Bank of England or a different counterparty.

Unencumbered assets not available as security are assets that are not usually used as collateral by the Society.

39 Hedge accounting

The Group is exposed to interest rate risk across its fixed interest rate financial assets and liabilities.

The Society's core business is to provide competitive mortgage and savings products to its Members. Deposits by Members fund the Society's mortgage lending, with the Society paying an interest charge in return for deposited funds, and borrowers pay to the Society an interest income in return for the funds they have borrowed.

Mortgage contracts attracting a fixed rate of interest are typically the most popular of the Society's mortgage offerings, with a fixed rate usually agreed for a term of two to five years. By contrast, most of the Society's deposits are made under short-term agreements, with deposits often repayable 'on demand'. This introduces 'interest rate risk' to the Society's business, as when market-wide interest rates move, the return received on mortgage assets adjusts more slowly than the return paid on Member deposits.

To address this risk, the Society enters into interest rate swap agreements with external counterparties. These contracts protect against interest rate risk by 'swapping' a portion of the Society's fixed interest rate exposure to a variable rate: the Society agrees to pay a fixed rate to a financial counterparty for a period of time in exchange for receipt of a variable interest rate against a notional balance. The resulting variable interest income received matches the Society's variable interest expense.

Derivative financial instruments, including interest rate swaps, are held at fair value, which changes when market interest rates change; and this change is reflected in the Income statement. However, most of the mortgages they are used to hedge are held at amortised cost, and thus their value on the Society's balance sheet does not change in line with market interest rates. The Society applies fair value hedge accounting to address this mismatch. Hedge accounting allows to post an adjustment for the value change in the hedged risk; and the movement of this adjustment is reflected in the Income Statement. If the hedge is effective, the adjustment in relation to swaps' fair value change and the hedged risks' fair value change net off.

The Society makes use of two different types of accounting hedges: The hedged instrument in a micro hedge is a specific mortgage contract or a specific group of such contracts. The hedged instrument in a macro hedge is a defined portion of a mortgage book, but this portion is re-designated on a regular basis to reflect changes in the hedged portfolio, such as mortgage prepayments or new mortgage contracts.

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

39 Hedge accounting Continued

Maturity analysis of hedging instruments

The maturity profile of the Group's hedging instruments as at 31 December 2021 is as follows:

	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Interest rate swaps designated in macro fair value hedge relationships					
Nominal amount £m	145.0	334.5	894.0	10.0	1,383.5
Average fixed interest rate	0.32%	0.34%	0.41%	0.85%	0.39%
Fair value of assets	-	0.6	13.0	0.1	13.7
Fair value of liabilities	-	(0.2)	(0.3)	-	(0.5)
Interest rate swaps designated in micro fair value hedge relationships					
Nominal amount £m	-	9.1	83.8	114.8	207.7
Average fixed interest rate	-	5.59%	3.45%	4.61%	4.18%
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	(0.3)	(5.5)	(67.1)	(72.9)
Interest rate swaps utilised in securitisations					
Nominal asset amount £m	-	-	-	279.7	279.7
Average fixed interest rate	-	-	-	1.49%	1.49%
Nominal liability amount £m	-	-	-	(279.7)	(279.7)
Average fixed interest rate	-	-	-	1.54%	1.54%
Fair value of assets	-	-	-	0.6	0.6
Fair value of liabilities	-	-	-	(0.8)	(0.8)
Interest swaps in economic hedge relationships but not designated in accounting hedge relationships					
Nominal amount £m	-	-	10.0	163.3	173.3
Average fixed interest rate	-	-	0.83%	4.78%	4.55%
Fair value of assets	-	-	0.1	0.1	0.2
Fair value of liabilities	-	-	-	(73.4)	(73.4)
Total					
Nominal amount £m	145.0	343.6	987.8	567.8	2,044.2
Average fixed interest rate	0.32%	0.48%	0.67%	4.58%	1.24%
Fair value of assets	-	0.6	13.1	0.8	14.5
Fair value of liabilities	-	(0.5)	(5.8)	(141.3)	(147.6)

The maturity profile of the Group's hedging instruments as at 31 December 2020 is as follows:

	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years (restated)	Over 5 years (restated)	Total (restated)
Interest rate swaps designated in macro fair value hedge relationships					
Nominal amount £m	-	100.0	734.5	5.0	839.5
Average fixed interest rate	-	0.29%	0.44%	0.08%	0.42%
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	(0.2)	(7.3)	-	(7.5)
Interest rate swaps designated in micro fair value hedge relationships					
Nominal amount £m	-	3.0	83.5	157.4	243.9
Average fixed interest rate	-	5.83%	4.56%	5.00%	4.85%
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	(0.1)	(10.5)	(96.7)	(107.3)
Interest swaps in economic hedge relationships but not designated in accounting hedge relationships					
Nominal amount £m	10.0	-	25.0	155.6	190.6
Average fixed interest rate	1.18%	-	2.77%	5.15%	4.63%
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	-	(2.0)	(97.5)	(99.5)
Total					
Nominal amount £m	10.0	103.0	843.0	318.0	1,274.0
Average fixed interest rate	1.18%	0.45%	0.92%	5.00%	1.90%
Fair value of assets	-	-	-	-	-
Fair value of liabilities	-	(0.3)	(19.8)	(194.2)	(214.3)

Swap assets and liabilities are held at their fair value on balance sheet as 'derivative financial instruments'.

39 Hedge accounting Continued

Hedge Ineffectiveness

By design, the Society's hedges are expected to be economically effective, with notional balances, durations and rates on interest rate swaps agreed only where they are expected to be a good fit to the same characteristics of the underlying assets that are to be hedged. Hedge ineffectiveness can nonetheless arise from early asset repayments, imperfectly matched key terms, differences in the timing of cash flows of hedged items and hedging instruments, different interest rate curves applied to discount the hedged items and hedging instruments and the effect of changes in counterparties' credit risk on the fair values of hedging instruments. The table below provides details of the hedge ineffectiveness during the year.

	2021 £m	2020 restated £m
Gains / (losses) on micro hedging instruments		
Interest rate swaps	34.5	(12.6)
(Losses) / gains on micro hedged items		
Mortgage assets (loans and advances to customers)	(34.7)	13.5
Gains / (losses) on macro hedging instruments		
Interest rate swaps	20.6	(4.1)
(Losses) / gains on macro hedged items		
Mortgage assets (loans and advances to customers)	(19.4)	3.9
Total ineffectiveness recognised in the income statement	**1.0**	**0.7**

Hedging gains and losses are recognised in the income statement within 'gains less losses on financial instruments and hedge accounting'. There were no unexpected sources of hedge ineffectiveness during the year.

Fair value gains less losses on financial instruments and hedge accounting recognised in the income statement

	2021 £m	2020 restated £m
Fair value movement on loans and advances to customers held at FVTP	(23.3)	9.1
Fair value movement on derivative financial instruments in economic but not in accounting hedge relationships	25.4	(11.8)
Interest expense on derivatives in economic but not in accounting hedge relationships	(8.4)	(8.1)
Gains/(losses) crystallised on sale of assets held at FVOCI	0.1	(0.2)
Hedge ineffectiveness on accounting hedges	1.0	0.7
	(5.2)	**(10.3)**

40 Interest rate benchmark reform

Following the financial crisis, the replacement of benchmark interest rates such as LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators, with the transition period to move onto a new benchmark ending on 31 December 2021.

The Society's exposure to LIBOR

Throughout 2021, the Society continued to transition remaining LIBOR exposures to alternative reference rates (SONIA and Bank of England base rate). As of 31 December 2021, the Society had successfully transitioned all LIBOR positions apart from a small number of legacy loans that have subsequently moved to Synthetic LIBOR.

All remaining RMBS and covered bonds investments will have matured or repriced to SONIA by March 2022 and the remaining LIBOR linked commercial loan book will reprice to SONIA during the first half of 2022.

The Society does not have exposures to interbank offer rates other than LIBOR.

The table below summarises the remaining exposure to LIBOR linked financial instruments.

Instrument	31 December 2021		31 January 2022	
	No of contracts	Notional value £m	No of contracts	Notional value £m
Loans secured on commercial property (1)	18	160.0	7	55.5
Investments in RMBS and Covered Bonds (2)	2	11.0	2	11.0
Other loans (3)	96	1.8	77	0.8

[1] All remaining commercial loans are due to be transitioned to SONIA by June 2022

[2] £8.5m of the remaining exposure to RMBS and Covered Bonds matures in February 2022. £2.5m will transition to SONIA in March 2022.

[3] All remaining loans have been transitioned to Synthetic LIBOR

Changes in accounting policies relating to the interest benchmark reform

The benchmark change could have significant impacts on the treatment and measurement of financial instruments and hedge accounting under IFRS 9 or IAS 39. The IASB has issued amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by the IBOR reform. The amendments have been released in two phases. Phase 1 was mandatory for accounting periods starting 1 January 2020 and Phase 2 is mandatory for accounting periods starting 1 January 2021. The Society has adopted both phases for the year ended 31 December 2020, as permissible under the amendments.

The following reliefs are relevant to the Society:

Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. Under the relief, the Society assumes that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by IBOR reform.

IBOR reform might cause a hedge to fall outside the 80–125% hedge effectiveness range required under IAS 39. The relief provides an exception to the retrospective effectiveness test, such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this required 80–125% range.

Both IAS 39 and IFRS 9 require hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. Hedge documentation is amended to reflect the changes. Any changes in the fair value of the hedging instrument or the hedged risk are recognised immediately in the income statement.

Where applicable, the Society makes use of the practical expedient available to account for changes in contractual cash flows that are a direct consequence of the interest rate reform by updating the effective interest rate of the relevant product. The practical expedient can only be used where the original and new benchmarks are economically equivalent.

41 Credit risk: Impairment methodologies

Credit risk is the risk that a customer or counterparty is unable to honour their repayment of obligations as they fall due. The Group Risk Committee, as detailed in the Risk Management Report, maintain oversight of the Credit Risk Committee. The Committee is involved in the monitoring of the credit risk within the Group's assets. With IFRS 9 introducing forward looking requirements to model credit risk across long-term horizons, a Model Risk Committee also operates charged, with oversight of the Group's IFRS 9 models and assessment and approval of its key model inputs. Through 2021 the Model Risk Committee met quarterly, coinciding with key dates in the Society's reporting calendar.

Credit risk mainly arises from commercial and customer loans and advances and loan commitments arising from such lending activities but also arises from the Group's investment in debt securities and exposure to third party (financial and non-financial) debtors.

The Group's policy with respect to accounting for impairment of financial assets is given in Note 1. This note describes the practical application of this policy.

Provisioning methodology

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

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

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

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

Residential and Buy-to-let mortgages

Significant increase in credit risk since origination

At the application stage, a prospective borrower's credit risk is assessed. The Society does not lend to high risk customers but will lend to 'prime customers' who can fall under a range of 'application scores' – based on a wide variety of factors including affordability, credit history, committed monthly spend, etc. A borrower's application score gives a quantified assessment of borrower risk – a 'risk score'.

On a quarterly basis, the Group receives borrower credit scores from Experian, an industry leader in the provisioning of consolidated credit scoring information. This data is mapped internally to a new borrower risk score – allowing continuous assessment of the movement in borrower risk since origination.

Where a borrower's risk score is suitably consistent between origination and the reporting date, a borrower is categorised as a 'stage 1' borrower.

Where a borrower's risk score increases past pre-defined internal thresholds, but a borrower has not otherwise defaulted, the borrower is categorised as a 'stage 2' borrower. A borrower who has fallen into >1 month's arrears is automatically considered to be a stage 2 borrower.

A borrower who has defaulted, (assessed against a range of internal qualitative and quantitative criteria) is categorised as a 'stage 3' borrower. A borrower who has fallen into >3 months arrears is automatically considered to be a stage 3 borrower.

Impairment calculation

The Society calculates for each mortgage exposure a forward view as to how likely that mortgage is to default at some point over its expected life. For stage 1 assets, the Society provides for losses resulting from events that may occur in the following 12 months. For stage 2 and stage 3 assets, the Society provides for losses that may occur at any time in the life of the mortgage.

12 months and lifetime expected credit losses are calculated by the Society as the discrete losses that would likely be incurred (considering mortgage exposure vs. the expected sale value of the mortgaged property) if a mortgage defaulted on any of a large range of future dates. Each discrete provision needs to be assigned a probability of default weighting in order to calculate one overall 'lifetime' expected credit loss. As such, a continuous forward view to the probability of default is calculated.

41 Credit risk: Impairment methodologies Continued

Residential and Buy-to-let mortgages Continued

Key impairment model inputs, assumptions and estimation techniques

The Society calculates its probability of default as follows:

- The Society has undertaken a detailed assessment of more than 12 years of its internal credit risk data to determine the core factors that lead to borrower default.
- Default indicators identified included granting of forbearance, evidence of mortgage fraud, borrowers falling into > 3 months arrears, borrower insolvency or bankruptcy and voluntary repossession of property. These are used in the staging assessment above to assist in the classification of borrowers as stage 1, stage 2 or stage 3.
- The Society's assessment also considered 'wider' patterns of default, analysing historic borrower defaults by their maturity (how long a mortgage had been held by the Society), vintage (during which original time period the Society lent to a borrower) and considering 'exogenous' factors in play at the time of default (external factors including the interest rate environment, unemployment rates, UK (nominal) GDP, House Price Index, etc.).
- The exogenous, maturity and vintage (EMV) factors are used to derive point in time and forward looking probability of default curves: projecting historical information about defaults suffered under known 'EMV conditions' forward in combination with the Society forward views on the wider macro-economic environment (as this will influence the forward view on how exogenous factors may develop over time). In combination, these curves form the Society's forward looking probability of default curve, as calculated under the 'EMV' model.

The Society calculates its exposure at default (EAD) as follows:

- The Society projects mortgage balances forward to give an estimate of each borrower's mortgage balance over time. This factors in forecast interest additions and expected borrower payments alongside an estimate of the value of each borrower's property collateral throughout a long-term forecast. An adjustment is made to uplift the Society's exposure to borrowers to simulate a typical borrower default of 3 missed monthly payments plus typical fees associated with arrears.
- The output is a per-mortgage forward projection of mortgage balances.

The Society calculates its expected loss given default (LGD) as follows:

- The Society calculates a per-mortgage 'loss given default' (LGD), an estimate of the proportion of each mortgage loan exposure that is believed to be at risk if the borrower defaults on their obligation to repay the outstanding capital and interest and the property is subsequently possessed and sold.
- LGD is calculated as the probability of possession given the default of a borrower (PPD) which estimates the likelihood of possession following default multiplied by the expected shortfall on each mortgage: an estimation of the difference between the exposure at default (as discussed above) and the sale price of the property, net of relevant sales costs.

The Society calculates expected credit loss provisions as PD * EAD * LGD

- The Group calculates a final provision for each mortgage as the probability of default multiplied by the amount the Group expects to lose in the event of a default.
- As discussed above, this is not 'static' or a 'point in time' loss: the Group calculates PD, EAD and LGD across a continuous forward planning horizon. The final provision number is not a singular PD*EAD*LGD, it reflects the discounted overall expected loss that could be incurred over the life of each mortgage: a weighted average of multiple possible future loss events.

Multiple economic scenarios

IFRS 9 expects more than one scenario to be considered when calculating expected credit losses. The Society applies this principle by assessing the provisions required under four separate macro-economic forecasts. These macro-economic forecasts feed into the exogenous component of the Society's EMV models.

The Society runs:

- Base scenario: calculated with reference to the Bank of England's quarterly forecasts and forecasts of independent economic forecasts;
- Upside scenario: a positively stressed variant to the base scenario;
- Downside scenario: a negatively stressed variant to the base scenario; and
- Stress scenario: a severely negative scenario, developed with reference to the Bank of England's annual concurrent stress test scenarios for the largest UK banks and building societies.

41 Credit risk: Impairment methodologies Continued

The Society's final expected credit losses are the losses calculated under each discrete scenario, multiplied by a 'likelihood factor', or 'scenario weighting'. The weightings as at 31 December 2021 were as follows:

Scenario weightings	Upside	Base	Downside	Stress
2021	5%	35%	40%	20%
2020	10%	40%	35%	15%

Note that the scenarios for 2021 had been developed before the arrival of the Omicron variant of Covid-19 towards the end of 2021. The arrival of the new variant introduced additional economic risks to the UK economy that could impact borrowers' ability to make contractual repayments and could negatively influence property prices. To reflect this additional risk that had not been present when the scenarios were designed, the scenario weightings for 2021 have been adjusted towards the downside and stress scenarios.

Key macro-economic information

The Society considers the following to be the key macro-economic and forward view inputs to its impairment models:

- Bank of England base rate
- UK nominal gross domestic product
- UK unemployment rate
- UK household income
- UK house price index

The Society's assessments as to which variables are key has not changed in the current year. Quarterly updates to the variables themselves to reflect the most recent market information have been reflected in the Society's impairment results.

Changes to economic scenarios

Covid-19 has had a significant impact on the UK's economy in 2020 and 2021. After a severe drop in the economic output as a result of the pandemic's first wave and related measures to reduce the spread of the virus, economic activity has recovered significantly. In addition, property prices have increased substantively in 2021, probably as a result of very low interest rates, unusually high levels of savings caused by limitations on spending during lockdowns and travel restrictions, and fiscal and monetary policy support on an unprecedented scale. These measures have started to be ended in 2020 and throughout 2021, but the full effect of their withdrawal is still unknown. The possibility of further variants of the Covid-19 virus combined with the current prospect of rising inflation rates and continuing friction on the UK's international trading position caused by Brexit lead to significant uncertainty in respect to the future economic development.

Against this uncertainty, the Group have developed new economic scenarios for the credit loss provision model, using the most recent industry data, forecasts and benchmarks available at the time of development. It should be noted that these did not factor in the possible economic effects of the Omicron variant of the Covid-19 virus, the effect of which has been reflected in the scenario weightings.

The Society's IFRS 9 model is most sensitive to assumed house price growth and unemployment, which are summarised below.

Scenario	Economic measure	2021	2022	2023	2024	2025
Upside	Unemployment rate, %	4.6%	4.2%	3.6%	3.6%	3.8%
	House price growth, % pa	11.2%	5.0%	1.3%	1.3%	2.5%
Base	Unemployment rate, %	4.9%	4.8%	4.4%	4.3%	4.2%
	House price growth, % pa	6.6%	1.6%	0.4%	0.6%	1.5%
Downside	Unemployment rate, %	5.7%	6.4%	7.5%	7.5%	6.0%
	House price growth, % pa	3.0%	(14.2)%	1.6%	1.3%	1.3%
Severe downside	Unemployment rate, %	5.7%	8.9%	11.0%	10.0%	6.5%
	House price growth, % pa	3.0%	(26.5)%	(2.5)%	5.5%	5.5%

41 Credit risk: Impairment methodologies Continued

Post model adjustments

Fire safety and cladding risk (new)

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 £0.6m has been recognised.

Interest only accounts

At term end, the original contractual obligation expires and borrowers are required to pay the account balance. If there is not a suitable repayment vehicle in place, there is a risk of non-payment. Technically, this is a breach of the contractual obligation and it would be classed as a default. The Society has provided **£0.1m** (2020: 0.1m) against potential losses relating to interest only accounts in a post model adjustment.

Forced sale discount

In previous periods, a post model adjustment in respect to the forced sales discount assumed was required, as the Society's IFRS 9 model applied a flat forced sale discount, whereas actual discounts vary. Using historic data, Monte-Carlo Simulation was used to estimate the impact of this model implementation limitation on calculated expected credit losses. During 2020, the ability to accommodate variable forced sale discounts was implemented in the Society's model and as such no post model adjustment is required in respect to this.

Payment holidays and other public measures

In 2020, the Society recognised additional provisions in respect to customers who had requested payment holidays – whilst not classed as stage 2 customers, the request to pause mortgage payments indicated a potential higher risk of default after the end of the payment holiday. All payment holidays have ended before the end of 2021, and as a result, this post model adjustment is no longer required.

Commercial and other legacy books

Commercial and other legacy books are managed by the Commercial Lending department and includes properties secured on commercial property, buy-to-let customers which would now be outside of the Society's lending policy and loans secured on serviced apartments.

Significant increase in credit risk since origination

Specialist internal departments assess the risk of loss against the Group's legacy mortgage books on a case by case basis. Across the Society's highest risk exposures, this includes the annual completion of a tailored risk grade scorecard designed to encompass the key characteristics contributing to underlying risk.

Each of the scorecard risks are weighted to provide a final 'weighted risk score' for the loan, which categorises the loan in terms of likelihood of failure in a moderate or severe recessionary scenario. The risks that carry the highest weightings relate to tenant failure and serviceability.

Due to the low number of remaining commercial borrowers, all borrowers are closely monitored. All payments due are monitored on a real-time basis. In the event of a late payment, the position is reviewed immediately and appropriate action taken.

Where a borrower's risk score is suitably consistent between origination and the reporting date, a borrower is categorised as a 'stage 1' borrower.

Where a borrower's risk score increases past pre-defined internal thresholds, or where the specialist commercial lending department flags that credit risk has increased significantly, but a borrower has not otherwise 'defaulted', the borrower is categorised as a 'stage 2' borrower. A borrower who has fallen into over 1 month's, arrears is automatically considered to be a stage 2 borrower.

A borrower who has defaulted, (assessed against a range of internal qualitative and quantitative criteria) is categorised as a 'stage 3' borrower. A borrower who has fallen into over 3 month's arrears is automatically considered to be a stage 3 borrower.

41 Credit risk: Impairment methodologies Continued

Impairment calculation and key impairment model inputs

The calculation used to determine the provisions for legacy mortgage contracts is similar to that used for the prime residential book. Provisions are determined as probability of default (PD) * exposure at default (EAD) * loss given default (LGD). Please see explanations of each of these terms above.

The main difference between the prime residential and the legacy books consists in the way model inputs are determined. Due to the nature and the small size of the legacy books, the most significant model inputs are determined manually on a mortgage by mortgage basis or for small groups of mortgages.

Thus, for each mortgage contract, the Society uses its expertise, knowledge of the customer and the property, as well as its understanding of the sector to determine a forward view as to how likely that mortgage is to default at some point over its expected life for stage 2 mortgages, or due to events occurring in the following 12 months in the case of stage 1 accounts.

Loss given default is calculated based on a sector specific discount to the property's current indexed valuation. The discount reflects management's confidence about the sector's prospects in the current and projected future economic environment. The valuation takes into account the individual property's circumstance and the local market conditions.

Economic scenarios

The provisions booked in respect to commercial and other legacy books are based on four economic scenarios, consistent with those scenarios used for residential provisioning.

The impairment provision is most sensitive to the borrower specific probability of default and the sector or property specific discount to indexed valuations at the time of disposal.

Future commercial property prices are highly uncertain and depend on the future prosperity of the UK in general, the individual sector the property can be used for, local economic conditions, the remaining duration of the current lease agreement, and the strength of the current tenant.

For loans secured on Legacy Buy-to-let and Commercial properties, the following discounts have been assumed, compared to valuations as at 30 November 2021 (the Society does not assume that valuations as at 31 December 2021 are materially different):

Sector	Upside	Base	Downside	Stress
Retail	(10)%-30%	0%-60%	10%-65%	20%-70%
Distribution	(20)%	-	10%	20%
Leisure	25%	35%	45%	55%
Residential	(6)%	(2)%	13%-15%	27%-30%

A separate model has been designed to accommodate the specific circumstances of the Serviced Apartments portfolio, where property values are exposed to the profitability of the London hotel market. For this portfolio, the following discounts to 2021 property values have been assumed:ed:

Sector	Upside	Base	Downside	Stress
Serviced Apartments	(6)%	10%	30%	60%

Housing associations

Housing associations are monitored and managed by the Commercial Lending Department with a range of management information used to assess the Society's ongoing exposure (which while of extremely high credit quality remains of significant size). An open dialogue is maintained with borrowers, with the Society appraised of their status, financial results and position, and numerous other financial and risk metrics. Quarterly management information is also reviewed including business plans. Lending is contingent on compliance with a number of financial commitments and covenants. The Society actively monitors for potential breaches of contractual positions.

Whilst the Society has never experienced any arrears or suffered losses, due to the scale and nature of long-term exposures, borrowers' credit risk is measured through a bespoke risk grade scorecard which charts financial performance, covenant compliance, asset cover, stock location/demand and regulatory feedback.

Housing associations are historically a nil loss, nil default sector and are widely considered to be Government backed in the case of financial stress. The strength of a 'nil-default sector' should not be understated: housing association exposures have proven to be of the lowest credit risk throughout a volatile and extended recession period. The Society has no internal history of loss to draw on with respect to housing association exposures and cannot supplement its own data with loss data of its peers.

The combined effect of a well collateralized set of exposures, in an environment where the demand for housing is only increasing, with no history of default on the part of any borrower and a sincere expectation that any theoretical default would be addressed by the jurisdictional Government, leads to a conclusion that no material impairment of housing association exposures is plausibly expected.

41 Credit risk: Impairment methodologies Continued

Debt securities

The Society monitors the external credit ratings applied to its debt security investments on a daily basis.

The Society's debt security holdings are all of 'investment grade' or higher. The Society has therefore assessed that the credit risk on its debt security exposures has not increased significantly since initial recognition.

The Society's treasury risk department runs very severe annual stressed scenarios over the Society's residential mortgage backed securities (RMBS). The Society's policy to allow only investment grade and senior secured exposures leaves the Society highly insensitive to stressed scenarios as the 'waterfall structure' of RMBS payments ensures continued Society receipt of contractual cash flows even through significantly stressed scenarios.

The Society's covered bond exposures are similarly resilient: the Society is only exposed to regulated UK covered bonds with the regulations providing for the full segregation of covered bond asset pools from the bond issuer. The regulations introduce numerous investor protections including mandatory over-collateralisation, an extensive initial application process and regular regulatory stress testing and supervisory monitoring.

Other financial assets

The Society has elected to take advantage of IFRS 9's practical expedient when assessing the accounting impairment applied to its trade receivables. Lifetime expected credit losses are therefore provided against all trade receivables. A provisions matrix approach, where provisions against receivables are calculated as an increasing percentage of the receivable balance, rising as receivables fall further overdue, has been adopted.

Assessment of the appropriate provision percentages has been made in line with the Group's historic trade receivable recovery. Where appropriate, forward looking views to recovery are also being incorporated.

Modifications

The Society grants forbearance to commercial borrowers in the form of extending the loan term on maturity, capitalising arrears as part of a wider exercise to get a borrower back on track with a revised debt repayment plan, and adjusting the interest rate to aid serviceability particularly where a fixed rate has expired. Generally the Society expects commercial investment loans to be repaid on maturity given the stated strategy of winding down the portfolio, but the Society will grant forbearance when this is also in the best interests of the Society, e.g. providing the borrower with more time to sell the security property following a tenant renewal.

The Society occasionally grants forbearance to other borrowers (in similar forms to commercial) where this is expected to improve the ultimate recovery on loans advanced.

The requirement to grant forbearance is considered an objective indicator that an asset has suffered a significant increase in credit risk since origination. As such, while forbearance may mitigate a selection of the Society's other indications of default, the granting of forbearance will not result in a preferential staging (Stage 1 or 2) being applied to any forborne asset. While benefitting from any revised terms that forbearance may bring, an asset is not able to move to a lower staging. Only once forbearance has been lifted can an asset qualify for a reduced staging with the Society operating a 6 month 'curing' policy: deferring the reduction in staging until a 6 month period has passed in which no other indicators of default or heightened credit risk have presented themselves.

42 Credit risk: Expected credit losses

Quantitative impairment impact

Reconciliation table	Loss allowance at 1 January 2021	Increases due to origination and acquisition	Decreases due to derecognition	Transition between stages	Changes in credit risk	Changes due to change in the provisioning methodology	Loss allowance at 31 December 2021
	£000	£000	£000	£000	£000	£000	£000
Prime residential							
Stage 1	328.2	120.1	(40.0)	(829.0)	813.0	-	392.3
Stage 2	1,859.4	578.5	(164.7)	808.5	(2,061.9)	-	1,019.8
Stage 3	911.6	127.8	(40.7)	20.5	349.2	-	1,368.3
Total	**3,099.2**	**826.4**	**(245.4)**	**-**	**(899.7)**	**-**	**2,780.5**
Buy-to-let							
Stage 1	95.2	7.8	(3.7)	(68.0)	448.1	-	479.4
Stage 2	236.3	26.0	(13.3)	130.6	(269.1)	-	110.5
Stage 3	357.6	1.9	-	(62.6)	(142.4)	-	154.5
Total	**689.1**	**35.7**	**(17.0)**	**-**	**36.6**	**-**	**744.4**
Legacy Buy-to-let							
Stage 1	-	-	-	-	7.3	-	7.3
Stage 2	908.8	-	-	-	57.8	-	966.6
Stage 3	2,059.2	-	(2,059.2)	-	-	-	-
Total	**2,968.0**	**-**	**(2,059.2)**	**-**	**65.1**	**-**	**973.9**
Commercial							
Stage 1	-	-	-	8.5	110.2	-	118.7
Stage 2	460.3	-	(287.7)	1,444.8	(868.2)	-	749.2
Stage 3	5,182.6	-	(979.2)	(1,453.3)	(147.6)	-	2,602.5
Total	**5,642.9**	**-**	**(1,266.9)**	**-**	**(905.6)**	**-**	**3,470.4**
Housing Association							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Serviced Apartments							
Stage 1	141.2	-	(11.2)	38.2	(132.3)	-	35.9
Stage 2	531.0	-	(49.7)	(138.4)	169.8	-	512.7
Stage 3	177.7	-	(50.2)	100.2	21.4	-	249.1
Total	**849.9**	**-**	**(111.1)**	**-**	**58.9**	**-**	**797.7**
Policy Loans							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total							
Stage 1	**564.6**	**127.9**	**(54.9)**	**(850.3)**	**(1,246.3)**	**-**	**1,033.6**
Stage 2	**3,995.8**	**604.5**	**(515.4)**	**2,245.5**	**(2,971.6)**	**-**	**3,358.8**
Stage 3	**8,688.7**	**129.7**	**(3,129.3)**	**(1,395.2)**	**804.4**	**-**	**4,374.3**
Total	**13,249.1**	**862.1**	**(3,699.6)**	**-**	**(1,644.7)**	**-**	**8,766.7**

42 Credit risk: Expected credit losses Continued

Quantitative impairment impact

Reconciliation table	Gross exposure at 1 January 2021	Increases due to origination and acquisition	Decreases due to derecognition	Transition between stages	Changes due to change in the provisioning methodology	Gross exposure at 31 December 2021
	£m	£m	£m	£m	£m	£m
Prime residential						
Stage 1	2,177.3	623.3	(434.3)	55.3	-	2,421.6
Stage 2	295.4	141.0	(37.7)	(69.7)	-	329.0
Stage 3	24.8	25.5	(29.6)	14.4	-	33.7
Total	**2,497.5**	**789.8**	**(501.6)**	**-**	**-**	**2,785.7**
Buy-to-let						
Stage 1	322.3	71.0	(24.2)	(2.1)	-	367.0
Stage 2	28.0	7.5	(11.5)	4.4	-	28.4
Stage 3	1.7	4.8	-	(2.3)	-	4.2
Total	**352.0**	**83.3**	**(35.7)**	**-**	**-**	**399.6**
Legacy Buy-to-let						
Stage 1	20.7	-	(0.5)	(4.5)	-	15.7
Stage 2	7.8	-	(0.3)	4.5	-	12.0
Stage 3	3.5	-	(3.5)	-	-	-
Total	**32.0**	**-**	**(4.3)**	**-**	**-**	**27.7**
Commercial						
Stage 1	10.2	-	(4.1)	0.4	-	6.5
Stage 2	3.0	-	(0.2)	0.1	-	2.9
Stage 3	8.6	-	(2.6)	(0.5)	-	5.5
Total	**21.8**	**-**	**(6.9)**	**-**	**-**	**14.9**
Housing Association						
Stage 1	381.4	-	(58.0)	-	-	323.4
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**381.4**	**-**	**(58.0)**	**-**	**-**	**323.4**
Serviced Apartments						
Stage 1	14.0	-	(0.5)	(0.9)	-	12.6
Stage 2	3.5	-	-	0.1	-	3.6
Stage 3	0.5	-	-	0.8	-	1.3
Total	**18.0**	**-**	**(0.5)**	**-**	**-**	**17.5**
Policy Loans						
Stage 1	1.9	-	(0.3)	-	-	1.6
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**1.9**	**-**	**(0.3)**	**-**	**-**	**1.6**
Total						
Stage 1	**2,927.8**	**694.3**	**(521.9)**	**48.2**	**-**	**3,148.4**
Stage 2	**337.7**	**148.5**	**(49.7)**	**(60.6)**	**-**	**375.9**
Stage 3	**39.1**	**30.3**	**(35.7)**	**12.4**	**-**	**46.1**
Total	**3,304.6**	**873.1**	**(607.3)**	**-**	**-**	**3,570.4**

42 Credit risk: Expected credit losses Continued

Quantitative impairment impact

Reconciliation table	Loss allowance at 1 January 2020	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to change in the provisioning methodology	Transition between stages	Loss allowance at 31 December 2020
	£000	£000	£000	£000	£000	£000	£000
Prime residential							
Stage 1	102.9	113.1	(11.7)	1.5	107.6	14.8	328.2
Stage 2	436.0	685.5	(31.4)	448.3	336.2	(15.2)	1,859.4
Stage 3	742.3	39.4	(82.5)	152.1	59.9	0.4	911.6
Total	**1,281.2**	**838.0**	**(125.6)**	**601.9**	**503.7**	**-**	**3,099.2**
Buy-to-let							
Stage 1	7.0	11.8	(0.2)	37.7	27.0	11.9	95.2
Stage 2	24.2	39.8	-	132.8	52.4	(12.9)	236.3
Stage 3	341.9	-	-	14.7	-	1.0	357.6
Total	**373.1**	**51.6**	**(0.2)**	**185.2**	**79.4**	**-**	**689.1**
Legacy Buy-to-let							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	908.8	-	-	908.8
Stage 3	720.0	-	-	1,339.2	-	-	2,059.2
Total	**720.0**	**-**	**-**	**2,248.0**	**-**	**-**	**2,968.0**
Commercial							
Stage 1	215.0	-	-	-	-	(215.0)	-
Stage 2	-	-	-	460.3	-	-	460.3
Stage 3	801.2	-	-	4,166.4	-	215.0	5,182.6
Total	**1,016.2**	**-**	**-**	**4,626.7**	**-**	**-**	**5,642.9**
Housing Association							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Serviced Apartments							
Stage 1	-	-	-	141.2	-	-	141.2
Stage 2	-	-	-	531.0	-	-	531.0
Stage 3	-	-	-	177.7	-	-	177.7
Total	**-**	**-**	**-**	**849.9**	**-**	**-**	**849.9**
Policy Loans							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total							
Stage 1	**324.9**	**124.9**	**(11.9)**	**180.4**	**134.6**	**(188.3)**	**564.6**
Stage 2	**460.2**	**725.3**	**(31.4)**	**2,481.2**	**388.6**	**(28.1)**	**3,995.8**
Stage 3	**2,065.4**	**39.4**	**(82.5)**	**5,850.1**	**59.9**	**216.4**	**8,688.7**
Total	**3,390.5**	**889.6**	**(125.8)**	**8,511.7**	**583.1**	**-**	**13,259.1**

42 Credit risk: Expected credit losses Continued

Quantitative impairment impact

Reconciliation table	Gross exposure at 1 January 2020	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in provisioning methodology	Transition between stages	Gross exposure at 31 December 2020
	£m	£m	£m	£m	£m	£m
Prime residential						
Stage 1	2,068.0	443.8	(286.9)	(55.4)	7.8	2,177.3
Stage 2	241.2	98.7	(26.0)	(2.1)	(16.4)	295.4
Stage 3	16.5	2.0	(2.1)	(0.2)	8.6	24.8
Total	**2,325.7**	**544.5**	**(315.0)**	**(57.7)**	**-**	**2,497.5**
Buy-to-let						
Stage 1	274.6	63.6	(16.1)	(0.3)	0.5	322.3
Stage 2	23.2	6.7	(0.2)	-	(1.7)	28.0
Stage 3	0.5	-	-	-	1.2	1.7
Total	**298.3**	**70.3**	**(16.3)**	**(0.3)**	**-**	**352.0**
Legacy Buy-to-let						
Stage 1	33.9	-	(5.4)	-	(7.8)	20.7
Stage 2	-	-	-	-	7.8	7.8
Stage 3	3.2	0.3	-	-	-	3.5
Total	**37.1**	**0.3**	**(5.4)**	**-**	**-**	**32.0**
Commercial						
Stage 1	26.0	-	(5.0)	-	(10.8)	10.2
Stage 2	0.1	-	-	-	2.9	3.0
Stage 3	0.7	-	-	-	7.9	8.6
Total	**26.8**	**-**	**(5.0)**	**-**	**-**	**21.8**
Housing Association						
Stage 1	396.8	-	(15.4)	-	-	381.4
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**396.8**	**-**	**(15.4)**	**-**	**-**	**381.4**
Serviced Apartments						
Stage 1	18.2	-	(0.2)	-	(4.0)	14.0
Stage 2	-	-	-	-	3.5	3.5
Stage 3	-	-	-	-	0.5	0.5
Total	**18.2**	**-**	**(0.2)**	**-**	**-**	**18.0**
Policy Loans						
Stage 1	2.6	-	(0.7)	-	-	1.9
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**2.6**	**-**	**(0.7)**	**-**	**-**	**1.9**
Total						
Stage 1	**2,820.1**	**507.4**	**(329.7)**	**(55.7)**	**(14.3)**	**2,927.8**
Stage 2	**264.5**	**105.4**	**(26.2)**	**(2.1)**	**(3.9)**	**337.7**
Stage 3	**20.9**	**2.3**	**(2.1)**	**(0.2)**	**18.2**	**39.1**
Total	**3,105.5**	**615.1**	**(358.0)**	**(58.0)**	**-**	**3,304.6**

The gross carrying values above reflect the Group's maximum exposure to credit risk as at 31 December 2021 and 31 December 2020 without taking into account any collateral held or provisions made against expected loss.

The Society did not purchase or originate any financial assets that were considered to be credit impaired during 2021 or 2020.

There has been no material movement in loss allowances held against other financial assets during 2021. Debt securities held remain of very high credit quality at 31 December 2021 and the Group is not exposed to any significant value or volume of overdue trade receivables.

No collateral is held against the Group's debt security or other financial asset exposures.

42 Credit risk: Expected credit losses Continued

Risk exposures by credit grade for residential lending

Across the Society's prime residential and buy-to-let mortgage exposures, provisions may be disaggregated by detailed probability of default ranges as follows:

2021	Exposure			Provision			Provision Coverage Ratio		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Lifetime PD %	£m	£m	£m	£000	£000	£000	%	%	%
0% - 1%	62.3	-	0.1	0.2	-	-	-	-	-
1% - 2%	1,185.0	-	-	425.0	-	-	0.04	-	-
2% - 3%	925.9	-	-	225.5	-	-	0.02	-	-
3% - 4%	213.6	-	-	19.9	-	-	0.01	-	-
4% - 5%	283.9	-	-	127.1	-	-	0.04	-	-
5% - 6%	70.5	-	-	41.4	-	-	0.06	-	-
6% - 7%	2.3	-	-	-	-	-	-	-	-
7% - 8%	1.3	0.5	-	0.2	-	-	0.11	-	-
8% - 9%	0.8	2.3	-	-	0.1	-	-	-	-
9% - 10%	1.0	2.0	-	-	-	-	-	-	-
10% - 100%	30.9	352.5	37.8	32.1	1,130.3	1,552.8	0.11	0.32	4.10
Total	**2,777.5**	**357.3**	**37.9**	**871.4**	**1,130.4**	**1,552.8**	**0.03**	**0.32**	**4.10**

*The table above excludes a total balance of £2.4m, with a provision of £0.4m, for which no lifetime probability of default is available.

2020	Exposure			Provision			Provision Coverage Ratio		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Lifetime PD %	£m	£m	£m	£000	£000	£000	%	%	%
0% - 1%	60.4	0.1	0.3	53.9	-	4.6	0.09	-	1.72
1% - 2%	1,063.1	-	-	70.8	-	-	0.01	-	-
2% - 3%	828.4	-	-	109.0	-	-	0.01	-	-
3% - 4%	232.0	-	-	74.2	-	-	0.03	-	-
4% - 5%	189.4	-	-	45.9	-	-	0.02	-	-
5% - 6%	86.9	-	-	43.1	-	-	0.05	-	-
6% - 7%	1.7	-	-	-	-	-	-	-	-
7% - 8%	2.0	0.5	-	-	0.2	-	-	0.05	-
8% - 9%	0.4	4.0	-	-	7.0	-	-	0.17	-
9% - 10%	1.4	6.0	-	0.2	2.8	-	0.02	0.05	-
10% - 100%	31.4	312.8	25.2	26.3	2,085.7	444.5	0.08	0.67	1.76
Total	**2,497.1**	**323.4**	**25.5**	**423.4**	**2,095.7**	**449.1**	**0.02**	**0.65**	**1.76**

*The table above excludes a total balance of £3.8m, with a provision of £0.4m, for which no lifetime probability of default is available.

Lifetime probability of default indicates the percentage change that a loan will trigger any of the stage 3 indicators, as detailed above, over the life of the loan and does not alone indicate a likeliness that the default will result in any significant loss to the Group.

The comparatively small provisions coverage reflects the capacity for property collateral to effectively mitigate the Society's ultimate exposure to loss.

Provisions against other financial assets are not considered to be sufficiently material to warrant further detailed analysis.

Provisions against commercial and legacy Buy-to-let mortgages are not presented by risk grade as legacy exposures are assessed for impairment on an individual basis by the specialist commercial lending department.

42 Credit risk: Expected credit losses Continued

Sensitivity of the credit loss provisions to key assumptions

Residential and Buy-to-let mortgages

The Group's mortgage provisions reflect probability weighted scenarios run across its mortgage books and are sensitive to the probabilities applied accordingly. Provisions are most sensitive to increases in the downside scenarios probabilities.

2021	Actual	Alternative 1	Alternative 2	Alternative 3
Upside	5%	15%	10%	0%
Base	35%	45%	40%	0%
Downside	40%	30%	35%	100%
Stress	20%	10%	15%	0%
Provision, £m	3.5	3.0	3.2	3.7
Increase/(reduction) in Provision, £000	-	(0.5)	(0.3)	0.2

2020	Actual	Alternative 1	Alternative 2	Alternative 3
Upside	10%	15%	10%	5%
Base	40%	45%	40%	40%
Downside	35%	30%	40%	40%
Stress	15%	10%	10%	15%
Provision, £m	3.3	2.8	3.0	3.4
Increase/(reduction) in Provision, £000	-	(0.5)	(0.3)	0.1

Legacy portfolios

The provisioning for legacy portfolios is sensitive to the assumed impact of the current economic conditions on individual sectors and related commercial property values, including the shape of the further recovery from Covid-19 and the impact of potential further variants of the virus, inflationary pressure, interest rate changes and any disruption to global supply chains due to the pandemic, political conflict or Brexit. This is reflected in the four different scenarios used to calculate the provision (note that in 2020 only 3 different scenarios were used). The sensitivity analysis presented below shows the result of alternative scenario weightings on the provision.

Commercial and Legacy Buy-to-let portfolios

2021	Actual	Alternative 1	Alternative 2	Alternative 3
Upside	5%	15%	10%	0%
Base	35%	45%	40%	0%
Downside	40%	30%	35%	100%
Stress	20%	10%	15%	0%
Provision, £m	4.3	3.7	4.0	4.6
Increase/(reduction) in Provision, £000	-	(0.6)	(0.3)	0.2

2020	Actual	Alternative 1	Alternative 2	Alternative 3
Upside	20%	30%	20%	10%
Base	55%	55%	60%	55%
Downside	25%	15%	20%	35%
Provision, £m	8.7	8.3	8.6	9.1
Increase/(reduction) in Provision, £000	-	(0.4)	(0.1)	0.4

Notes to the Accounts for the year ended 31 December 2021

42 Credit risk: Expected credit losses Continued

Serviced Apartments

2021	Actual	Alternative 1	Alternative 2	Alternative 3
Upside	5%	15%	10%	0%
Base	35%	45%	40%	0%
Downside	40%	30%	35%	100%
Stress	20%	10%	15%	0%
Provision, £m	0.8	0.5	0.6	0.8
Increase/(reduction) in Provision, £000	-	(0.3)	(0.2)	0.1

2020	Actual	Alternative 1	Alternative 2	Alternative 3
Upside	22%	40%	40%	20%
Base	53%	50%	40%	50%
Downside	25%	10%	20%	30%
Provision, £m	0.8	0.5	0.7	0.9
Increase/(reduction) in Provision, £000	-	(0.3)	(0.1)	0.1

Equity release portfolio

The Society's equity release portfolio is accounted for under IFRS 4: insurance contracts. Its fair value includes any allowances for credit risk. Further information on the fair value of the equity release valuation, including sensitivity analysis is included in notes 13 and 34.

43 Credit quality

The Group's mortgage lending is all secured with a first charge registered against the collateral property. While not in scope of IFRS 9, this includes the Group's equity release mortgages. The average loan to value of the Group's loan portfolios at 31 December 2021 is 65.8% (2020: 65.8%) as detailed in the Strategic Report. Quarterly regional Halifax House Price Index data is used to monitor the value of residential collateral. The contractual capacity to recover defaulted mortgage contracts through the sale of property collateral acts significantly to reduce the Group's risk of loss.

The credit quality of the Group's residential loans is considered to be excellent with the loans continuing to perform and arrears being below industry averages. At 31 December 2021 there were 25 loans in 12 months arrears or more with balances of **£3.0m** (2020: 25 loans totalling £1.9m).

The Group's non-impaired commercial loan assets are also considered to be of a good credit quality.

Further specifics by type of mortgage lending are as follows:

Prime residential mortgage book

The Prime residential mortgage book consists of traditional residential loans. No sub-prime or self-certification lending has been undertaken. The below analysis includes equity release mortgage lending (excluding the fair value adjustment) that is not within the scope of the IFRS 9 credit risk disclosures provided in the tables above.

Loan to value (indexed)	2021 £m	2021 %	2020 £m	2020 %
<70%	**1,978.3**	**67.2**	1,815.2	67.7
70% - <80%	**747.0**	**25.3**	409.9	15.3
80% - <90%	**154.7**	**5.2**	435.6	16.3
>90%	**67.9**	**2.3**	19.1	0.7
	2,947.9	**100.0**	2,679.8	100.0

Payment status

	2021 £m	2021 %	2020 £m	2020 %
Neither past due nor in default	**2,924.2**	**99.2**	2,656.4	99.1
Past due up to 3 months but not in default	**12.5**	**0.4**	14.2	0.5
In default and 3 to 6 months past due	**4.8**	**0.2**	4.5	0.2
In default and over 6 months past due	**6.3**	**0.2**	4.5	0.2
In possession	**0.1**	**-**	0.2	-
	2,947.9	**100.0**	2,679.8	100.0

The Society continued to experience a low level of possessions on residential loans and Law of Property Act receiver appointments. At the end of 2021 the Society had 1 possession property in relation to owner occupied loans.

Against past due and possession cases, **£57.2m** (2020: £52.1m) collateral is held.

No loans that would be past due or impaired have had their terms renegotiated.

The Society granted forbearance against 29 residential loans in 2021 in the form of reduced payments or payment breaks. With no alteration made to the contractual rates of interest and balances totalling £3.5m at 31 December 2021 no modification gain or loss is recorded as a result of short-term forbearance granted. Provisions of £0.1m are held against residential mortgages that were granted forbearance during the year.

In addition, the Society has granted Covid-19 related payment deferrals to 80 customers with a total balance of £13.3m during 2021, of which 9 with a balance of £1.26m had redeemed by the end of the year. No customers remained on Covid-19 related payment deferrals as at 31 December 2021.

43 Credit quality Continued

Retail buy-to-let mortgage book

The Retail Buy-to-let (BTL) mortgage book consists of buy-to-let to individuals <£1m.

Loan to value (indexed)	2021 £m	2021 %	2020 £m	2020 %
<70%	**349.1**	**87.3**	282.0	80.1
70% - <80%	**49.9**	**12.5**	68.3	19.4
80% - <90%	**0.3**	**0.1**	1.1	0.3
>90%	**0.3**	**0.1**	0.6	0.2
	399.6	**100.0**	352.0	100.0

Payment status

	2021 £m	2021 %	2020 £m	2020 %
Neither past due nor in default	**395.7**	**99.0**	349.9	99.4
Past due up to 3 months but not in default	**2.2**	**0.6**	1.3	0.4
In default and past due over 6 months	**1.6**	**0.4**	0.7	0.2
LPA receivership	**0.1**	**-**	0.1	-
	399.6	**100.0**	352.0	100.0

At the end of 2021 the Society had 1 BTL possession properties, whose exposure was being managed by a Law of Property Act receiver.

Against past due and possession cases, **£6.6m** (2020: £2.8m) collateral is held.

No loans that would be past due or impaired have had their terms renegotiated.

The Society granted forbearance against 3 retail BTL loans in 2021 in the form of reduced payments or payment breaks. With no alteration made to the contractual rates of interest and balances totalling £0.5m at 31 December 2021 no modification gain or loss is recorded as a result of short-term forbearance granted.

In addition, the Society has granted Covid-19 related payment deferrals to 2 retail buy-to-let customers with a total balance of £0.5m during 2021, of which 1 with a balance of £0.2m had redeemed by the end of the year. No customers remained on Covid-19 related payment deferrals as at 31 December 2021.

Legacy lending books

The legacy lending books comprises the following:

	2021 £m	2021 %	2020 £m	2020 %
Loans secured on commercial property	**14.9**	**3.9**	21.8	4.8
Loans secured on Serviced Apartments	**17.5**	**4.1**	18.0	4.0
Specialist Buy-to-let	**27.7**	**7.4**	32.0	7.0
Loans to Housing Associations	**323.4**	**84.6**	381.4	84.2
	383.5	**100.0**	453.2	100.0

Loans secured on commercial property

Loan to value (unindexed)	2021 £m	2021 %	2020 £m	2020 %
<70%	**10.2**	**68.5**	13.8	63.3
70% - <80%	**-**	**-**	-	-
80% - <90%	**-**	**-**	0.2	0.9
>90%	**4.7**	**31.5**	7.8	35.8
	14.9	**100.0**	21.8	100.0

43 Credit quality Continued

Legacy lending books Continued

Payment status	2021 £m	2021 %	2020 £m	2020 %
Neither past due nor in default	**14.9**	**100.0**	13.2	60.6
Not past due but in default	**-**	**-**	8.6	39.4
	14.9	**100.0**	21.8	100.0

Diversification by industry type	2021 £m	2021 %	2020 £m	2020 %
Retail	**11.2**	**74.6**	15.6	71.6
Office	**0.8**	**5.3**	1.5	6.9
Industrial	**1.0**	**6.4**	1.9	8.7
Hotel/Leisure	**1.7**	**11.6**	2.4	11.0
Other	**0.2**	**2.1**	0.4	1.8
	14.9	**100.0**	21.8	100.0

At 31 December 2021, the Society had no commercial investment loans in arrears of 3 months or more (2020: none). No loans that would be past due or impaired have had their terms renegotiated.

The Society had no commercial loans in possession or subject to LPA receivership at the end of 2021 (2020: none).

The Society did not grant forbearance against any loans secured on commercial property in 2021 (2020: none). However, the Society has granted Covid-19 related payment deferral to one commercial customers with a total balance of £2.9m. No customers remained on Covid-19 related payment deferrals as at 31 December 2021.

Loans secured on serviced apartments

Loan to value (indexed)	2021 £m	2021 %	2020 £m	2020 %
<70%	**2.8**	**18.1**	2.7	15.0
70% - <80%	**9.6**	**49.0**	10.0	55.6
80% - <90%	**5.1**	**32.9**	5.3	29.4
<90%	**-**	**-**	-	-
	17.5	**100.0**	18.0	100.0

Payment status	2021 £m	2021 %	2020 £m	2020 %
Neither past due nor in default	**17.0**	**96.8**	17.5	97.2
LPA receivership	**0.5**	**3.2**	0.5	2.8
	17.5	**100.0**	18.0	100.0

Against cases where an LPA appointment has been made, £0.6m collateral is held.

The Society did grant forbearance against one loans for serviced apartments during the year with a balance of £0.2m.

Notes to the Accounts for the year ended 31 December 2021

43 Credit quality Continued

Specialist buy-to-let

The specialist residential mortgage book consists of residential investment loans, loans secured on buy-to-let properties to corporates, and loans secured on buy-to-let properties to individuals, where the Society's exposure to the borrower is larger than £1m.

Loan to value (unindexed)	2021 £m	2021 %	2020 £m	2020 %
<70%	**20.0**	**72.2**	20.8	65.0
80% - <90%	**7.7**	**27.8**	-	-
>90%	**-**	**-**	11.2	35.0
	27.7	**100.0**	32.0	100.0

Payment status	2021 £m	2021 %	2020 £m	2020 %
Neither past due nor in default	**27.7**	**100.0**	28.5	89.1
LPA receivership	**-**	**-**	3.5	10.9
	27.7	**100.0**	32.0	100.0

There are no past due or possession cases in 2021. For 2020, £2m collateral was held against past due and in possession cases.

At 31 December 2021, the Society had no specialist buy-to-let loans in arrears of 3 months or more (2020: none). No loans that would be past due or impaired have had their terms renegotiated.

The Society had no specialist buy-to-let properties in possession or subject to LPA receivership at the end of 2021 (2020: none).

The Society did grant forbearance against one loans secured on specialist buy-to-let property in 2021 with a balance of **£3.0m** (2020: nil).

Loans to housing associations

Loan to value (unindexed)	2021 £m	2021 %	2020 £m	2020 %
<70%	**176.5**	**54.4**	163.8	42.9
70% - <80%	**61.9**	**19.2**	110.6	29.0
80% - <90%	**85.0**	**26.4**	107.0	28.1
	323.4	**100.0**	381.4	100.0

Loans to housing associations are secured on residential property. No housing association loans are past due or impaired.

44 Liquidity risk

Liquidity risk is the risk that the Group has insufficient funds to meet its obligations as they fall due. This risk is managed on a Group basis (including all subsidiary entities) with day-to-day responsibility delegated to the Group's Treasury department with oversight by the Assets & Liabilities Committee, the Group Risk Committee and the Board.

Management of liquidity risk

The Group ensures it holds sufficient quality and quantity of liquidity to remain a going concern after a severe but plausible stress. Cash flow forecasts are used to forecast liquidity, ensuring future compliance with limits set by the Board. Wherever appropriate, the Group ensures it takes any necessary steps to ensure it has access to any available Bank of England Schemes designed to support financial institutions.

Liquidity resources

The Group's liquidity resources include funds in cash accounts held in the Bank of England reserve account and other easily marketable assets and contingent liquidity. The Group monitors compliance against Liquidity Coverage Ratio (LCR) requirements on a weekly basis, and as at 31 December 2021, the Society's LCR was 216% (2020: 226%), significant above the regulatory minimum of 100%.

The Society's liquidity resources at 31 December 2021 are set out the table below. The amount of liquid assets has fallen since 2020 in line with the Group's funding plan.

The amounts differ from those in the accounting balance sheet as this analysis excludes any encumbered assets such as balances posted with counterparties or the Bank of England as collateral, Nostro balances included elsewhere in the LCR and operating expenses deducted from HQLA.

	Dec-21 £m	Dec-20 £m
Cash and balances with the Bank of England	**366.5**	465.3
Supranationals	**8.3**	16.5
UK Gilts and other quality securities	**360.8**	326.8
Total high quality liquid assets for the Liquidity Coverage Ratio	**735.7**	808.7

Contractual maturity profile of financial assets and liability

The table below analyses the carrying value of financial assets and financial liabilities based on the remaining contractual life to the maturity date. The contractual maturity will differ to actual payments; for example, most on demand customer deposits will be repaid later than the earliest date on which repayment can be requested and mortgages may be repaid ahead of their contractual maturity.

At 31 December 2021

	Repayable on demand £m	Upto 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Assets						
Cash and balances with the bank of England	382.2	-	-	-	-	**382.2**
Loans and advances to credit institutions	183.5	-	-	-	-	**183.5**
Debt securities	-	24.8	35.2	328.7	2.0	**390.7**
Derivative financial investments	-	-	0.6	13.1	0.8	**14.5**
Loans and advances to customers	3.1	30.2	84.4	407.2	3,269.6	**3,794.5**
Fair value adjustments for hedged risks	0.1	0.5	1.4	6.7	53.4	**62.1**
Total financial assets	**568.9**	**55.5**	**121.6**	**755.7**	**3,325.8**	**4,827.5**
Liabilities						
Due to members	2,881.8	374.7	208.8	263.8	2.7	**3,731.8**
Due to other customers	9.5	76.5	73.1	-	-	**159.1**
Deposits from banks	1.9	70.2	0.5	515.0	-	**587.6**
Derivative financial investments	-	-	0.5	5.8	141.3	**147.8**
Total financial liabilities	**2,893.2**	**521.4**	**286.4**	**784.6**	**144.0**	**4,617.8**
Net liquidity gap (contractual)	**(2,324.3)**	**(465.9)**	**(164.8)**	**(28.9)**	**3,181.8**	**201.4**

44 Liquidity risk

Contractual maturity profile of financial assets and liability Continued

At 31 December 2020

	Repayable on demand £m	Upto 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Assets						
Cash and balances with the bank of England	474.6	-	-	-	-	**474.6**
Loans and advances to credit institutions	266.4	-	-	-	-	**266.4**
Debt securities	-	7.0	36.5	309.7	15.5	**368.7**
Derivative financial investments	-	-	-	-	-	**-**
Loans and advances to customers	4.5	25.7	684.7	385.2	2,467.0	**3,567.1**
Fair value adjustments for hedged risks	0.1	0.9	2.3	12.9	99.9	**116.1**
Total financial assets	**745.6**	**33.6**	**723.5**	**707.8**	**2,582.4**	**4,792.9**
Liabilities						
Due to members	1,671.8	1,468.1	65.6	567.4	3.4	**3,776.3**
Due to other customers	8.1	81.1	31.8	-	-	**121.0**
Deposits from banks	155.8	154.0	131.0	220.0	-	**507.0**
Derivative financial investments	2.0	-	0.3	19.8	194.2	**214.3**
Total financial liabilities	**1,681.9**	**1,703.2**	**228.7**	**807.2**	**197.6**	**4,618.6**
Net liquidity gap (contractual)	**(936.3)**	**(1,669.6)**	**494.8**	**(99.4)**	**2,384.8**	**174.3**

Liquidity risk outlook

The Group has **£575m** (2020: £481m) of TFS and TFSME drawings which are due to be repaid during 2024. The Group's plans to replace these funds are well advanced and have seen the Group extend its range of wholesale funding.

45 Capital risk

Capital risk is the risk that the Group is or becomes inadequately capitalised to address the risks to which it is exposed.

Management of capital

Day-to-day capital management is delegated to the Chief Financial Officer and the Group's Treasury department with oversight by the Assets and Liabilities Committee, the Group Risk Committee and the Board.

The Society assesses its capital position and risks through an annual Internal Capital Adequacy Assessment Process (ICAAP) in line with the regulatory requirements. The ICAAP consider the key capital risks and the amount of capital it should retain. These requirements are assessed against the current position and throughout any forward planning. The PRA sets and monitors capital requirements for the Group. Capital adequacy is measured by comparing both current and forecast capital resources to capital requirements.

Capital stress testing is performed as part of the ICAAP and makes sure that the Group is resilient to a range of stresses, assessing whether capital requirements would be met under severe but plausible stress scenarios and considers what mitigating actions are available to management.

The Group's policy is to maintain a strong capital base to maintain Member, creditor and market confidence and to sustain the future growth of the Society. The Group has complied with all externally imposed capital requirements and internally set limits.

Capital adequacy

The Society reviews each of the material inherent risks within its business model and also reviews the capital required to support planned growth in the future. The table below sets out the Group's capital position and key capital ratios at the year end..

	2021 £m	2020 £m
Tier 1 Capital		
Common Equity Tier 1 Capital	**221.0**	211.1
Additional Tier 1	**2.0**	4.0
	223.0	215.1
Tier 2 Capital		
Tier 2 capital	**18.0**	16.0
Collective Impairment allowance	**0.1**	0.2
	18.1	16.2
Total Capital	**241.1**	231.3

45 Capital risk Continued

	2021 £m	2020 £m
Risk weighted assets		
Liquid assets	**44.1**	43.0
Loans and advances to customers	**1,331.7**	1,258.1
Other assets	**68.3**	60.7
Off balance sheet	**31.8**	22.6
Operational risk	**125.2**	109.7
	1,601.1	1,494.1

	2021 %	2020 %
Capital ratios		
Common Equity Tier 1 Ratio	**13.8**	14.1
Tier 1 Ratio	**13.9**	14.4
Total Capital Ratio	**15.1**	15.5
Leverage Ratio	**4.5**	4.4

The Group holds capital, primarily through accumulated reserves, to protect itself against the risk inherent in the running of a building society: primarily credit risk inherent to mortgage lending, liquidity investment, operational risk and the ability to realise other balance sheet assets ultimately into cash.

Capital allocation

Management uses regulatory capital ratios to monitor the Society's capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on regulatory capital requirements. In cases where the regulatory requirements do not fully reflect the varying degree of risk associated with different activities, capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Group Risk and is subject to review by the Group Asset and Liability Management Committee (ALCO).

Although maximisation of return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources and the fit of the activity with the Group's longer-term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

46 Post balance sheet events

After the year end, the Society has completed the sale of a Newcastle City Centre office building, which is held as available for sale as at 31 December 2021. See note 17 for more details.

47 Country-by-Country Reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations.

Newcastle Building Society is the biggest building society in the North East and the eighth largest in the UK with assets c. **£4.9 billion**.

As a mutual organisation, the Society's primary focus is its Members and it aims to provide mortgage, savings and insurance products supported by excellent customer service. Additionally, the Society offers financial advice, as an appointed representative of Openwork, through Newcastle Financial Advisers Limited. Outsourcing of financial services and Information Technology services are provided through Newcastle Strategic Solutions Limited.

The consolidated financial statements of the Newcastle Building Society Group include the audited results of the Society and its subsidiary undertakings. The consolidated entities, their principal activities and countries of incorporation, are detailed in Note 15 to the Annual Report and Accounts.

Basis of preparation

a) Country

All of the consolidated entities were incorporated in the United Kingdom, with the exception of Newcastle Mortgage Loans (Jersey) Limited, which is incorporated and operates with no employees in Jersey.

b) Total operating income and profit before tax

Total operating income and profit before tax are compiled from the Newcastle Building Society Group consolidated financial statements for the year ended 31 December 2021, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). Total operating income represents the sum of the Group's net interest income, other income, other charges and gains less losses on financial instruments and hedge accounting. Group total operating income was **£99.4m** (2020: £77.7m), the proportion not arising from UK-based activity is not considered material for the purpose of this disclosure.

c) Corporation tax paid

Corporation tax paid represents the net cash taxes paid to the tax authority, HMRC, during 2021. Corporation tax paid is reported on a cash basis and will normally differ from the tax expense recorded for accounting purposes due to:

- Timing differences in the accrual of tax charge. The Group makes quarterly payments on account to HMRC. Payments are made in July, October, January, and April. As the Group's accounting year runs from January to December, payments made in any financial year will not align with tax due in that financial year.
- The Society brought forward into 2021 tax losses from previous years that were used to extinguish a portion of its taxable profits in 2021 and will be similarly used in future years.
- Other differences between when income and expenses are accounted for under IFRSs and when they become taxable.

During 2021 the Group paid **£4.4m** in corporation tax.

d) Full-time equivalent employees ("FTEs")

The average number of Group full-time equivalent employees was **1,196.1** (2020: 1,159.6) all of which were employed in the UK.

e) Group profit before tax

Group profit before tax was **£29.1m** (2020: £1.4m) with tax a charge of **£5.2m** (2020: £0.3m). The profit before tax and the tax charged relates to UK-based activity and the UK tax jurisdiction.

Quayside, Newcastle Upon Tyne

Stepping Stones, Morpeth, Northumberland

Annual Business Statement

for the year ended 31 December 2021

1 Statutory percentages

	2021 %	Statutory %
Lending limit	**1.6**	25.00
Funding limit	**16.7**	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986, as amended by the Building Societies Act 1997. Lending limit is calculated excluding IAS 39 adjustments for derivative values.

The lending limit measures the proportion of business assets not in the form of loans secured on residential property.

Business assets are the total assets of the Group plus allowances for losses on loans and advances less liquid assets, investment properties and property, plant and equipment as shown in the Group balance sheet.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Building Societies Act 1986, as amended by the Building Societies Act 1997, and ensure that the principal purpose of a building society is that of making loans which are fully secured on residential property and are funded substantially by its Members.

2 Other percentages

As a percentage of shares and borrowings:	2021 %	2020 %
Gross capital	**5.45**	5.00
Free capital	**4.71**	4.17
Liquid assets	**21.36**	25.20
Result for the year as a percentage of mean total assets	**0.49**	0.02
Management expenses as a percentage of mean total assets	**1.45**	1.35

The above percentages have been prepared from the Annual Accounts.

Gross capital represents the aggregate of the general reserve, available for sale reserve, subordinated liabilities and subscribed capital.

Free capital represents gross capital less property, plant and equipment, investment property and non-current assets held for sale.

Liquid assets are as shown in the Group balance sheets but exclude liquid assets pledged under repo agreements and includes collateral.

Shares and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Management expenses represent the aggregate of administrative expenses and depreciation, and includes expenses relation to the Group's Solutions business.

Mean total assets are the average of the 2021 and 2020 total assets.

Directors at 31 December 2021

	Date of Birth	Date of Appointment	Business Occupation
GA Bennett MA	**10.02.61**	**24.04.19**	**Non Executive Director**
	Other Directorships: Newcastle Portland House Limited; Darkwood Croft Management Company Limited; MAM Properties Limited.		
MJ Faull FCCA	**24.11.60**	**23.08.21**	**Non Executive Director**
	Other Directorships: IQUW Syndicate Management Limited.		
BP Glover LLB, ACIB	**03.07.60**	**11.08.17**	**Company Director**
	Other Directorships: Cygnet Properties and Leisure PLC; Recognise Bank Limited; Property & Funding Solutions Ltd.		
AS Haigh BSc	**26.01.63**	**27.01.14**	**Building Society Chief Executive Officer**
	Other Directorships: Community Foundation serving Tyne & Wear and Northumberland; North East England Chamber of Commerce.		
K Ingham	**20.02.65**	**04.09.14**	**Vice President, Global Partner Success**
	Other Directorships: Newcastle Strategic Solutions Limited; Vice President, Global Partner Success (Europe Middle East and Africa at Expedia Inc.).		
A Laverack BA **(Business name: Anne Shiels)**	**08.06.61**	**17.07.17**	**Company Director**
	Other Directorships: Newcastle Financial Advisers Limited; Anne Shiels Consulting Limited; LNT Care Developments Group Limited (from 20 January 2022).		
SL Lynn	**10.05.60**	**22.04.20**	**Non Executive Director**
	Other Directorships: Newcastle Strategic Solutions Limited; Newcastle Systems Management Limited; Stuart Lynn Limited; Whitley Bay Golf Club Limited.		
S Miller BSc, ACIB	**16.10.70**	**16.01.18**	**Building Society Customer Director**
	Other Directorships: Newcastle Financial Advisers Limited.		
JDA Ramsbotham CBE, DL	**30.08.59**	**23.08.21**	**Non Executive Director**
	Other Directorships: Newcastle Strategic Solutions Limited; Hargreaves Land Limited; High Doctor Pasture Caravan Park Limited; Association of Education Advisers (resigned 18 January 2022); Altruism Limited (appointed 5 February 2022).		
DA Samper BA, CA	**21.12.74**	**20.12.18**	**Building Society Chief Financial Officer**
	Other Directorships: Newcastle Portland House Limited.		
MR Thompson BA, FCA	**11.10.61**	**29.01.19**	**Non Executive Director**
	Other Directorships: Atlas Cloud Limited; Newcastle United Foundation; The Clinkard Group Limited; The North of England Protecting & Indemnity Association Limited; Tyne and Wear Building Preservation Trust Limited.		
IW Ward FCIB	**04.05.49**	**09.07.13**	**Non Executive Director**
	Other Directorships: Newcastle Financial Advisers Limited; Newcastle Systems Management Limited; Branston Consultancy Limited.		

Documents may be served on any of the Directors c/o Addleshaw Goddard LLP, One St Peter's Square, Manchester M2 3DE. The Executive Directors have service contracts which can be terminated at any time by the Society on six months' notice. The Executive Directors' service contracts were entered into on the dates of their appointment, excepting A S Haigh who was appointed to the role of Chief Executive on 1 May 2015, having previously held the role of Chief Operating Officer. There are no contracts for Non-Executive Directors and no compensatory terms for loss of office.

Principal office
Newcastle Building Society is a building society incorporated and domiciled in the United Kingdom.
The address of the Society's principal office is 1 Cobalt Park Way, Wallsend, NE28 9EJ.

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears - A customer is in arrears when they are behind in their mortgage payments. A customer is 3 months in arrears when they have missed the equivalent of 3 mortgage payments.

Administrative expenses - Expenses incurred in running the day to day activities of the Society including staff, property, marketing and technology costs.

Basel II - The second of the Basel Accords, issued by the Basel Committee on Banking supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA Handbook.

Basel III - The third of the Basel Accords, issued by the Basel Committee on Banking supervision, which are a long-term package of changes that will strengthen regulatory requirements for capital and liquidity.

Buy-to-let (BTL) - A mortgage designed to support customers purchasing an investment property to let out.

Capital Requirements Directive (CRD IV) - The EU legislative package covering prudential rules for banks, building societies and investment firms. CRD IV is made up of the Capital Requirements Directive and Capital Requirements Regulations, it is designed to implement the Basel III Accord across the EU.

Commercial lending / mortgage - Loans secured on commercial property.

Common Equity Tier 1 capital - Defined by the PRA as general reserves or qualifying capital instruments which for the Society is the accumulation of retained profits.

Common Equity Tier 1 ratio - Common Equity Tier 1 capital as a percentage of risk weighted assets.

Contractual maturity - The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

Covered bonds - Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other on-balance sheet assets solely for the benefit of the holders of the covered bonds.

Credit risk - The risk that a customer or counterparty is unable to honour their repayment obligations as they fall due.

Debt securities - Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding central banks.

Derivative financial instruments - A derivative financial instrument is a type of financial instrument (or an agreement between two parties) that has a value based on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to interest rate risk.

Effective interest rate method (EIR) - The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period.

Fair value - Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Conduct Authority (FCA) - FCA regulates the conduct of financial firms providing services to consumers and maintains the integrity of the UK's financial markets.

Financial Services Compensation Scheme (FSCS) - The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the PRA is obliged to pay an annual levy, which goes towards running costs and compensation payments.

Forbearance - A term generally applied to arrangements which are provided to support mortgage customers experiencing financial difficulties. An example of this would be a temporary reduction in mortgage payments.

Free capital - Represents gross capital less property, plant and equipment and investment property.

Funding limit - Measures the proportion of shares and borrowings not in the form of shares held by individuals.

Gilts - These are bonds issued by certain national governments. The Group only classifies debt securities issued by the Bank of England as Gilts.

Gross capital - The aggregate of general reserve, available-for-sale reserve, subscribed capital and subordinated liabilities.

Impaired loans - Loans where an event has occurred which indicates the Group does not expect to collect all the contractual cash flows due, or expects to collect them later than they are contractually due.

Individual Capital Guidance (ICG) - Guidance from the PRA on the minimum level of capital that must be held.

Individual Liquidity Guidance (ILG) - Guidance from the PRA on the minimum quantity of a firm's liquidity resources and the firm's funding profile.

Individually / collectively assessed - Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be incurred.

Interest rate risk - The risk that the value of the Society's net assets or net interest income falls as a result of a change in interest rates.

Internal Capital Adequacy Assessment Process (ICAAP) - The Group's own assessment of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.

Internal Liquidity Adequacy Assessment Process (ILAAP) - The Group's internal assessment of the liquidity levels needed to meet its regulatory liquidity requirements.

Legacy mortgage portfolios - Mortgage loan books where the Group has ceased new lending and is winding down exposures.

Lending limit - Measures the proportion of business assets not in the form of loans fully secured on residential property.

Leverage ratio - A Basel III ratio which measures Tier 1 capital against total on and off balance sheet assets.

Liquid assets - The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Liquidity Coverage Ratio (LCR) - A Basel III measure of the amount of highly-liquid assets against cash outflows over a 30 day period.

Liquidity risk - The risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash inflows and outflows.

Loan-to-value ratio (LTV) - A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates UK residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis) to reflect changes in house prices.

Loans and advances to banks - Treasury investments purchased with banking institutions.

Management expenses - Management expenses represent administrative expense and depreciation. The management expense ratio is management expenses expressed as a percentage of mean total assets.

Market risk - The risk that movements in market risk factors, including re-pricing of assets and liabilities and the imperfect matching of interest rates between different asset and liability types, may adversely impact the Society.

Mean total assets - Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Member - A person who has a qualifying share investment or a mortgage loan with the Society.

Net interest income - The difference between interest received on assets and interest paid on liabilities.

Non-Executive Director - A Member of the Society's Board who does not form part of the executive management team. They are not an employee of the Society.

Operational risk - The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Other lending - Loans and advances secured on traded endowment policies.

Past due - Loans on which payments are overdue including those on which partial payments are being made.

Permanent Interest Bearing Shares (PIBS) - Unsecured, deferred shares that are a form of capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing Members of Newcastle Building Society.

Prime - Prime mortgages are those granted to the most credit worthy category of residential borrowers.

Prudential Regulation Authority (PRA) - Part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms

Renegotiated loans - Loans are classed as renegotiated with the customer's consent, when their terms have changed during the year. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower.

Repo - Short to medium-term funding agreements which allow a borrower to sell a financial asset, such as Government bonds, as security for cash. As part of the agreement the borrower agrees to repurchase the security at a later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

Residential mortgage backed securities (RMBS) - Asset backed securities that represent interests in residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).

Residential loans - Residential loans are secured against residential property.

Risk appetite - The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Society's Members whilst achieving business objectives.

Risk-weighted assets (RWA) - The value of assets, after adjustment under Basel II rules, to reflect the degree of risk they represent. The Society measures RWA using the standardised approach.

Shares - Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings - The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest.

Solutions - A subsidiary of the Society that offers business to business services through people, process and innovative application of technology. Services include complete systems for smaller societies and white-labelled savings management for a range of banks and building societies.

Solvency ratio - The ratio of total capital to total risk weighted assets.

Subordinated debt / liabilities - A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors, and investing Members (other than holders of PIBS).

Tier 1 capital - Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. Other regulatory adjustments may be made for the purposes of capital adequacy. Under the grandfathering rules of Basel III qualifying capital instruments such as PIBS can be included in other Tier 1 capital (i.e. not Common Equity Tier 1) transferring to Tier 2 over the grandfathering period.

Tier 2 capital - Comprises the Group's qualifying subordinated debt and collective impairment allowance (for exposures treated on a Basel II standardised basis).

Wholesale funding - The total of deposits from banks, amounts owed to other customers and debt securities in issue.

Branch and Financial Advice Centre Directory

Alnwick - 28 Bondgate Within, NE66 1TD	**Tel: (01665) 603 344**
Ashington - 10 Station Road, NE63 9UJ	**Tel: (01670) 815 919**
Barnard Castle - 25 Market Place, DL12 8NE	**Tel: (01833) 600 100**
Berwick Upon Tweed - 12 Hide Hill, TD15 1AB	**Tel: (01289) 306 417**
Bishop Auckland - 15 Newgate Street, DL14 7HG	**Tel: (01388) 433 001**
Carlisle - 65 English Street, CA3 8JU	**Tel: (01228) 524 518**
Chester-Le-Street - 42 Front Street, DH3 3BG	**Tel: (0191) 388 5266**
Consett - 19/21 Middle Street, DH8 5QP	**Tel: (01207) 502 636**
Cramlington - 34/35 Craster Court, NE23 6UT	**Tel: (01670) 735 813**
Darlington - 7/8 Horsemarket, DL1 5PW	**Tel: (01325) 383 656**
Durham - 73/75 Saddler Street, DH1 3NP	**Tel: (0191) 384 3182**
Gateshead - 12 Ellison Walk, Trinity Square, NE8 1BF	**Tel: (0191) 477 2547**
Gosforth - 105/107 High Street, NE3 1HA	**Tel: (0191) 285 5965**
Hawes - Hawes Community Office, Market Place, DL8 3RA	**Tel: (01969) 600 333**
Hartlepool - 133/135 York Road, TS26 9DR	**Tel: (01429) 233 014**
Hexham - 1-2 Beaumont Street, NE46 3LZ	**Tel: (01434) 605 106**
Middlesbrough - 38 Linthorpe Road, TS1 1RD	**Tel: (01642) 243 617**
Morpeth - 14 Market Place, NE61 1HG	**Tel: (01670) 514 702**
Newcastle - 136 Northumberland Street, NE1 7DQ	**Tel: (0191) 261 4940**
North Shields - 76 Bedford Street, NE29 0LD	**Tel: (0191) 259 5286**
Penrith - 12 Market Square, CA11 7BX	**Tel: (01768) 862 888**
Ponteland - 23 Broadway, Darras Hall, NE20 9PW	**Tel: (01661) 821 828**
South Shields - Unit 3-5 Denmark Centre, NE33 2LR	**Tel: (0191) 454 0407**
Stokesley - 36 High Street, TS9 5DQ	**Tel: (01642) 711 742**
Sunderland - 14 Waterloo Place, SR1 3HT	**Tel: (0191) 565 0464**
West Denton - 15 Denton Park Centre, NE5 2RA	**Tel: (0191) 267 5038**
Whickham - 28 Front Street, NE16 4DT	**Tel: (0191) 488 1766**
Whitley Bay - 303 Whitley Road, NE26 2HU	**Tel: (0191) 252 0642**
Wooler - The Cheviot Centre, NE71 6BL	**Tel: (01668) 260 360**
Yarm - 41 The High Street, Yarm, TS15 9BH	**Tel: (01642) 785 985**


Dale, Branch Manager, Gateshead