

# Because you can get a good savings rate **and** make a difference

And because:

- It's available as a deposit or cash ISA
- You get easy access to your money
- Minimum balance is £1
- Interest is paid annually or monthly
- We will donate an amount equivalent to 0.10% of your average balance to the Sir Bobby Robson Foundation each year

For more information, please visit our website:  
[www.newcastle.co.uk/savings](http://www.newcastle.co.uk/savings)



Local knowledge. Mutual understanding.

Newcastle Building Society Principal Office: Portland House, New Bridge Street, Newcastle upon Tyne, NE1 8AL. Newcastle Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Newcastle Building Society is entered in the Financial Services Register under number 156058. You can check this on the Financial Services Register or by contacting the Financial Conduct Authority on 0800 111 6768. Call 0345 734 4345 or visit us online [www.newcastle.co.uk](http://www.newcastle.co.uk).



## Newcastle Building Society

Member Update including Summary Financial Statement 2014



Building trust...  
Building people...  
Building communities...  
**Building Society since 1863.**

Local knowledge. Mutual understanding.





Jim Willens - Chief Executive

**I am pleased to report that 2014 has been another year of continued and steady progress during which the Society has achieved the objectives set out for the year as measured by our corporate key performance indicators. We have continued to successfully implement the strategy that was set at the start of 2010 to return the Society to a traditional building society model with a diversified income stream via our Solutions business built on core building society competencies. The improvement in our year on year performance is evidence that our strategy is working and after following it for five years we can see the significant transformation to the business that has taken place and that we are well positioned to weather the more volatile markets and economic backdrop which have again been evident in 2014.**

The UK has now had a bank base rate of 0.5% for almost six years and treasury markets and economists are expecting rates to stay at this level for longer than was expected a year ago. This is good news for borrowers who are benefitting from some of the most competitive mortgage rates ever seen in the UK but it is not so good for savers who are seeing reduced returns. Lower levels of unemployment, more modest house price growth, and rising disposable incomes (as wage growth outstrips inflation) suggest that 2015 will continue to be a good year for borrowers looking to buy a home in the UK.

Against the more competitive market backdrop and the changes brought about by the implementation of the Mortgage Market Review, I am pleased we have been able to support lending to our members, exceeding our budgeted gross and net lending targets for 2014. Equally pleasing is our range of

competitive savings products, including the very popular Sir Bobby Robson Foundation account, where cumulative donations to the charity have now reached £1m.

From a financial perspective, profitability and capital ratios continued to strengthen further in 2014, and the quality and level of our liquidity was robust. Our key non-financial measures, the satisfaction of both our members and employees, continued above target and we were delighted to receive the Silver Investor in People award. We exceeded our targets for wind down of legacy assets and delivered on schedule on key IT infrastructure and regulatory projects.

#### Financial Performance

Profit before tax improved from £1.3m (restated) to £4.0m reflecting a higher net interest margin that benefitted from mortgage lending activity and reduced funding costs. Our operating profit (before provisions and Financial Services Compensation Scheme levy) increased to £12.4m from £10.6m. Our cost to income ratio improved to 74% from 76% with administrative expenses benefitting from strong cost control and the positive impact of a pension liability management exercise undertaken in 2014.

Profitability of our Solutions business remained stable and was in line with expectations. During the year the Society launched one major new contract, with a further three contracts near completion that are expected to go live in the first half of 2015. In addition, there are a number of other contracts at project stage.

The Society's capital ratios continued to improve year on year with the Solvency Ratio improving from 17.8% to 18.6% and Core Equity Tier 1 ratio improving from 11.9% to 12.7%. Tier 1 ratio improved from 14.1% to 14.6% and the leverage ratio remained over 5%. As announced in August 2014 the Society exceeded the 12% Ceiling Trigger set out in the Capital Agreement that was finalised in May 2010 which meant that with effect from 1st September 2014, the conversion option attaching to the securities ceased to apply and the prevailing coupon was reduced. We were delighted to achieve this trigger, several years ahead of plan, further demonstrating the Society's improved financial strength since 2010.

In 2014 the Society continued to unwind legacy portfolios with higher risk or lower margin that do not fit a traditional building society model. A reduction of £181m (2013: £160m) was achieved including £74m on commercial investment loans and £64m on loans to housing associations. Since the start of 2010 we have reduced legacy portfolios by £770m with the largest element of this reduction relating to commercial investment loans, falling by £344m or 63%.

Provisions for impairment charges reduced from £6.7m to £5.9m. The Society also completed the disposal of the remaining properties in the residential investment property portfolio (Kings Manor Properties Limited) in 2014.

The percentage of mortgage loans in arrears of 3 months or more, across the whole mortgage portfolio based on the number of loans, reduced from 0.64% to 0.53%; around half of the industry average and at a record low since we have been tracking 3 months arrears. Our liquidity at the end of the year was strong at 23.6% compared to over 26% at the start of 2014. This fall was in line with our expectations and holdings continue to be mainly in AAA/AA rated assets.

#### Members

It has been another challenging year for savers with rates offered in the wider savings market continuing to fall. Against this background the Society opened over 30,000 new savings accounts and has continued to offer a range of good value savings products including easy access, regular savings and fixed rate bonds, providing competitive rates wherever possible, balancing the needs of savers and borrowers with our funding requirements. Our Big Home Saver remained a popular product for those wanting to save regularly in preparation for buying a home and our Big Little Saver was also popular with parents and grandparents alike to help promote the savings habit in young children. Our Sir Bobby Robson Foundation accounts remain a key part of our product offering reaching a key milestone of £1m cumulative donations to the charity in 2014. The Society is very proud of this partnership.

We continued to support first time buyers with a range of competitive 90-95% loan to value products, which were very popular with homebuyers and represented around 20% of 2014 mortgage lending. We have operated in the first time buyer space since 2011 and the Society has its own mortgage indemnity insurance arrangements in place, which has meant we have not had to rely on government schemes to support first time buyer lending. Our overall gross lending was maintained at £350m which was slightly ahead of budget as was our net residential lending to homeowners at £134m; this was against a more competitive market backdrop. The implementation of the new regulations arising from the Mortgage Market Review in April 2014 had little impact for the Society as we have completed an affordability assessment for borrowers for several years and all of our mortgage advisors are fully qualified to provide advice.

In addition to having a consistent range of good value mortgage products, we are investing significant resource into our online mortgage application system

with online decision in principle and broker registration systems going live in 2014 and online mortgage applications set to go live in the first half of 2015. We continue to offer all of our mortgage products to both new and existing customers and this is reflected in our high customer retention rates with over three quarters of borrowers choosing to stay with us on product maturity.

Throughout the year we regularly engaged with our members, who provided feedback to help us develop our business, provide challenge and make what we do relevant. In 2014 we developed advice videos for our website to encourage good savings habits and guidance in support of the first time buyer borrowing process. Also, following feedback, we further enhanced our online savings to be available on mobile phones and tablets. We will develop the rest of our website in line with this. Our Customer Panel provided us with feedback on a range of topics such as electronic payments, use of passbooks, as well as helping the Society develop further its unique ISA proposition.

We also hosted a 'Meet the Chief Executive' session for members to receive a business update and ask our Board members about the general marketplace, our products and services. This was in addition to the financial planning seminars we held throughout the year to existing and potential customers that focussed on providing information on a range of financial subjects, such as saving and investments, insurance, mortgages, and wider financial planning. We also arranged local community history walks and branch events. These and other member engagement events will continue throughout 2015 and are an important part of the support we aim to provide to our customers.

We have seen a further fall in complaint volumes in 2014; total complaints fell by 20% with MPPI complaints falling by 33% and non-MPPI complaints falling by 3.5%. We found in favour of our customers in 42% of non-MPPI complaints and 2% of MPPI complaints with only 6% of non-MPPI complaints subsequently referred to the Financial Ombudsman Service (FOS). The majority of cases referred to FOS are found in the Society's favour.

Another very pleasing achievement came in the form of our annual customer survey. This showed overall satisfaction at 92% an increase from 91% the previous year. NFSL continued to support our aim of delivering financial advice that's accessible for all and the customer satisfaction results for this part of our business reached 97%, which is a significant increase on the 92% for 2013. This is an achievement that is particularly noteworthy given it was only in 2013 that new regulations were brought into force in the form of the Retail Distribution Review, which resulted in many institutions withdrawing from the advice marketplace.

**Employees**

We continue to engage with our staff so we understand their views of the Society and what it's like to work here. This has formed part of our Employer Brand development, which focuses on building trust, building our people and building our communities. Ultimately we want to be employer of choice in the North East. In 2014 staff from all levels across the business took part in 'Who We Are' workshops and the feedback from this has helped us shape our people agenda and help drive forward developments we want to make to the business. This work ties in perfectly to the Values that we launched in 2013. Developing our Employer Brand alongside the rollout of our Values will continue to have a positive impact on improving service to our customers. By engaging with our staff and understanding their needs, supporting their development and keeping them motivated, we will ensure we continue to deliver excellent customer service.

We have again held our annual staff survey and I'm pleased to say we have achieved an outstanding result. Around three quarters of staff participate in the survey and the satisfaction rate reached a new high of 90% in 2014.

This year, we introduced the Talent Management programme, which is designed to support development of potential future leaders of our business. For this, we work in partnership with the University of Sunderland Business School to progress our staff through a Leadership Programme. The purpose of this is to encourage personal transformation and understanding of leadership styles. This supplements other programmes that the Society already has in place.

Our staff turnover rate across the whole business increased from a record low in 2013 of 10.2% to 12.6% in 2014, reflecting a more competitive employment market and reducing rates of unemployment.

In April we gave an annual pay award that was ahead of UK wage inflation. In December the Remuneration Committee approved a Society-wide Corporate Bonus, based on achievement of the Corporate Key Performance Indicators, which will be paid to staff after the approval of the Annual Report and Accounts.

**Communities**

Our 'Cornerstone of the Community' initiative entered its fifth year. Two activities are at the heart of this and they continued in earnest. Our financial education curriculum-based learning programme has now helped more than 1,400 school pupils learn about being financially independent later in life and is something we are looking to extend even further in 2015.

In addition, we held our biggest ever awards ceremony for local heroes during which a range of local community groups and individuals were rewarded for their hard work within the North East. Our hope is that this will continue to gain momentum and we aim to hold four events during the next 12 months in our heartland area.

We also updated our Charity of the Year programme that has run for six years. Instead of supporting one local charity over 12 months, we will extend our support for a minimum of two years. This means we can deliver even more value to a local good cause, Percy Hedley Foundation, a very well deserving charity that helps children and adults in our region with learning disabilities.

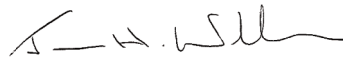
The Society also developed a new Volunteer Policy, which has granted our staff time during their working week to support a range of charities. We hope, through this Policy, to help even more organisations in our area that wouldn't ordinarily be able to receive such support without significant financial investment.

Our fund within the Community Foundation celebrated its 25th birthday and we marked the occasion with more donations to worthy causes in the area for specific projects, such as a local school to help build a sensory room for children with disabilities, a food bank, a family support group and an organisation that pays for days out for disadvantaged children within our region.

**Summary**

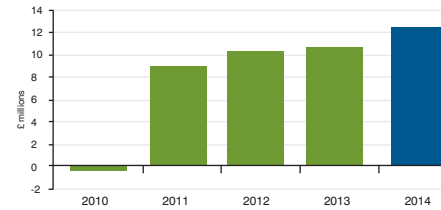
I am pleased with the Society's continued and steady progress in 2014 and that we are in good shape going into 2015 and beyond

Our success is dependent on the outstanding team of people we have working at the Society. Their exceptional loyalty and commitment has enabled the Society to deliver the year on year improvement in our results and I would like to thank them for their contribution in 2014 and over the last 5 years.

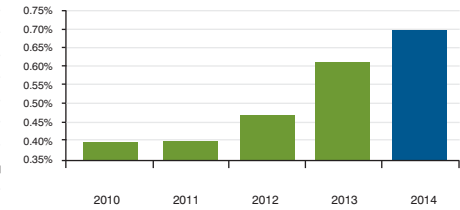


**Jim Willens**  
Chief Executive  
24 February 2015

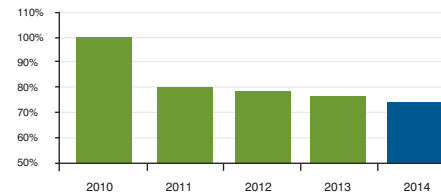
Operating Profit / (loss) before Impairments, Provisions, FSCS levy and Exceptional Items



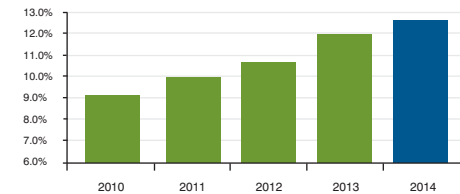
Interest Margin as a percentage of Mean Total Assets



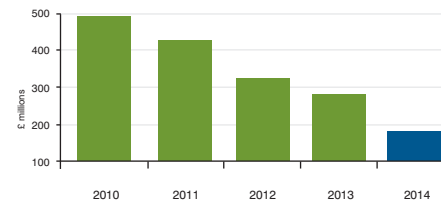
Cost to Income Ratio



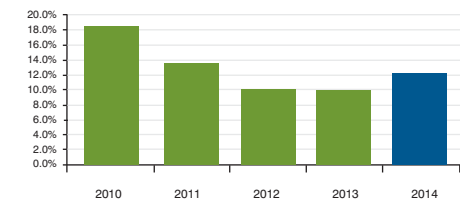
Core Equity Tier 1 Capital Ratio



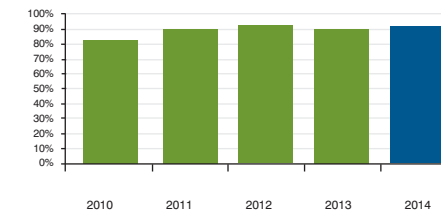
Commercial Investment Loan Exposure (net of provisions)



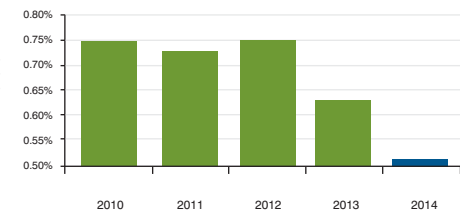
Percentage Staff Turnover



Overall Customer Satisfaction Percentage



Percentage of Loans in Arrears of 3 months or more (number of loans)



2014 has been a packed year for our community support. We have reached several milestones and completed many successful charity initiatives.

As a mutual organisation, supporting the communities in which we operate is in our DNA. We aim to create a mutual support mechanism that adds real value to the local communities and lives of those within them. Below are some highlights of our biggest achievements this year, we hope you enjoy reading about them; our staff and communities certainly enjoyed being involved.

## Society Savers Break One Million Pound Fundraising Barrier for Sir Bobby

In 2014 our donations broke through the million pound fundraising barrier for one of the region's best-loved charities.

The Society set up a unique partnership with The Sir Bobby Robson Foundation in spring 2012 by launching Foundation-branded ISA and saver accounts, with an additional 0.1% of the total balances held in all such accounts being paid by the Society to the Foundation. The Society is the largest corporate donor to the Foundation.



Jim Willens with Lady Elsie Robson at the launch of the Sir Bobby Robson Foundation Account.

Lady Elsie Robson commenting on the milestone said: "When the Newcastle first approached us with this offer to help we had no idea where it would take us. To have raised more than £1 million is simply incredible. We hoped, and believed, it would work well but had no idea this partnership would become so successful.

"The Newcastle is very much part of this team effort. They understand what we're trying to achieve and its importance. I know they are very proud to be helping us find better ways to detect and treat cancer." Watch a video we made with the Foundation via our YouTube channel [www.youtube.com/NewcastleBSoc](http://www.youtube.com/NewcastleBSoc) or it can be viewed at: [www.newcastle.co.uk/your-newcastle](http://www.newcastle.co.uk/your-newcastle).

## Berta Leads at the Cornerstone Awards

An octogenarian community campaigner led a roll-call of everyday heroes from across the North East at a gala presentation evening held in their honour in front of around 200 people at the Great North Museum in Newcastle city centre.

The Society's annual Cornerstone of the Community Awards – with 2014's being the biggest ever event - recognises the positive impact individuals and groups have on the places they live in through their energy, enthusiasm and dedication.

Launched in 2011, the Awards cover four different categories, with nominations sought for each one right across the Society's branch network. Leading the way this year was Berta Walker, who picked up The People's Choice Award, which recognises an individual who is a great ambassador for their local area. Now in her late 80s, Berta continues to work tirelessly for the Wickham community in which she lives, helping to run the St. Mary's Day Care Centre that she's been involved with for the past 30 years and she regularly raises money for local charities.



Jim Willens with the 'Peoples' Choice' Winner, Berta Walker.

The Young Person's Award was given to 17 year-old Reece Dungey, who has been a member of the Children in Care Council in North Tyneside for five years, and has been involved with a wide range of projects aimed at improving and explaining the situations faced by looked after children.

Seventy-nine year-old Frances Cleminson of Gateshead was named as the Parent/Guardian of the Year, having looked after her six children, five of her sister's children, her mum in her final years and a number of foster children. Described locally as a pillar of strength and a good angel, she has done all this on her own for the last 30 years after losing her husband.

Finally, The Sir Bobby Robson Foundation Team Award went to the Cornerstone Cafe in Whitley Bay, which hosts and is involved with a local group who support the rights of people with special needs. There is a video of the evening, which can be viewed at [www.youtube.com/NewcastleBSoc](http://www.youtube.com/NewcastleBSoc)

## Gateshead School children Grow all the Way in Society Boardroom Challenge

The seeds of an idea dreamt up by children from a Gateshead primary school has come into full bloom to win them the top prize in the Society's third annual Boardroom Challenge.

The team from Brighton Avenue beat rivals from 13 other North East schools to come out on top in the competition, which challenged the nine and ten year-old participants to develop business ideas that focus on benefiting their local community while also making a profit.



Boardroom Charity Challenge Winners, Brighton Avenue Primary, Gateshead.

Eight teams made it through to the final of the competition and got the chance to present their

creative fundraising ideas to a panel of senior business figures in the Society's boardroom. And after an intense day of competition, the Brighton Avenue team came out on top due to the far-reaching impact their business idea would have on their local community.

The Brighton Avenue pupils, who nicknamed themselves The Veg Veterans, developed an idea around growing a community garden, with the produce grown not only being sold but also used to make other things to sell, and they're now set to use the competition's £1,000 prize to put their plans into action to raise money for the local People's Kitchen.

Both the Cornerstone Awards and Financial Education programme are part of the Society's ongoing Cornerstone of the Community campaign, which enables individual branches to provide support to good causes in their local areas in a variety of ways. Again, a video was made to showcase the talented youngsters, this can be viewed here [www.youtube.com/NewcastleBSoc](http://www.youtube.com/NewcastleBSoc).

## Wheely Good Effort - Society Charity Cyclists Raise Over £4,000

Society staff raised more than £4,000 for a range of good causes after successfully pedaling their way to the end of a long distance cycling challenge.

Dozens of staff from 19 of the Society's branches and two head offices came together to try to cover the full 3,656km distance of the Tour De France on exercise bikes located in their respective offices around the Society's heartland area.

At the end of a week-long series of events, the cyclists had smashed their target for the 'Tour De Branch' event by riding a combined distance of 4,119km.



Some of our staff prepare for the 'Tour de Branch' Challenge.

## Staff Conquer 'Everest' Charity Challenge

Staff from the Society took their fundraising work to new heights. They attempted to climb the 8,848m to the summit of Mount Everest – all on a stepper!

The team of colleagues took turns on a step machine in order to do their respective bits towards the height of the world's biggest mountain being reached collectively across all the participating groups.

More than 300,000 steps were eventually achieved and around £1,500 raised for local charities.



Staff taking part in our 'Everest' Charity Challenge.

### Community Foundation

We have held an endowment fund with the Community Foundation for 25 years. Through this fund, each year we donate to a number of community groups. In 2014, we decided to give over £8,000 to four local groups as nominated by our staff.

### Our Society-Wide Corporate Charity

For several years now, the Society has supported one charity for a 12-month period. This has helped raise over £150,000 for local charities. However, we wanted to increase our help further, so we decided to extend the length of time we support the chosen charity to a minimum of two years. This means we can add even more value supporting longer term projects.

The charity we're currently supporting is the Percy Hedley Foundation; a charity based in the North East which helps disabled adults and children, by providing services including school, college and disability employment.

## Our Customers

During 2014, we engaged with customers to gain feedback to help us develop the products and services we provide.

This included;

- Research on our branch environment – using the newly refurbished branch in Sunderland.
- Member event in April – here we invited customers to an informal event where they could meet our Chief Executive and Chairman and ask questions.
- Online surveys – we use these to ask customers what is important to them, this helped us to develop guides for our website.
- Branch events – some of our most successful events have been our local history walks. Customers were invited to participate in a number of professionally guided tours around the branch locations to help them gain knowledge of their local areas. These proved very popular and were well attended.
- What's more, we engaged with customers to help us develop our First Time Buyer and Savers videos. We asked them to share their experiences of borrowing and saving with us, the results of which helped us produce some fantastic videos where they share their personal stories to give hints and tips to others. These can all be viewed on the 'Your Newcastle' section of our website: [www.newcastle.co.uk/your-newcastle](http://www.newcastle.co.uk/your-newcastle)



Two first-time buyers taking part in our mortgage advice video.

## Supporting our First Time Buyers

We're proud that we've consistently supported First Time Buyers with regular competitive 90% and 95% loan to value products for several years. This has been during a time when many organisations withdrew from such lending.

We understand how important First Time Buyers are to the wider housing market and also what a big step it is for borrowers to get on to the housing ladder.

We always aim to have a great range of competitively priced products across a range of loan to values and terms. Many of these are fees free and loans over 80% also include Mortgage Indemnity Insurance cover paid for by the Society.

Check out our website at: [www.newcastle.co.uk/mortgages/](http://www.newcastle.co.uk/mortgages/) for details of the great products we have available or to try one of our mortgage calculators.

You can also call us on 0345 606 4488 to speak to one of our fully qualified mortgage advisers.



Visit: [www.newcastle.co.uk](http://www.newcastle.co.uk) for more information.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

## Society's BIG Home Saver

Our Big Home Saver is a deposit savings account that pays a competitive interest rate on your savings also offering a cash bonus of up to £1,000, after successfully saving for and completing a mortgage with the Newcastle, helping you with the costs involved in buying your first home.

One customer that took out this product was Peter Snowdon. He says: "I had some money to save and looked at a number of ISA products that were available, but settled on Newcastle Building Society's Big Home Saver, which not only provided a very competitive rate in itself, but also got me thinking about what I needed to do to get a deposit together."

He continues: "The maximum monthly allowance that the Big Home Saver account worked to acted as an incentive for me to reach it every month, and it enabled me to quickly build some momentum towards reaching the target at which I was aiming."

Over the next three years, Peter and his partner saved regularly, until they reached the point where they had the money they needed. Peter says: "Being self-employed, I was a bit concerned that I might struggle to actually get a mortgage when the time came, even though we had the deposit on hand and ready to use.

"We went into my local branch of the Newcastle and gained mortgage advice, which was incredibly helpful. We talked through all the options and they helped us fully understand them and the price range in which we could most likely afford to look – this advice really reassured us and gave us the information we needed to move things forward."

### Don't miss out!

We have to remind all our Members from time to time that they can choose not to receive marketing mailings, emails or phone calls from the Society. To find out whether you are opted in or out, or to change your preferences, just ask next time you're in your branch or call our Newcastle-based Customer Contact Centre on **0345 734 4345\*** and our staff will be happy to help. Remember though, if you choose not to receive marketing messages from the Society, you may miss out when we launch new products and services.

### Important Information about Compensation Arrangements

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

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

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

For further information about the scheme, please call us on **0345 734 4345\*** or ask a member of staff from your local branch.

### Staying safe online

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

- Don't write down your online log in details;
- Make sure you have up-to-date anti-virus and anti-spyware software installed on your computer;

- Take care when opening email attachments;
- Ensure you always log off properly when you've finished transacting online;
- We will never ask you to send personal details in an email; do not respond to suspicious emails asking for such information; and
- Never include your personal details on an email. Use our secure online email service.

### Want to be kept up to date?

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

### Why not also join our Priority Register?

The Priority Register is an email service that keeps you up-to-date with our new products and services – just as they're launched, so you don't miss out. It's easy to join, simply ask in branch or telephone **0345 734 4345\***, provide your email address and that's it!

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

\*Lines open Monday to Friday, 8am to 6pm (excluding Bank holidays)

### Message from HMRC Don't pay too much tax on your savings interest

A new 0% tax rate for savings means more pensioners, low earners, or those with only investment income, can have some or all of their savings interest paid tax free from 6 April 2015.

For more information go to: [www.gov.uk/apply-tax-free-interest-on-savings](http://www.gov.uk/apply-tax-free-interest-on-savings)

### Notice of AGM

Notice is given that the AGM of Members of Newcastle Building Society will be held on Wednesday 22 April 2015 in the Bamburgh Suite, St James' Park, Newcastle United Football Club, Newcastle upon Tyne NE1 4ST at 1.45pm prompt, for the following purposes:

### Ordinary Resolutions

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

### Election and Re-election of Directors

5. i) To elect Richard John Bottomley  
ii) To re-elect David John Buffham  
iii) To elect Patrick Ferguson  
iv) To re-elect Andrew Scott Haigh  
v) To elect Karen Ingham  
vi) To re-elect Ronald Joseph McCormick  
vii) To re-elect Philip James Moorhouse  
viii) To re-elect John Morris  
ix) To re-elect Angela May Russell  
x) To re-elect Catherine Rosemary Reid Vine-Lott  
xi) To re-elect Ian William Ward  
xii) To re-elect James Henry Willens.

By Order of the Board



**Ian Good**  
Group Secretary  
24 February 2015

### Notes

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

### How to Vote

#### Online

1. You can vote online at [www.newcastle.co.uk/agm](http://www.newcastle.co.uk/agm)
2. You must vote online by **5pm Friday 17 April 2015**. 30p will be donated to our Corporate Charity, Percy Hedley Foundation, for every online vote received.

#### Freepost

1. Complete, sign and detach the Voting Form.
2. Post it in the pre-paid envelope provided. No stamp is required. Your form should be received by the independent scrutineers no later than **5pm Friday 17 April 2015**.

**Please do not include passbooks or cheques in the pre-paid envelope.**

#### At the AGM

1. You can vote in person at the AGM on **Wednesday 22 April 2015**.
2. Bring your Voting Form, or other evidence of Membership, to the Meeting.

#### Agenda:

- Registration 1:00pm.
- AGM 1:45pm prompt.
- Refreshments served upon registration and after conclusion of the Meeting.

### AGM Business

1. The Annual Report and Accounts for the year ended 31 December 2014 are required to be received formally by Members at the AGM.
2. It is a requirement that the auditors are appointed by the Members each year. The Board is proposing the re-appointment of PricewaterhouseCoopers LLP as auditors.
- 3/4. The Remuneration Committee Report included on pages 16 to 20 provides details of the Society's approach to pay for the period 1st January to 31st December 2014. It sets out the remuneration policy and remuneration details for the Executive and Non-Executive Directors of the Society and reflects regulatory requirements. The report is split into three main sections:-
  - i) A Statement by Catherine Vine-Lott, who is Chair of the Remuneration Committee;
  - ii) The Report on Remuneration; and
  - iii) The Directors' Remuneration Policy.

#### Voting on the Report and Policy

At the 2015 AGM there will be separate votes on the Report and Policy which will both be on an advisory basis. We will take the views of our Members seriously, as expressed through the advisory votes, and will consider the results carefully to determine what action, if any, is appropriate.

It is intended that a vote on Policy will take place on an annual basis unless the approved Policy remains unchanged – in which case we will propose a similar resolution at least every three years, in line with the requirements for listed companies. We intend that voting on the Report will continue to take place on an annual basis.

5. In accordance with best practice on corporate governance, all of the Society's Directors are standing for either election or re-election at the AGM, with the exception of Mr. R.D. Mayland who retired as a Director in February 2015. Details of all the Directors are set out on pages 13 to 15.

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

### Being a Member

#### What does being a Member actually mean?

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

#### As a member what can I expect to receive?

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

- A copy of the Society's Rules and Memorandum (on request);
- A copy of the annual Summary Financial Statement on the Society's business (which is sent to qualifying Members before the AGM);
- A copy of the detailed Annual Report and Accounts (on request); and
- Notice of the AGM.

#### Does every member have the same rights?

Most people taking out a mortgage or opening a savings account with a building society become Members and therefore have rights to receive information as mentioned above.

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

#### Joint Account

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



**Jim Willens** Chief Executive

Jim's expertise in, and commitment to, the building society sector spans more than 30 years. During this time, he has held significant senior posts including Retail Operations Director and Group Services Director at Nationwide. His roles over the years have included strategic responsibility for Branches, Telephony, Internet Services, Technology, Product Development and Central Support Services, which have involved leading teams in excess of 9,000 people. His career started out in the 'field' as a branch manager and he also held a range of retail and sales management positions. Jim has a strong track record of delivery and a passion for developing the people he works with to provide excellent customer service through the mutual business model both of which are key elements to the Society's strategy. He is a Non Executive Director of Brown Shipley & Co. Limited. Jim joined the Society in December 2009.



**Angela Russell** Deputy Chief Executive and Finance Director

Angela is a highly experienced Chartered Accountant and Certified Public Accountant with 26 years' experience in finance in the UK and abroad. She has worked in a variety of positions covering finance, risk, audit, project and corporate planning roles. In particular, she has many years' experience in finance roles within the building society sector including her current role as Finance Director for the Newcastle, which she has held since 2010. She also held the post of Finance Director at the Universal Building Society. Prior to joining the building society sector Angela spent 12 years at PricewaterhouseCoopers LLP. She was a Non Executive Director at St Cuthbert's Care Limited in 2014 and in 2015 she has taken up a new appointment as member of the Audit Committee of Percy Hedley Foundation.



**Andrew Haigh** Chief Operating Officer

Andrew has a track record in transforming and developing businesses. With 30 years' business experience and over 20 years in the mutual sector, he has held leadership roles as both an Executive and a Non Executive Director. As the former Chief Executive of Engage Mutual Assurance, he led the organisation for over 10 years, through a period of sustained growth and innovation. Andrew gained his strong customer focus through his early career in marketing and customer service roles with British Airways, Barclays and National & Provincial Building Society. An advocate of mutuality, he was previously Chairman of Mutuo, an independent organisation which promotes the development of new and existing mutuals to Government. Andrew joined the Society in 2014.



**Patrick Ferguson** Strategy, Planning and Risk Director

Patrick was appointed to the Board in February 2014. Before this he was the Society's Group Risk Executive for almost four years after joining the Society in 2010. He has extensive experience in risk management, including conduct risk and regulatory compliance, in addition to financial reporting, planning, and budgeting. He has 15 years experience in the Building Society sector and has held the posts of Finance Director, General Manager, Finance and Head of Strategy and Planning. He qualified as a chartered accountant with PricewaterhouseCoopers LLP.



**Phil Moorhouse** Chairman

Phil has been the Society's Chairman since April 2013, having joined the Board as a Non Executive Director in 2011. He is a highly experienced accountant and is a Fellow of the Chartered Association of Certified Accountants. Phil has held a number of senior Board positions including that of Managing Director (UK) of Northgate PLC, which he held for more than seven years. This followed six years as Finance Director. He is a Director of Molins PLC where he is Chair of Audit and a Senior Independent Director. Additionally, he is Vice Chairman on the Board of Cumbria NHS Partnership Trust and was appointed a director of Transflex Vehicle Rental Limited on 20 January 2014. Phil brings his 36 years' industry expertise to the Newcastle's Board. Phil also chairs Newton Facilities Management Limited and Nominations Committee.



**Ian Ward** Non Executive Director

Ian has spent over 40 years in financial services including Chief Executive of Leeds Building Society for 16 years until his retirement in August 2011. Ian is a Non Executive Director of Harrogate and District NHS Foundation Trust and a member of its Audit Committee. Ian was a director and vice-president of Leeds, York and North Yorkshire Chamber of Commerce and Chairman of its Property Forum. He was a member of the national council of the Building Societies Association and a director and Chairman of the Audit Committee of Leeds Training and Enterprise Council. He has been a Non Executive Director of Newcastle Building Society since July 2013 and is a member of the Group Risk Committee, and Director of Newton Facilities Management Limited. For information about other directorships taken up from January 2015 please see page 80 of the Annual Report and Accounts.



**Ron McCormick** Deputy Chairman

Ron has established a successful career in the building society sector as an experienced accountant. He is both a Fellow of the Institute of Chartered Accountants and a Fellow of the Chartered Institute of Internal Auditors. He has previously worked as Group Finance Director then Group Commercial Director at Skipton Building Society, posts which he held for a total of 14 years. In addition, he has more than seven years experience with Guardian Royal Exchange, as well as seven with KPMG, both in the UK and abroad. Following several years on the Society's Board, which he joined in 2007, in January 2011 he was appointed Deputy Chairman and Senior Independent Director. He is a member of the Society's Audit and Group Risk Committees. He also works as a senior adviser to businesses within a range of sectors. He is Chairman of Grassington Hub Ltd and a Director of Threshfield Quarry Development Trust Limited.



**David Buffham** Non Executive Director

David has spent most of his career at the Bank of England. He held a wide variety of banking and other roles, including the post of Bank of England Agent for the North East. There he was responsible for reporting to the Bank's Monetary Policy Committee on the region's economy and explaining policy to key stakeholders in the North East. He brings this knowledge and experience to the fore as Chairman of the Group Risk Committee and also as a member of the Nominations and Remuneration Committees. Additionally, he is a Director of Newton Facilities Management Limited. He is an experienced Non Executive Director and is a Director of Zytronic PLC, William Leech (Investments) Limited and The William Leech Foundation. David joined the Board in 2010.



**Catherine Vine-Lott** Non Executive Director

Catherine has a total of 36 years' experience in the financial services sector having spent her entire working life in the industry. This includes 18 years at Barclays where her positions included Chief Executive of Barclays Stock Brokers, as well as Barclays Personal Investment Management. In addition, she has significant experience with Legal and General both at group Board level and in running the wealth management division. This brings an abundance of expertise to the Society's Board, which she joined in January 2010, and to the Society's Audit and Remuneration Committees, which she Chairs. She is also an experienced Non Executive Director and currently sits on Just Retirement Limited's Board.



**Karen Ingham** Non Executive Director

Karen has an extensive customer services background within the consumer sector and is extremely people and customer focused. She is currently the Customer Services Director at Virgin Media Limited. Her previous 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 trustee of the Virgin Media Pension Scheme and also a member of the Chief Customer Officer Forum.



**John Morris** Non Executive Director

John is a Fellow of the Institute of Chartered Accountants and brings to the Society a significant amount of experience of both the banking and building society sectors. He worked for several years as Director of Finance for the Retail Banking Division at HBOS. Prior to that, he held senior posts at Halifax (Halifax Building Society and then Halifax PLC) as General Manager and Leeds Permanent Building Society where he held the post of General Manager Finance. He also worked at KPMG where he started his accountancy career. He is a member of the Audit, Nominations and Remuneration Committees. From the beginning of 2015 he joined Group Risk Committee having been a Board member since 2011.



**Richard Bottomley OBE** Non Executive Director

Richard joined the Board in 2014 as a Non Executive Director. He is a fellow of the Institute of Chartered Accountants and in 2010 was awarded an OBE in the New Years Honours List for services to the Accountancy Profession and Business in the North East. He was Managing Partner at KPMG for 12 years prior to his retirement in 2008 and is a past President of the North East Chamber of Commerce. In his professional career spanning over 30 years he gained experience in Corporate Finance, Strategic Planning and was the Lead Audit Partner on some of the regions largest companies. More recently, Richard is Chairman of Greggs PLC Retirement Benefits Scheme, TL Dallas Group, Skillsbridge and a director at Durham CCC.



This report details the Society's approach to pay for the period 1st January to 31st December 2014. It sets out the remuneration policy and remuneration details for the Executive and Non-Executive Directors of the Society and how it applies the principles of the UK Corporate Governance Code relating to remuneration, the FCA Remuneration Code and the disclosure requirements arising under the EU Capital Requirements Directive IV (CRD IV).

The report is split into three main areas; the Statement by the Chair of the Remuneration Committee, the Report on Remuneration and the Directors' Remuneration Policy. All members eligible to vote at this year's Annual General Meeting will have the opportunity to approve the Directors' Remuneration Policy and the Directors' Remuneration Report through ordinary resolutions.

**i) Statement by the Chair of the Remuneration Committee**

The Remuneration Committee operates within the Terms of Reference (TOR) agreed by the Board. The TOR are reviewed annually and were last reviewed on 24th November 2014. The effectiveness of the committee is also reviewed on an annual basis and was last reviewed on 24th November 2014.

The main objectives of the committee are summarised as follows:

- To ensure compliance with the Regulators' Remuneration Code;
- To consider and make recommendations to the Board on executive remuneration and conditions of employment;
- Approval of the Society's Remuneration Policy Statement;
- Approval of Pillar 3 Remuneration disclosures; and
- To consider and make recommendations to the Board on the general framework of staff bonus schemes.

The Board believes remuneration should be sufficient to attract, retain and motivate senior managers to continue to run the Society successfully, whilst avoiding paying more than is necessary for this purpose.

The Remuneration Policy, therefore, focuses on rewarding our most senior executives in line with the achievement of our goals set out in the annual strategic plan whilst continuing to provide value for money for our members.

**Composition of the Committee**

The committee comprises solely of Non-Executive Directors who have no personal financial interest in the recommendations. The Chair of the Committee is Catherine Vine-Lott and the other members are Richard Mayland, David Buffham and John Morris. The Chairman and Chief Executive (except for items relating to his own remuneration) also attend meetings but are not members of the committee. The HR Executive acts as Secretary to the Committee.

During the year the Committee met three times and activities included:

- Reviewing the compliance of the Remuneration Policy against the requirements of the Regulators' Remuneration Code;
- Considering and agreeing pay and benefits for Executive Directors, senior managers and the Chairman, as well as overseeing remuneration matters across the Society and its subsidiaries;
- Reviewing the performance for the financial year and approving the resulting level of Corporate Bonus to be paid based on achievement of the Corporate Key Performance Indicators; and
- Consideration of the disclosure requirements for the Remuneration Report including Pillar 3 disclosures.

**Catherine Vine-Lott**  
Chair – Remuneration Committee  
24 February 2015

**ii) Report on Remuneration**

The total remuneration received by Directors is shown below. The information has been audited and shows remuneration for the years ended 31 December 2013 and 31 December 2014 as required under the Building Society (Accounts and Related Provisions) Regulations 1998.

**Directors' Emoluments (Audited)**

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

	Salary or fees	Annual bonus	Pension contributions to defined contribution scheme (Notes 1 & 2)	Other benefits	Total 2014 contractual benefits	2013 total
	£000	£000	£000	£000	£000	£000
<b>Executive Directors</b>						
JH Willens - notes 1, 3 and 5	300	9	-	40	349	297
AM Russell - notes 4 and 5	179	5	16	10	210	168
AS Haigh (appointed 27 January 2014) - note 2	140	5	-	22	167	-
P Ferguson (appointed 19 February 2014)	113	4	10	9	136	-
G Tiplady (made redundant 11 April 2013)	-	-	-	-	-	43
<b>Total for Executive Directors</b>	<b>732</b>	<b>23</b>	<b>26</b>	<b>81</b>	<b>862</b>	<b>508</b>
<b>Non-Executive Directors</b>						
PJ Moorhouse	63	-	-	-	63	56
RJ Bottomley OBE (appointed 22 September 2014)	9	-	-	-	9	-
DJ Buffham	46	-	-	-	46	42
K Ingham (appointed 4 September 2014)	9	-	-	-	9	-
RD Mayland (retired 24 February 2015)	37	-	-	-	37	37
RJ McCormick	51	-	-	-	51	51
J Morris	37	-	-	-	37	37
CRR Vine-Lott	44	-	-	-	44	45
IW Ward (appointed 9 July 2013)	41	-	-	-	41	18
FD Holborn (retired 24 April 2013)	-	-	-	-	-	21
<b>Total for Non Executive Directors</b>	<b>337</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>337</b>	<b>307</b>
<b>Total for all Directors</b>	<b>1,069</b>	<b>23</b>	<b>26</b>	<b>81</b>	<b>1,199</b>	<b>815</b>

**Notes:**

1. Mr JH Willens has elected to take his pension contribution amounting to £27,000 as a cash payment, this is included in other benefits in the table above. He is liable for his own tax and national insurance contributions on this payment.
2. Mr AS Haigh has elected to take his pension contribution amounting to £12,635 as a cash payment, this is included in other benefits in the table above. He is liable for his own tax and national insurance contributions on this payment.
3. Mr JH Willens' salary was increased to £300,000 on 1 April 2013 and he declined to take the increase until 1 January 2014.
4. Mrs AM Russell's salary was increased to £170,000 on 1 April 2013 and she declined to take the increase until 1 January 2014. On 27 January 2014 her salary was increased to £180,000 following appointment to the additional role of Deputy CEO.
5. Mr JH Willens and Mrs AM Russell declined their bonus entitlement of 2.5% of salary due under the Corporate Bonus scheme in 2013.

The Chief Executive is the Society's most highly paid employee and no employee earns more than any Executive Director. The Chief Executive's salary was increased to £300,000 on 1 April 2013 and he declined to take this increase until 1 January 2014, having not taken a pay increase during his tenure as Chief Executive. The percentage increase in his total remuneration was 17.5% in 2014. The Chief Executive is also a Non-Executive Director of Brown Shipley & Co Limited and he retains the remuneration for this directorship as agreed by the Board.

## Remuneration Committee Report (continued)

### iii) Directors' Remuneration Policy

The Society's Remuneration Policy is designed to provide competitive remuneration packages that attract, retain and reward our senior team, to deliver business objectives in support of the Society's strategy whilst providing value for members.

In implementing the Policy, the following key principles are observed:

- The Policy is clearly linked to our business strategy, objectives and values;
- Policy, process and practice are consistent with and promote effective risk management, whilst creating

an acceptable relationship between risk and reward;

- Basic pay and total remuneration is set at a competitive level to attract and retain the appropriate calibre of people;
- Our approach to pay meets regulatory compliance and good corporate governance practice;
- Remuneration arrangements are transparent, consistent and fair, reflecting individual responsibilities and performance; and
- Remuneration arrangements are straightforward to understand, communicate and administer.

### Remuneration for Executive Directors

The table below shows the elements of remuneration for Executive Directors and the way they operate.

How elements support our strategy	Operation	Maximum potential value	Performance conditions and assessment
<b>Basic Salary</b> Supports the recruitment and retention of Executive Directors, reflecting their individual roles, skills and contribution	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. The Society aims to position Executive Directors competitively within the reference group.	Increases to base salary are determined annually by the Committee taking into account: <ul style="list-style-type: none"> <li>• Individual performance</li> <li>• The scope of the role</li> <li>• Pay levels of comparable organisations</li> <li>• Pay increases elsewhere in the group</li> </ul>	None applicable however individual performance is taken into account when considering base increases
<b>Pension</b> Supports recruitment 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
<b>Benefits</b> <ul style="list-style-type: none"> <li>• To attract and retain Executive Directors</li> <li>• Provides a competitive level of benefits to assist Executive Directors to carry out their roles effectively</li> </ul>	A number of benefits are provided to Executive Directors, including car or car allowance, private medical insurance, life insurance and permanent health insurance.  The Committee reviews benefits and from time to time may make changes, for example to reflect market practice or the needs of the business.	The Society bears the cost of providing benefits which may vary from year to year.	None applicable
<b>Short Term Incentive Scheme</b> <ul style="list-style-type: none"> <li>• Supports, attracts and retention of Executive Directors</li> <li>• Supports the development of a high performance culture</li> <li>• Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate strategy</li> </ul>	Performance measures and targets are set on an annual basis and are measured over the financial year.  Payment is made in cash, after performance has been assessed. Payment is made at the discretion of the Committee.	The Committee determines the maximum incentive.  A corporate bonus payment has been awarded of 3.0% of base salary in relation to 2014 performance.	The performance measures attached to the Corporate scheme are delivery of the Corporate KPIs which include: <ul style="list-style-type: none"> <li>• Group profit, capital and liquidity targets</li> <li>• Quality measures around service, complaints and satisfaction</li> <li>• Targets for savings and mortgage business</li> <li>• Other KPIs covering people, Solutions business and delivery of major projects</li> </ul> The measures are assessed by the Committee.

#### Notes to the table

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

### Remuneration of Non-Executive Directors

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

Element	Approach
<b>Basic Fees</b>	Reviewed annually based on time commitment and responsibility required by Board and Board committee meetings. Review takes into account fees paid by comparable financial services organisations. Fees set by the Remuneration Committee.
<b>Additional Fees</b>	Additional fees are payable for additional responsibilities such as committee chairmanship or membership.
<b>Other items</b>	Non-Executive Directors are not eligible to participate in any form of performance pay plans and do not receive pensions or other benefits.

The Remuneration Committee also determines the Chairman's fee.

### 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 6 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.

### Policy on termination pay

The Committee aims to treat departing Executive Directors fairly, taking into account the circumstances of their departure, but 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 Corporate Bonus scheme sets out treatment of award for individuals who cease to be an employee or Director of the Society.

### Consideration of remuneration for individuals elsewhere in the Society

The Committee is responsible for setting the remuneration of the Executive Directors and approves the policy for senior managers who have material impact on the Society's risk profile (Code Staff).

In addition, the Committee reviews recommendations from the Chief Executive for approval of the remuneration of other executives.

When setting salary increases for Executive Directors, the Committee considers the level of salary increases across the Society.

All employees of the Society receive a basic salary and benefits consistent with market practice, and are eligible to participate in the Society's Corporate Bonus scheme and pension arrangements.

### 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. The Committee, has for a number of years, invited members to vote on the annual remuneration report, and members have always voted in favour.

The Society has voluntarily elected to adopt some of the changes to remuneration reporting that apply to UK listed companies and one of the factors that the Committee took into consideration was the opportunity to give members a chance to vote on the Society's Remuneration Policy. The Committee believes this will give members an opportunity to indicate their support for the policy and the outcome of the vote will influence future policy development.

## Remuneration Committee Report (continued)

### Summary of the Remuneration of Code Staff

A summary of the remuneration of Code Staff during 2014 and the business areas in which they operate is shown below.

Category	Typical Functions	Number in Category During the Year	*Fixed Remuneration £000	Variable Remuneration £000	Total Remuneration 2014 £000	Total Remuneration 2013 £000
Executive Directors	CEO, Deputy CEO & Finance Director, Chief Operating Officer, Strategy Planning & Risk Director Business Services Director	4	839	23	862	508
Other Executives	Sales & Marketing, Treasury, Information Technology, Operations Human Resources, Commercial Services, Business Assurance	8	754	20	774	584
Control Functions	Compliance, Underwriting	2	114	2	116	308
<b>Total</b>		<b>14</b>	<b>1,707</b>	<b>45</b>	<b>1,752</b>	<b>1,400</b>

**Catherine Vine-Lott**  
Chair – Remuneration Committee  
24 February 2015

## Summary Financial Statement

### For the year ended 31 December 2014

This Summary Financial Statement is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to Members and depositors, free of charge on demand, at every branch of the Newcastle Building Society from 19 March 2015.

### Summary Directors' Report

The requirements of the Summary Directors' Report for the year ended 31 December 2014 can be found within the Chief Executive's Review on pages 2 to 4.

The Directors consider the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis has continued to be adopted in preparing the Annual Report and Accounts.

Approved by the Board of Directors on 24 February 2015  
**Phil Moorhouse, Chairman**  
**Catherine Vine-Lott, Chair of the Audit Committee**  
**Jim Willens, Chief Executive**

### Group results for the year

	2014 £m	2013 Restated £m
Net interest receivable	25.1	23.4
Other income and charges	22.3	23.6
Gains less losses from financial instruments and hedge ineffectiveness	-	0.5
Administrative expenses and depreciation	(35.0)	(36.9)
<b>Operating profit before impairments, provisions, FSCS levy and exceptional items</b>	<b>12.4</b>	<b>10.6</b>
Impairment charges	(5.9)	(5.9)
Provision for liabilities and charges	(2.5)	(4.0)
Gain on disposal of Prepaid Cards Business	-	0.6
<b>Profit for the year before taxation</b>	<b>4.0</b>	<b>1.3</b>
Taxation expense	(1.1)	(1.8)
<b>Profit / (loss) after taxation for the financial year</b>	<b>2.9</b>	<b>(0.5)</b>

For the year ended 31 December 2014

Group financial position at the end of the year

	2014	2013 Restated
	£m	£m
<b>Assets</b>		
Liquid assets	768.1	887.5
Mortgages	2,640.5	2,678.0
Fair value adjustments for hedged risk	201.8	120.9
Other loans	19.6	22.7
Derivative financial instruments	16.4	32.0
Fixed and other assets	89.8	46.1
<b>Total assets</b>	<b>3,736.2</b>	<b>3,787.2</b>
<b>Liabilities</b>		
Shares	2,973.7	3,235.2
Fair value adjustments for hedged risk	8.4	15.6
Borrowings	279.5	141.6
Derivative financial instruments	201.6	120.9
Other liabilities	17.4	16.1
Subordinated liabilities	59.5	59.0
Subscribed capital	29.9	29.7
Reserves	166.2	169.1
<b>Total liabilities</b>	<b>3,736.2</b>	<b>3,787.2</b>

Summary of key financial ratios

	2014	2013 Restated
	%	%
Gross capital as a percentage of shares and borrowings	7.86	7.63
Liquid assets as a percentage of shares and borrowings	23.61	26.28
Profit / (loss) for the year as a percentage of mean total assets	0.08	(0.01)
Management expenses for the year as a percentage of mean total assets	0.93	0.94

For the year ended 31 December 2014

Notes

Gross capital as a percentage of shares and borrowings

Gross capital represents reserves, plus subordinated liabilities and subscribed capital. The purpose of capital is to provide a buffer against any losses arising from a society's activities, thereby protecting investors' funds. The gross capital ratio measures the extent to which a society's activities are funded by capital, compared to shares and borrowings. The higher this ratio is, the greater the protection for investors.

Liquid assets as a percentage of shares and borrowings

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

Profit for the year as a percentage of mean total assets

A building society needs to make a reasonable level of profit each year in order to maintain and strengthen its gross capital ratio. It is similar to a company's return on assets. The Newcastle Building Society operates a policy of 'profit sufficiency' and one of the most appropriate measures of profitability is to express profit as a percentage of mean total assets.

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

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

Independent Auditors' Statement

to the Members and Depositors of Newcastle Building Society

We have examined the Summary Financial Statement of Newcastle Building Society (the 'Society') set out on pages 21 to 23 which comprises the Group results for the year, the Group financial position as at 31 December 2014, the Summary of key financial ratios and Notes.

Respective responsibilities of Directors and Auditors

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

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

We also read the other information contained in the Member Update including Summary Financial Statement 2014 and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 76 of the Building Societies Act 1986 and for no other purpose. We do

not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

Our examination involved agreeing the balances in the Summary Financial Statement to the full Annual Accounts. Our report on the Society's full Annual Accounts describes the basis of our audit opinion on those Annual Report and Accounts.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts of Newcastle Building Society for the year ended 31 December 2014 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.