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Summary Financial  
Statement 2004



## SUMMARY FINANCIAL STATEMENT 2004

This 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 and from the Secretary from 31 March 2005.

## SUMMARY DIRECTORS REPORT

2004 was a year of major change within the financial services industry, not least as mortgage lending became regulated for the first time and, I am pleased to report, one of considerable achievement for the Newcastle. In an environment of almost constant change, a culture of innovation and of harnessing technology is often the key to long term success. I certainly believe this is so for Newcastle Building Society, which has continued to develop new products and services to reflect the changing needs of customers.

Your Society is financially very strong and, in these uncertain times, I am particularly pleased to report that at the end of 2004 our mortgage arrears were at historically low levels and that for the first time for many years we had no residential properties in possession. Details of the financial performance for the year are set out on pages 14 and 15.

The Newcastle is owned by you, our members, and consequently the Board believes in the highest standards of Corporate Governance. I would draw your attention to the report of the remuneration committee on page 12 and the Corporate Governance report on page 9.

I have no doubt that throughout 2005 we will continue to face fierce competition, testing economic conditions and new industry regulations. With the quality of our staff and our proven strategy of embracing technology and innovating around our core skills, I am confident our success will continue enabling us to go on meeting the needs of you, our members.

Chris Hilton  
Chairman

Approved by the Board of Directors on 1 March 2005 and signed on its behalf by:

CJ HILTON, CHAIRMAN  
JW HEPPELL, VICE-CHAIRMAN  
RJ HOLLINSHEAD, CHIEF-EXECUTIVE

## Summary Directors' Report

“Simple ideas to make customers' lives easier.”

**Jacqueline Woodward,  
Customer, West Denton Branch**



### Mutuality and Treating Customers Fairly

In 2004 the Financial Services Authority (FSA) launched an initiative called “Treating Customers Fairly” to raise general standards of service within the industry. The values and aims of this initiative mirror our own values as a mutual organisation, which is why treating customers fairly will continue to be at the forefront of everything we do.

Mutuality also means listening to our members. In 2004 we held “Meet the Chief Executive” roadshows in Alnwick, Ashington, Nottingham and Sunderland, where members were able to meet and question the Chief Executive, directors and senior staff face to face.

### Branches

In May, World Cup hero Jack Charlton joined us to celebrate the opening of our relocated Ashington Branch, and in June senior Liberal Democrat MP Alan Beith officially opened our new Alnwick branch.

During 2004 we upgraded 13 branches as part of a rolling programme of investment in the network. The upgrade includes installing new technology and enhancing the facilities and services for our customers.

### Products

We have a track record of providing innovative products and services that aim to meet our members' needs. We will continue this approach throughout 2005.

One of our most successful products last year was a five-year Resi Bond which matured in September with interest returns in excess of 123%. The bond was a building society account where returns were linked to any growth in the Halifax House Price Index. Obviously it is impossible to predict what will happen to property prices in the future, but given the strength of the market over the past few years this was a particularly successful bond and we will seek to introduce other innovative products in the future.

In September 1999 Isabelle Harrison, from Doncaster, invested £5,000 in the Resi Bond. When the bond matured in September last year her original £5,000 had grown to more than £11,188 gross.

She said: “I was absolutely delighted with this bond although I must confess when I received the maturity letter I had to speak with my local branch several times before I was finally convinced just how successful it had been. With the strength of the property market in recent years I knew the returns would be good, but I really didn't realise just how good they would be.”

One of the best ways to find out about latest products is through our Priority Register. This provides members with details of new products as soon as they are launched. If you wish to sign up to the register please contact us on 0845 606 5522 or ask any of our branch staff.

## Summary Directors' Report

“Our customers are our most important currency.”

**Angela Green,**  
Customer Manager, West Denton

### Awards

Last year the Society picked up a number of awards. Our family offset mortgage was named “Best Specialist Mortgage 2004” by industry publication, Mortgage Magazine. The mortgage was developed in response to soaring house prices and to make it easier for parents to help their children on to the property ladder.

Ask Avril, our virtual online assistant, received a number of accolades throughout the year, including a customer information award from Computer Business Review Magazine. Developed with BT, Ask Avril, provided online answers for Internet customers enquiring about our offset mortgage.

Also in December, Chief Executive Robert Hollinshead collected the Mortgage Finance Gazette's 2004 Leadership Award. The MFG Awards are among the most prestigious in the industry. Writing in the magazine, editor John Murray, said: “Under Robert's direction the Society has developed a strong culture of innovation, technology and staff development, which has given it a competitive edge in today's increasingly competitive market.”

### Staff

During 2004 the Society created over 50 new jobs and by the end of the year employed more than 830 staff.

Our high-quality staff are a huge asset and the Society devotes considerable effort to their continuing personal development. As well as providing regular training we are also using technology to offer greater career opportunities to staff throughout our network, including those in branches and based at home.

We are also responding to changing lifestyles by offering flexible working, such as homeworking and four-day-weeks. Senior investment services clerk Celia Hellawell now works a nine-day fortnight.

Celia explains: “I asked about flexible working when my daughter, who lives in Warwick, became pregnant and thought it would be nice for me to spend long weekends with her and the baby. I asked about flexible working and didn't have to wait long before everything was arranged.”

## Summary Directors' Report

“Music is really important to me, and my community.”

**Rachael Graham,**  
Ridgeway Family Centre, South Shields



### Community Support

We believe we have a duty to make life easier for those who may need a little help. Last year we donated around £90,000 in one-off donations to more than 60 community-based groups.

In June, youngsters of all ages enjoyed a week-long “Innovation Week” in a deprived area of South Shields. Activities such as Street Dance and Techno Samba music inspired the children to develop new skills. Youngsters from 8 to 19 years were able to attend, free of charge, thanks to funding from the Newcastle.

Sponsorships in 2004 included £10,000 to the North of England Cadet Force, which involves more than 5,000 young people aged between 12 and 18, many of whom come from disadvantaged backgrounds. The cadet movement encourages teamwork, develops young talent and helps foster good citizenship - all the qualities we look to support through our community support programme.

For members who wish to make additional donations from their own savings, we also have a Members' Fund. For an application form or additional information please call us or visit our website.

### Regulation

On October 31 2004 statutory mortgage regulation was introduced by the FSA, replacing the previous voluntary code. We welcome this new regulation which provides better protection for all borrowers and makes it easier to understand the costs throughout the entire life of a mortgage. We are also obliged to take customers through a thorough fact find questionnaire and provide them with a mortgage Key Facts Illustration.

The new rules also apply if you are changing your mortgage scheme or applying for a further advance.

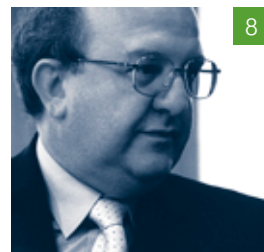
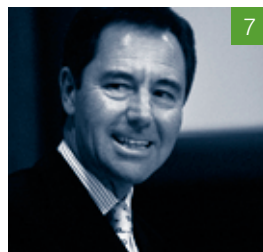
Updating systems and procedures to comply with the new rules, which are regulated by the FSA, was a demanding task for all lenders. It is therefore encouraging to report that the Newcastle was ready in good time with the appropriate new systems and procedures.

### Corporate Governance

The Directors of the Society have had regard to the provisions of the Combined Code on Corporate Governance 2003 in establishing and reviewing the Society's corporate governance arrangements. The Board of the Newcastle has for some years sought to comply with those parts of various voluntary codes relevant to the Society and to the building society sector. Accordingly, compliance with the bulk of the provisions of the latest Combined Code reflects existing practice. In some areas, we are still working towards full compliance.

Further details are contained in the Society's Annual Report and Accounts, which are available on request.

## Our Directors



**(1) CHRIS HILTON, CHAIRMAN** (55) has served as a director since 1978. He is a senior partner at Eversheds in Newcastle, with specific expertise in international shipping and international trade, and is an adviser to a number of companies in the UK and abroad. He is also a member of the Council of the University of Newcastle upon Tyne for whom he is currently leading a working party on Corporate Governance.

**(2) JAMES HEPELL, VICE CHAIRMAN** (57) has served as a director since 1980. As Chief Executive of St Cuthbert Newcastle Estates Limited, he has day-to-day involvement in the property sector.

**(3) ROBERT HOLLINSHEAD** (49) joined Newcastle Building Society in September 1992. Originally appointed Finance Director, he progressed to Operations Director in early 1997 and became Chief Executive in March 1998. After qualifying from Bristol University with an honours degree in economics, Robert's career included four years with a firm of chartered accountants before joining the financial services industry.

**(4) RICHARD ALLAN** (64) retired as a partner in KPMG's London office in 1996. He has extensive experience working within the financial sector and is also a director of Newcastle-based retailer, T&G Allan Limited.

**(5) TONY GLENTON** (61) is the Senior Partner in Chartered Accountants, Ryecroft Glenton. He has been a director for 18 years, six of which as Chairman. He chairs the Society's Audit Committee and is Chairman of the Port of Tyne Authority.

**(6) OLIVIA GRANT** (58) has served as a director since 1995 and brings with her a wide knowledge of the business community in the North East and of the personnel, training and skills issues facing the Society. She also chairs the Pension Committee and the Pension Trustees. Olivia has numerous business and other interests, including Chairman of the Council of the University of Newcastle upon Tyne, and is Chair of Culture North East Limited.

**(7) DAVID HOLBORN** (57) is a former director for Lloyds TSB Northern Region. David chairs the Financial Risk Committee. He is a Fellow of the Chartered Institute of Financial Services, and a past president of both the Bournemouth and Newcastle-upon-Tyne centres. He also has considerable commercial lending experience, and is a council member of the Chamber of Commerce for Tyneside, Wearside and Teesside.

**(8) COLIN SECCOMBE** (52) has been Finance Director of Newcastle Building Society since 1997. Prior to that he was a senior audit partner with KPMG. He has a wide knowledge of finance, and of working with other building societies and high profile organisations within the wider financial services sector.

**(9) JANET TOWERS** (43) was appointed to the Board in May 2003 as Operations Director. A qualified chartered accountant she joined the Newcastle in 1994 and has worked in Finance, Customer Services and Human Resources. Janet has also worked with accountants Ernst & Young in Newcastle.

**(10) WENDY LEE** (41) was appointed to the Board in July 2004 as Commercial Director. Wendy was formerly with Legal & General where she was Sales Development Director, managing part of their independent financial adviser business. Prior to this she was with Norwich Union for 15 years.

## SUMMARY OF REMUNERATION COMMITTEE REPORT

Having regard to the Combined Code on Corporate Governance 2003, the remuneration committee consists solely of non-executive directors, and meets at least twice a year to consider and make recommendations on the level of remuneration for executive and non-executive members of the Board. In its consideration of remuneration levels and employment terms it takes into account the following factors:

- Remuneration packages are set at a level to attract, motivate and retain executive directors of the calibre necessary to oversee the operations of the Society. Basic salaries for executive directors are set taking into account salary levels within similar sized organisations and also the level of salaries within the market as a whole, so as to attract and retain the skills levels that are appropriate to operate an organisation as complex as the Society. Basic salary levels also reflect the individual performance of each executive director.
- An annual performance-related bonus scheme has been established for executive directors and senior executives. In any one year a bonus is determined based on the achievement of specific objectives that have been set in the Society's corporate plan.
- Executive directors and non-executive directors, with the exception of two of the latter, are members of the Newcastle Building Society Pension fund, details of which are set out in Note 32 to the Society's full Annual Accounts.
- Executive directors receive a range of taxable benefits which includes a motor vehicle or cash equivalent, private health care and concessionary mortgage scheme.
- The Chief Executive has a service contract which is terminable at any time by the Society on one year's notice or by himself on six months' notice. Two of the other executive directors have a service contract which is terminable at any time by the Society in one year's notice or by themselves either on three or six months' notice, depending on the director. There are no contracts for non-executive directors and no compensatory terms for loss of office.
- Non-executive directors' fees are set at a level appropriate to reflect the skills and time required to direct the Society's operations and progress. Fees are reviewed in light of those paid to directors of other financial services organisations and reflect individual involvement in board committees and subsidiaries.
- Full details of individual directors' remuneration are contained in Note 7 to the Society's full Annual Accounts.

## Directors' remuneration

	Salary or Fees £000	Annual Bonus £000	Benefits £000	Increase in accrued pension £000	2004 Total £000	2003 Total £000
<b>Executive directors</b>						
RJ Hollinshead	199	14	20	8	241	261
W Lee (appointed 12 July 2004)	52	4	13	1	70	-
CJ Seccombe	120	8	13	2	143	150
JV Towers	96	7	8	4	115	66
	<b>467</b>	<b>33</b>	<b>54</b>	<b>15</b>	<b>569</b>	<b>477</b>
<b>Non-executive directors</b>						
CJ Hilton	54	-	-	6	60	51
JW Heppell	33	-	-	1	34	34
RB Allan	28	-	-	-	28	28
AAE Glenton	33	-	-	1	34	33
MO Grant	28	-	-	1	29	25
FD Holborn	31	-	-	-	31	27
AFC Hunter (retired 22 April 2004)	9	-	-	-	9	29
RW Johnson (retired 22 April 2004)	11	-	-	-	11	32
	<b>694</b>	<b>33</b>	<b>54</b>	<b>24</b>	<b>805</b>	<b>736</b>

Full details of pension arrangements can be found in Notes 7 and 32 to the Society's full Annual Accounts.

## SUMMARY FINANCIAL STATEMENT 2004

### Group results for the year

	2004	2003
	£m	As restated £m
Net interest receivable	35.0	35.6
Other income and charges	9.9	10.9
Administrative expenses	(28.7)	(27.3)
Provisions	0.2	-
Profit for the year before taxation	16.4	19.2
Taxation	(4.4)	(5.7)
<b>Profit for the year</b>	<b>12.0</b>	<b>13.5</b>

### Group financial position at the end of the year

	2004	2004	2003	2003
	£m	£m	As restated £m	As restated £m
<b>Assets</b>				
Liquid assets		562.4	517.9	
Mortgages		2,481.0	2,376.2	
Mortgages subject to non-recourse finance	223.3			222.5
Non-recourse finance	(202.8)	20.5	19.8	(202.7)
Other loans		102.7	81.0	
Other loans subject to non-recourse finance	45.5			46.7
Non-recourse finance	(5.1)	40.4	23.6	(23.1)
Fixed and other assets		66.4	59.2	
<b>Total assets</b>		<b>3,273.4</b>	<b>3,077.7</b>	
<b>Liabilities</b>				
Shares		1,948.7	1,932.8	
Borrowings		1,054.9	883.2	
Other liabilities		27.9	30.8	
Subordinated liabilities		49.7	49.7	
Subscribed capital		19.9	19.9	
Reserves		172.3	161.3	
<b>Total liabilities</b>		<b>3,273.4</b>	<b>3,077.7</b>	

### Summary of key financial ratios

	2004	2003
	%	As restated %
Gross capital as a percentage of shares and borrowings	8.05	8.20
Liquid assets as a percentage of shares and borrowings	18.72	18.39
Profit for the year as a percentage of mean total assets	0.38	0.48
Management expenses for the year as a percentage of mean total assets	0.90	0.96
Management expenses for the year as a percentage of mean total assets under management	0.85	0.89

## NOTES

In 2004 the Society adopted the Provisions of Financial Reporting Standard Number 17, "Retirement Benefits" with the comparative figures re-stated accordingly.

### 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. Newcastle Building Society has a ratio of liquid assets to shares and borrowings which is at a similar level to other societies. 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 society needs to make a reasonable level of profit each year in order to maintain and strengthen its gross capital ratio. 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. Our ratio of profit to mean total assets is comparable to that achieved by other medium-sized societies.

### MANAGEMENT EXPENSES FOR THE YEAR AS A PERCENTAGE OF MEAN TOTAL ASSETS

Management expenses are the costs of running the Society and comprise administrative expenses, depreciation and amortisation. The lower this ratio is, the greater a society's efficiency. Mean total assets under management include those assets administered by the Society which are subject to non-recourse finance.

## INDEPENDENT AUDITORS' STATEMENT ON THE SUMMARY FINANCIAL STATEMENT

### INDEPENDENT AUDITORS' STATEMENT TO THE MEMBERS AND DEPOSITORS OF NEWCASTLE BUILDING SOCIETY

We have examined the Summary Financial Statement of Newcastle Building Society.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

This opinion has been prepared for and only for the Society's members and depositors 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

We performed our work in accordance with the Bulletin 1999/6 'The Auditors Statement on the Summary Financial Statement' issued by the Auditing Practices Board for use in the United Kingdom.

### OPINION

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, Annual Business Statement and Directors' Report of Newcastle Building Society Group for the year ended 31 December 2004 and conforms with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

**PRICEWATERHOUSECOOPERS LLP**  
**CHARTERED ACCOUNTANTS AND**  
**REGISTERED AUDITORS**  
**NEWCASTLE UPON TYNE**  
**1 MARCH 2005**

