Newcastle Building Society

Annual Report & Accounts 2008

Newcastle Building Society

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We are the largest building society based in the North East of England and the 10th largest in the UK.

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Our Vision

We aim to be a friendly, caring organisation that values customer loyalty, gives value for money and contributes to the current and future wellbeing of the community. We recognise that our members and customers, employees and the communities we serve all have a part to play in the future of the Society. We believe we can best serve the interests of all three by remaining a strong, dynamic and independent mutual building society. Our objectives for each are:

Our Members and Customers

- To provide a secure home for savings;
- To provide a range of innovative and competitively priced mortgage, savings, investment and insurance products;
- To be a customer focused organisation which understands its customers and listens to what they say;
- To offer expert and trusted advice on good value products across a range of services;
- To provide effective customer service in a prompt, courteous and efficient manner;
- To treat customers fairly and in a way that is consistent with mutuality;
- To provide effective solutions by sharing our technology and innovation with our business partners;
- To treat our business partner customers with the same integrity and professionalism with which we treat our members.

Our Employees

- To provide secure and rewarding long term employment;
- To respect our employees and endeavour to produce an environment of mutual trust and understanding;
- To provide better than average remuneration packages in return for better than average contributions.

Our Communities

- To be seen to be a major contributor to the economic wellbeing of the areas in which we operate;
- To support the communities in which we operate, by way of both personal and financial involvement.

Chairman's Statement

The 'credit crunch' – a term now familiar to most of us – provided an arduous economic backdrop to 2008, in which it seems that almost every financial institution has struggled as consumer confidence fell, the money markets dried up and banks around the world had to provide for huge write offs. Newcastle Building Society has not been immune to this, although we remain in a strong financial position.

Newcastle Building Society is now the 10th largest building society in the UK. We are proud to be a mutual organisation, an ethos which has undoubtedly helped the Society overcome several challenges this year.

The lack of available credit, which caused significant slowing of the housing market and pushed the economy into recession, led to the unprecedented demise of large financial institutions. We have seen government action to stabilise the markets, resulting in the nationalisation of Northern Rock and Bradford & Bingley, and tens of billions invested into RBS, Lloyds TSB and HBOS.

It is interesting, and sad, to note that of the ten building societies that demutualised during the period 1989 to 2000, all have now ceased to exist as independent organisations, with, in many cases, a massive loss of shareholder value.

Of course, the market turmoil was not confined to the UK and in a very short space of time several major organisations disappeared, such as Lehman Brothers in the USA, and Landsbanki and Kaupthing in Iceland. Others were taken over by larger organisations, such as Bear Stearns by J.P.Morgan, and Alliance & Leicester by Santander. In the USA alone, over 30 banks failed in 2008. Many of the major European banks also required very large injections of capital.

How has the economic environment affected Newcastle Building Society's core member business? Continuing difficult trading conditions are being felt across the financial sector, as competition for, and the cost of, funding has grown, whilst demand for mortgages has fallen. In addition, like many other organisations, the Society reported a one-off exposure to the Icelandic banks, and we must also pay our share of the Financial Services Compensation Scheme for the 'bailout' of these banks, as well as of Bradford & Bingley.

Our Strategic Solutions division provided processing services for the collapsed internet bank Icesave, and the loss of this work was the main reason why we had to decide to reduce our headcount by about 150 posts. This is both very disappointing and deeply saddening. It is one of the human consequences of the extraordinary conditions that we face. The events of 2008 are covered in greater depth by the Chief Executive in his Review.

The impact of the credit crunch and particularly the events in Iceland have resulted in the Society declaring a loss. Although the causes were impossible to predict, the Society's executive team decided that it would be inappropriate for them to accept any bonuses payable under their bonus scheme for 2008. They have advised the Board accordingly, and, even though the executive team has been working exceptionally hard in order to handle the problems that I have outlined, the Board has accepted their decision.

The year hasn't been without some positive highlights too and I am pleased to say that we have made progress in several areas. Our overall customer base has grown by around 5% and we have continued to offer them a competitive product range.

In June we officially opened our new office at Cobalt Business Park, North Tyneside and we are now experiencing the benefits of this in terms of improved facilities for our staff and customers and, importantly, to our business continuity capabilities. We also opened a brand new branch in Gibraltar to improve the service we can offer to our 11,000 customers in the territory.

Despite the difficulties we have faced this year, we have remained dedicated to serving the needs of our members. We are committed to treating customers fairly, especially those who fall into arrears, and because we do not answer to shareholders, we are able to offer good value products, which are often 'best buys'. We continue to be true to the principles of mutuality and to being an independent building society.

After experiencing significant profit and asset growth in 2007, we recognise that the events of 2008 have been a set back to our plans. However, I believe we have demonstrated our robustness in adverse trading conditions. As a mutual building society we are funded primarily by our members, which means we are not as reliant as banks on the unpredictable money markets. We have also maintained strong capital reserves to enable us to meet difficult conditions. We remain a strong and fit organisation for the future.

I would like to thank all our staff for their loyalty, dedication and hard work throughout 12 months where the demands put upon them have far exceeded those of any normal year. It is with the same attitude that we will approach 2009 and whatever it may hold, confident that we will continue to make progress in spite of the current recession.

CHRIS HILTON
CHAIRMAN
5 MARCH 2009

Chief Executive's Review

Looking back over a turbulent year in which the Society has encountered numerous challenges in a deteriorating economy, I would like to explain in detail just how we have been affected and our approach to the year ahead.

Overcoming challenges

It is perhaps true to say that in 2008 most people have been affected by the credit crunch, which has fuelled the housing market slowdown and onset of recession. The UK's financial institutions have been faced with abnormal market conditions which we repeatedly refer to as 'unprecedented', in that it was not possible to have predicted recent events in the financial world.

In the media, we constantly hear that 'confidence' has dropped. Confidence among financial institutions to lend to each other; and confidence among consumers – people like you and me – to spend. As this confidence has slumped, the UK economy has slowed. The Bank of England responded by cutting the base rate ultimately to the lowest in the Bank's 315-year history, in an attempt to 'kick start' spending and boost confidence.

The majority of homeowners will have seen the value of their homes decrease, with the Nationwide House Price Index for 2008 reporting an average fall of 15.9% over the year. Overall demand for mortgages has greatly decreased as homebuyers expect further falls in house prices. Indeed, the Council of Mortgage Lenders (CML) has predicted that gross mortgage lending will be around £145bn in 2009, down from around £258bn in 2008, and £363bn in 2007.

This reduced demand is compounded by the reducing availability and increasing cost of funds, which means that we, like most building societies, are experiencing pressure on our net interest margin.

Following on from a successful year in 2007, in 2008 the Society continued to perform well in several areas. Over the year we saw a 13% increase in inflows of savings balances and an increase of almost 5% in savings customers compared to the previous year as people recognised the security of saving with a building society – indeed the Building Societies Association (BSA) reported that the first half of 2008 saw building societies achieving record total savings inflows of £6,296m compared with £3,862m in the first half of 2007.

It was during the second half of the year that we saw the most significant developments of the credit crunch, particularly after Lehman Brothers' demise in September. This was followed by the collapse of the banking system in Iceland, something that not even the leading ratings agencies that assess the financial strength of institutions foresaw. Last December we announced that we had exposure of some £43m to Icelandic banks. These investments were made mainly to the UK regulated entities of these banks, with some made even before they were acquired by the Icelandics. In reality we may be able to recoup some of these investments through set-off and recoveries. To put this into perspective, as a risk averse organisation we spread our investments across many institutions and our exposure to Iceland accounted for less than 1% of total assets.

The Society has always maintained high levels of capital reserves, which we hold for the very reason of being faced with a situation where an investment or loan is at risk of not being repaid. In December the Board chose to boost the Society's capital by issuing £10m of Permanent Interest Bearing Shares (PIBS), a building society's equivalent to share capital in a plc, traded on the Stock Market, and a common way of taking on extra capital to back future prudent growth. Whilst the Society could have absorbed the Iceland exposure even without the PIBS issue, this decision was taken to maintain capital reserves in line with the Society's cautious approach and as additional comfort in the unprecedented market conditions.

As the PIBS issue was a private transaction to other institutions, I believe it demonstrated the confidence that these organisations have in the long term financial health of Newcastle Building Society. Following the PIBS issue, the FSA also provided the endorsement that it had reviewed the Society's capital position and was satisfied that we have the capital and strategic plan in place that would be necessary if the Society were to apply for access to the Government's recapitalisation and guarantee schemes, which have already been widely accessed by many other financial organisations.

The Society has benefited from a diversified strategy since we established our Strategic Solutions division in 1997, whereby we provide outsourced services, such as internet banking and account administration to other financial institutions. We hold contracts to provide savings management, mortgage processing and outsourced systems to several organisations and we are also the 'issuing bank' for over 150 prepaid card schemes. As an approved MasterCard partner, this makes the Society the leading prepaid cards provider in the UK and Europe.

Our Solutions division continues to be a key part of the Society's strategy to generate income that supports our traditional core member business. However, the Icelandic banking system failure included Landsbanki, for which we provided internet banking and processing services for its UK-based savings brand, Icesave. Icesave was a significant and successful account for the Solutions business; indeed in September we were commended by *This is Money* when Icesave was voted by savings consumers as best in terms of customer service. We believe our high standard of service was instrumental to Newcastle Building Society being selected by the Financial Services Compensation Scheme (FSCS) to process the return of balances to around 200,000 depositors. During this time we were able to demonstrate the capability of our processes and systems when dealing with high volumes, and our ability to resolve these repayments quickly and easily for customers.

Chief Executive's Review Continued

The work for the FSCS came to a conclusion at the beginning of 2009, by which time we had also assessed the forecast business volumes for our Strategic Solutions division. As we employed some 100 staff to service Icesave alone, we concluded that we were unfortunately unable to support our staff levels in this area of the business. This was the predominant reason, together with the expected reduction in our residential lending and decision to withdraw from commercial lending, that the Society announced 150 potential redundancies. This decision was very disappointing for us and something we acknowledge as a set back to our growth plans. I would like to take this opportunity to talk about another factor that has affected, and will continue to affect, the Society's financial results.

We are required to pay a share of the FSCS bill for the bailout of Bradford & Bingley, the Icelandic banks and, most recently, London Scottish. The Building Societies Association argues that the building society sector is taking a disproportionate hit – the bill to building societies for Bradford & Bingley alone was initially estimated at around £200m per year for the next three years. Our levy in 2008 is £6.8m, which covers amounts due for three years.

Whilst we are well capitalised and able to cope, it is inevitable that this levy will have an effect on the savings and mortgage rates we are able to offer to our members, as well as the number of staff we can employ.

As a culmination of what I have discussed so far, whilst the Society will make an operating profit for 2008, i.e. before the FSCS levy and Icelandic losses, our Report & Accounts show an overall loss in the final quarter of the year, which we foreshadowed in an announcement at the end of 2008. It is clear from announcements already made in early 2009 that many more financial institutions will make losses, and in the case of several of the large banks on a scale which can barely be comprehended. Contributing to those losses, in some cases, has been the declining quality of loan books and I am pleased to say that the Newcastle has maintained a loan book of exceptionally high quality. The vast majority of our lending is to the traditional prime residential market and our lending criteria accept only low risk borrowers. We have no exposure to the sub-prime and self-certification sectors and very low exposure to buy to let.

Competitive Products

I am pleased to report that, even in difficult times, the Society has been able to offer competitive products to our members. As well as deposit accounts, we also offer capital guaranteed structured investments and many customers whose accounts matured at the start of the year saw returns of more than 60% over five years. For customers looking to make the most of their tax free allowance, our ISA Plus product, which many of our members may have seen advertised on television, also continued to perform well.

On our mortgage range, we responded to a continuing unsettled market and how this affected the needs of our borrowers. The year began with the Bank of England base rate at 5.75%, the highest since 2001. It fell to 5.0% in April and remained static until October, when we saw three consecutive cuts, ending the year at 2.0% - the lowest since 1951. We have offered good mortgage rates across our product range, which has included base rate tracker, offset and discount and fixed rate mortgages. Customers with our discount and tracker products will have seen their monthly repayments decrease significantly as the interest rate dropped. In unpredictable times, many customers preferred the security of fixed mortgage payments and in 2008 we offered a range of competitive fixed rate mortgages.

I am pleased to say that we were recognised as one of the year's top five most competitive lenders, according to mortgage company mform.co.uk, appearing in the mortgage best buy tables 14 times over the year.

The Society has a network of qualified financial advisers through our Newcastle Financial Services division and the number of people who sought an appointment for advice around savings and investments, equity release, pensions and protection increased in 2008 by over 26% to more than 8,200 customers.

Of course 2008 presented challenges for homeowners and the Society has taken a particularly sympathetic approach to customers facing payment difficulties. We will always treat customers fairly by working with the borrower to come to an arrangement, including assisting with benefit and insurance claims where these options are available. We also have a number of options we can offer such as payment holidays and reduced monthly subscriptions to help borrowers through a difficult period. Possession is always a last resort for the Society and we work with the borrower right up to the date of final possession to try and allow them to stay in their home.

Highlights of the Year

Whilst I have focused attention on several trials we have overcome during the year, it has not been without its highlights. I reported in my Review last year that we had acquired the lease of a new office site at Cobalt Business Park, North Tyneside. We officially opened this building in June, following a previous 'topping out' ceremony by Minister for the North East, Rt Hon Nick Brown MP. This building houses state of the art IT systems, enabling us to improve the service we offer to our members and Strategic Solutions clients. Having a process in place for business continuity in the event of an unforeseen incident at our Principal Office is a key requirement for us. Our site at Cobalt significantly increased our business continuity capability, ensuring that the Society could remain fully operational in the event of a disaster at our Principal Office.

The fitting out of the Cobalt office, which offers excellent facilities for our staff, such as a staff restaurant and gym, was awarded the North of England award in the Commercial Workplace category by the UK's leading office industry organisation, the British Council for Offices. The office opening event also achieved a Gold Award for 'Best Event' in the region by the Chartered Institute of Public Relations and was attended by many of the North East's Councillors, dignitaries and charities.

Other awards the Society achieved in 2008 included 'Leading Prepaid Organisation' at the first ever Prepaid Awards in London. Also in our prepaid cards area we took the prize for 'Best Prepaid Card Marketing Campaign of the Year' with Tuxedo Money Solutions, from a shortlist of five for work promoting the Blue Diamond Prepaid MasterCard. We were also shortlisted and received Runner Up at the North East Contact Centre Awards 2008, and nominated at the Financial Services Forum Awards for Marketing Effectiveness.

We have remained committed to our branch network throughout the year, and our 11,000 customers in Gibraltar saw us open a brand new flagship branch on the territory's Main Street. We were the first building society to open our doors in Gibraltar in 1990, and we continue to provide a full range of financial services via our new improved branch.

Chief Executive's Review Continued

The Society firmly supports the objective to reunite customers with unclaimed assets. An initiative is currently running to unite people with their lost money. We have registered with the national scheme and fully co-operate with any enquiries received. We have seen a large increase in requests since joining this scheme and in 2008 we were able to reunite over 10,000 customers with their money. We will be planning a number of ways we can make the process easier for customers, which could include a special facility on our website, or targeted mailings. The Society also qualifies, through recently passed legislation, for a voluntary process whereby money in 'dormant accounts' will eventually be given to charity. We aim to help our local communities as much as we can and therefore have decided to opt in to this so that charities in our branch areas can benefit from this much deserved additional support.

Social Responsibility

As a mutual building society we aim to be a socially responsible organisation and in 2008 we took a leap towards doing much more in this area by introducing a completely new and comprehensive strategy outlining our Corporate Social Responsibility (CSR) goals. This included initiatives like recycling, charitable giving, part of which is a scheme whereby our staff can claim back time spent doing charitable work, and reducing our carbon emissions. We donated almost £50,000 in 2008 to our fund held with the Community Foundation serving Tyne & Wear and Northumberland, which is distributed via grants in areas where we have a branch presence. We always aim to support organisations at the heart of the local communities in which we serve, which often include groups put forward by customers in our branches.

Our recent donations to charity helped fund causes such as equipment for Harraby Football Club, a part-time physiotherapist at Central Palz caring centre in Ashington, adult educational courses at St Gabriel's Outreach Centre in Sunderland and a Christmas outing for young carers through a grant of more than £2,500 to Gateshead Crossroads. We also donated £1,500 to the newly established Childline in Gibraltar and £2,500 to the Vipers Community Foundation as part of an agreement to support the regional ice hockey team. In addition we donated £25,000 to a whole host of good causes via the Chronicle's Wish campaign. Around 150 local groups benefited from the scheme, from an urban dance group and judo club, to arthritis care and stroke rehabilitation centres.

For the third year running, we are providing all of our AGM materials via email and encouraging even more members to sign up for online voting, which is already the preferred option for over 9,000 members. For each online vote, and each member who signs up to receive our 'greener' emailed voting pack, we will donate 10p to charity.

We always remember that, as a mutual organisation, we exist to serve our members. As such we seek customer feedback on a regular basis. We do this through a number of ways, which include member seminars, where one of our senior staff will always attend to answer questions. We also run a Customer Panel, which has more than 2,000 members. Through this panel we test things like new products, customer attitudes and marketing materials.

We also launched a customer magazine, MoneyCounts which offers news and advice on financial products, as well as a round up of what is going on at your society. We have received many letters from our customers as a result and value all the feedback we receive.

Looking Ahead

In what it has been a turbulent year, we are positive about our ability to be a strong, fit organisation for the future. We are taking a number of measures to ensure we achieve this.

Due to the economic outlook, we are withdrawing from the commercial lending market. We will maintain our current loans until they come to an end, but do not plan to take on any new business in this area.

Like most building societies we took a conservative approach to lending in 2008 to maintain the high quality of our loan book, and we plan to continue this approach in 2009. Whilst we expect significantly reduced levels of lending, we will continue to offer mortgages to low risk borrowers.

We view our Strategic Solutions division as important to our strategy. The Solutions division was created out of the Society's existing core skills in the areas of systems, processes and administration across a mix of postal, telephone and internet channels. There is an ongoing demand for these skills as more businesses look to outsource, particularly as the credit crunch has increased the desire for retail savings, and we have a healthy pipeline of new business leads at various stages of development.

As well as savings management, we will also look to boost our mortgage processing and systems outsourcing customers, as well as build our leading prepaid cards business.

We look to the future positively, knowing that our capital position is very strong, and it is as true now as it has ever been that, as a mutual building society committed to remaining independent, we offer a safe, secure and rewarding home for our members' savings.

I would like to commend our staff for their commitment during difficult and uncertain times, particularly those staff who dealt with Icesave customers following its demise, when for some time they were the only people worried investors could contact about their account. This placed extreme demands on many staff, who worked long hours and dealt with high volumes of enquiries, and in doing so proved their dedication to the Society for which I am very grateful.

Being faced with difficult times often requires even more skill and fortitude than the good times. I would like to record my appreciation of the efforts all our staff put in during a very testing period, compounded by the uncertainties created by entering into a consultation period on redundancies.

To conclude, the overall financial results for 2008 are obviously disappointing, particularly as some factors affecting this have been beyond what we could have realistically planned for. We are not alone in this position, and take confidence from the fact that we have overcome these challenges and can be resolute about our prospects for the year ahead. We will continue to be a safe home for our members' savings, and importantly an independent, mutual building society that exists for the benefit of our customers.

COLIN SECCOMBE
CHIEF EXECUTIVE
5 MARCH 2009

Finance Director's Report

Business Review

2008 was an unprecedented year in terms of the operating environment for financial institutions. Following the collapse of Lehman Brothers in September, the credit crunch entered into a new phase, with inter-bank lending almost completely frozen and dramatic intervention required from the government to support several of the major UK banks. In reaction to rapidly deteriorating economic data, which pointed toward a deeper and longer recession in the UK than had previously been anticipated, the Bank of England's Monetary Policy Committee cut interest rates by 3%, to 2%, across a period of just two months. Further cuts have followed since the turn of the year and base rate is, at the time of writing, at an all time low (0.5%).

One consequence of the sudden and adverse change in the global economy and the worsening of inter-bank lending market was the failure of the Icelandic banking system, with three major institutions going into various forms of administration. As already announced in the final quarter of 2008, the Society had exposure to these institutions or their UK subsidiaries of some £43m. The decision by the Board to take a pessimistic view of the potential for recovery and set-off positions, has had a major impact on the published results for the year, as had the need to provide £6.8m in terms of the Society's contribution to the Financial Services Compensation Scheme (FSCS).

Excluding these exceptional factors, there were notable achievements in the year with;

- Retail share balances increasing by 13%, to £3.3bn (2007: £2.9bn)
- The wholesale funding ratio reducing to 27.90% (2007: 32.56%)
- Other income, net of related charges, increasing by 31% to £24.2m (2007: £18.5m)
- The opening of the Society's new administration and business continuity back up premises
- Administration for the FSCS of the compensation payments to 200,000 former Icesave savers
- Some 86% of loans now funded by retail deposits (2007: 77%)

Profit and Capital

£m	2008	2007
Total income	63.3	59.3
Expenses	(47.5)	(41.2)
Operating profit	15.8	18.1
FSCS levy	(6.8)	-
Impairment losses	(44.7)	(0.5)
Tax credit (expense)	9.9	(5.5)
Post tax (loss)/profit	(25.8)	12.1
Solvency ratio	11.9%	11.2%

The exceptional impairment losses incurred as a result of the Society's exposure to the Icelandic banks and the level of the contribution required to support the costs of the FSCS, mean that an overall loss has been reported in 2008. However, pre impairment charges and FSCS costs, the Society made an operating profit of £15.8m, down just 13% compared with 2007, despite;

- The additional costs of producing the Society's inaugural covered bond programme, launched early in January 2009, expanding the Society's funding options
- The costs of the new administration offices and business continuity back up site at Cobalt Business Park
- A dramatic increase in the cost of funding during the second half of the year, both for traditional retail savings and wholesale funding
- The negative impact of the sudden and sharp fall in interest rates, which reduces the Society's earnings on its free reserves

As was reported in last year's Annual Report, the level of capital required to support the Society and protect its members is always kept under review. Given the level of impairment provided for, primarily in respect of the exposure to Icelandic banks, the Board decided to seek additional new capital in line with its commitment to maintain a strong capital position. In December of 2008, therefore, the Society was successful in issuing £10m of Permanent Interest Bearing Shares (PIBS) to private investors. As a result of this, and the adoption on 1 January 2008 of the Capital Requirements Directive (Basel II), the solvency position, which is the key measure of the protection afforded to members, was 11.9% at the year end, compared with 11.2% at the end of 2007 under Basel I.

Income

£m	2008	2007
Net interest	39.1	40.8
Other income	24.2	18.5
Total income	63.3	59.3

Net interest income reduced to £39.1m (2007: £40.8m) after adjusting for fair value movements on derivative financial instruments and the net interest margin fell to 0.79% (2007: 0.89%). This reduction was due to the increase in funding costs and the sharp reduction to interest rates in the final quarter of the year, the cost of the Society's covered bond programme and reduced lending activity. As the housing market started to experience a sharper downward correction that had generally been anticipated, the Society consciously pulled back on lending to segments that had traditionally attracted higher margins, such as bridging loans and other specialist residential lending, given their perceived higher risk profile.

Other income, net of related charges, increased by 31% year on year, up from £18.5m to £24.2m. This increase was attributable to a series of strong performances across the Society. The Strategic Solutions division (Solutions) experienced a 38% increase in income, helped in part by the successful bid to administer the compensation scheme for Icesave savers on behalf of the FSCS, but also due to higher activity on some key accounts and an expansion of the pre-paid cards business. Outside of Solutions, Newcastle Financial Services, which offers investment advice to our members, saw income increase 20%.

Expenses

£m	2008	2007
Staff related costs	29.9	25.9
Other operating expenses	14.4	12.6
Depreciation	3.2	2.7
Total expenses	47.5	41.2

The Group's cost base increased by 15%, or £6.3m, to £47.5m. A significant element of this increase was attributable to the costs of operating from the additional premises at Cobalt and the increased volumes processed on behalf of third party clients of Solutions during the first nine months of the year. Additionally, £0.7m relates to the cost of a restructuring programme that will be implemented over the first half of 2009, following an extensive consultation period. This restructure is required as a result of the Group and its third party clients in Solutions reappraising the expected business volumes going forward, in the context of the forecast severity of the recession in the UK which picked up momentum in the final three months of 2008. We expect that headcount will reduce by some 150, delivering savings of around £2.7m per annum.

Lending

£m	2008	2007
Residential loans	2,376	2,400
Commercial loans	576	471
Housing association	821	820
Other	66	82
Total loans	3,839	3,773

Against the background of a depressed housing market, lending growth was not an objective in 2008. For commercial lending, most of the increase was attributable to existing commitments coming into the year. Total loans outstanding grew by just 2%.

Arrears performance (Number of loans)	3+ months arrears (% of loans)	Average loan to value (%)
Residential	0.96	50.6
Housing associations	-	77.8
Commercial	0.26	74.1
Other	1.04	75.5
Total	0.96	60.4

All lending categories have continued to perform satisfactorily. In terms of residential loans, the arrears level, at 0.96% of outstanding balances, has increased over the year, but remains below the industry average (1.88%). Where possession has been required, shortfalls of proceeds against debt outstanding have been in the minority, attributable to the relatively high levels of equity still contained in a large proportion of loans despite the falls in average house prices over the year. This is demonstrated by the average loan to value of 50.6% (2007: 43.5%).

In terms of commercial loans, arrears were low at 0.26% at the year end, although in the case of one borrower, the Society agreed to grant a waiver to avoid a breach of covenant and has since concluded negotiations which will result in a debt restructure, and an element of debt for equity swap. In anticipation of this a provision of £8.9m has been made against the loan.

Finally, no Housing Association borrower has entered into arrears, a position typical of the sector where no default of a loan has ever occurred.

Funding and liquidity

	2008	2007
Share accounts (£m)		
Instant access	1,898	2,107
Fixed terms deposits	650	276
ISA	754	539
Total retail deposits	3,302	2,922
Wholesale deposits (£m)	1,389	1,530
Liquid ratio	23.28%	21.05%
Funding limit	27.90%	32.56%

Strong growth was achieved in retail deposits, which increased by 13%, from £2.9bn to £3.3bn. This enabled the Society to increase its levels of liquidity over the year, to £1.1bn representing over 23% of all share and deposit liabilities, ensuring that all members have the confidence of being able to access their money when it is required. This increase in retail savings balances means that 86% of lending is funded by retail deposits (2007: 77%).

Given the continuing state of the wholesale funding markets, the Society has positioned itself such that it is eligible to participate in the government's guarantee scheme initiative, should such participation be desirable. In addition, the inaugural covered bond programme launched in January 2009 means that should the secured wholesale markets return, the Society has very high quality securities ready to issue.

Outlook for 2009

The early part of 2009 has witnessed no let up to the conditions that impacted many of the performance factors in 2008 – the cost of funding remains abnormally high, banks are still unwilling to lend, the economy has moved further into recession and house prices and interest rates have continued to fall. It is hard to identify a more challenging backdrop in terms of forecasting the prospects for 2009.

Already, difficult decisions in terms of cost reduction have been taken as it has become clear that no speedy return to a relatively normal operating environment is likely. This will mean that margins will remain under pressure and some borrowers will regrettably find themselves in difficulties, leading to an increase in those who cannot easily meet all of their repayment obligations, resulting in a deteriorating arrears position for the Society.

Although profit in itself is not the key objective of a mutual building society, maintaining a strong capital base is, and whilst it may be some time before a return to the profit levels delivered before the credit crunch, the Society does expect to see its capital position strengthen in 2009, giving even more security to members and positioning the Society well for the eventual upturn in the economy.

JONATHAN WESTHOFF
FINANCE DIRECTOR
5 MARCH 2009

Certain statements in the Annual Report are forward-looking. Although the directors believe that the expectations in such statements are reasonable, they can give no assurances that these expectations will prove to be correct, given there are risks and uncertainties involved. Accordingly actual results may differ materially from those expressed or implied by these forward looking statements.

The directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Our Directors

Chris Hilton, Chairman

Chris is in his eighth year as Chairman of Newcastle Building Society. He is a commercial lawyer and a senior partner at Eversheds in Newcastle. He advises the boards of a number of companies in the UK and abroad. As well as being a solicitor, Chris is a notary public, an arbitrator and a mediator. He was born in Newcastle, where he has spent most of his working life.

Colin Seccombe, Chief Executive

Colin joined Newcastle Building Society in 1997 as Finance Director and became Chief Executive in July 2006. Colin has also been a senior audit partner with accountants KPMG. One of his first roles as Chief Executive was to oversee the successful merger with Universal Building Society. Colin has a wide knowledge of finance, and of working with other building societies and high profile organisations within the wider financial services sector.

Colin Greaves, Operations Director

Colin joined Newcastle Building Society in 1990 and was appointed to the Board in 2006 as Operations Director. Colin's responsibilities cover information technology, customer service operations and the formation and development of the Strategic Solutions business, which is responsible for delivering a range of outsourced savings, prepaid and debit cards, and computer systems services.

Maxine Pott, Non-Executive Director

Maxine was appointed to the Universal Building Society Board in 2000 and joined the Newcastle Board following the merger in December 2006. Maxine is a chartered accountant and Partner in a regional business advisory group, RMT, where she advises a number of businesses in the UK and abroad. She is also Treasurer of the North East and Cumbria German-British Chamber of Commerce.

David Holborn, Senior Independent Director

David is a former director for Lloyds TSB Northern region. 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 is also Vice Chairman of The Rothley Trust and chairs the Financial Risk and the Remuneration Committees.

Wendy Lee, Commercial Director

Wendy 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.

Richard Mayland, Non-Executive Director

Richard began a career in accountancy in 1974 and was a partner with PricewaterhouseCoopers for 17 years before retiring in 2003. He is currently Chief Executive of Norprime Limited and is a trustee of the locally based Children's Heart Unit Foundation. Richard chairs the Society's Audit Committee.

Ron McCormick, Non-Executive Director

Ron McCormick was appointed as director in August 2007. He held the positions of both Group Finance Director then Group Commercial Director at Skipton Building Society until December 2005. He is now a senior adviser to a range of businesses and has previous experience in a major insurance company and with KPMG. He is a Chartered Accountant and a Fellow and Member of the Institute of Internal Auditors. He is a Partner in Mascot Financial Services Consultants.

Jonathan Westhoff, Finance Director

Jonathan joined Newcastle Building Society from the Portman Building Society where he spent seven years heading up finance, risk and strategy before becoming Group Finance Director. Jonathan has over 25 years of financial services experience, including head of financial planning for Retail Financial Services which, at the time, was the largest business unit of the Barclays Group. Jonathan is responsible for the Society's finance, treasury and risk operations.

Nigel Westwood, Non-Executive Director

Nigel Westwood was appointed to the Universal Building Society Board in 2000. Nigel joined the Newcastle Board following the merger in December 2006 with the Universal. He is a director of a regional chartered surveyors' practice based in Newcastle. He performs the duties of the Consul for Norway. He was High Sheriff of Tyne and Wear 2007-8.

Directors' Report

The Directors have pleasure in presenting their Annual Report, together with the audited Annual Accounts and Annual Business Statement of the Newcastle Building Society Group for the year ended 31 December 2008.

Objectives and Activities

The principal objective of Newcastle Building Society is to attract funds, through a competitive range of personal savings and investment products, in order to make available advances secured on land and property, primarily for use of our members.

This core activity is supported by offering a range of related financial products and services which are provided by the Society and its subsidiary companies. The principal subsidiary companies which affect the net profits and net assets of the Group are listed in Note 13 to the Accounts.

It is the intention of the Directors that Newcastle Building Society will continue to remain an independent and mutual building society. We believe this status enables us to deliver consistent and fair value and to provide enhanced benefits to all our members and customers through our attractive, innovative products and our increasing network of business partnerships.

Business Review

The Chief Executive's Review and Finance Director's Report on pages 5 to 9 report on the business activities and business performance for the year, likely future developments and post balance sheet events.

After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts. (See Note 1 on page 25.)

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Group are included in the Finance Director's Report on pages 8 & 9, within the Risk Management Report on pages 18 & 19 and in Note 11 to the Accounts.

Group Results for the Year

The Finance Director's Report on pages 8 & 9 provides a detailed overview of the Group's results and performance during the year and should be read in conjunction with the following summary, which the Directors consider to be the key performance indicators used to manage the business;

- Group loss after tax amounted to £25.8m, 0.52% of mean total assets compared with a profit of £12.1m in the previous year, 0.26% of mean total assets.
- Assets now stand at £5.09bn (2007: £4.82bn).
- The cost income ratio in 2008 was 75%, up from 69% in 2007.
- The credit quality of the lending book remains satisfactory with only 40 (2007: 9) properties in possession at the end of the year and only 0.64% (2007: 0.43%) of the portfolio with arrears of more than 2.5% of the balance. At 31 December 2008, 35 (2007: 26) mortgage accounts were 12 or more months in arrears. The balances on these accounts amounted to £2.1m (2007: £1.1 m) and the total amount of arrears in these cases was £0.3m (2007: £0.1m).
- At the year end, gross capital amounted to £279.4m (2007: £291.4m) which equates to a gross capital ratio of 6.10% (2007: 6.72%). Free capital was £235.7m (2007: £252.6m) being 5.15% (2007: 5.83%) of total shares and borrowings.
- Liquid assets, being cash and authorised securities but excluding liquidity balances held by special purpose securitisation vehicles, were £1,066.3m representing 23.28% of shares and borrowings (compared to £911.8m, 21.05% of shares and borrowings in 2007).

Staff

Newcastle Building Society operates an Equal Opportunities Policy. It is the intention of the Society that no applicant or employee receives less favourable treatment on the grounds of disability, sex, transgender status, sexual orientation, marital status, civil partnership status, race, ethnic origin, colour, age, nationality, national origins, political beliefs or trade union membership, or is disadvantaged by conditions or requirements that cannot be shown to be justifiable. Staff remuneration reviews are carried out on an annual basis and a variety of performance related bonus schemes are operated in some key business areas to enable individual and branch team efforts to be recognised and rewarded.

The Society takes its responsibilities for staff development very seriously and in 2008 was once again independently accredited as an 'Investor in People'.

We are committed to effective communication at all levels and take steps to ensure that employee consultation is adequate and ongoing. Unite has negotiating rights on behalf of all staff up to and including senior management level.

The Society has entered into formal consultations with Unite concerning potential staff redundancies.

Risk Management Objectives and Policies

The Board seeks to manage the key risks faced by the Group in order to minimise any potential adverse impact on performance. The key financial risks faced by the Group include market risk, liquidity risk, credit risk and operational risk which are managed through the Group's documented risk management framework. Further details can be found in the Risk Management Report on pages 18 & 19.

Corporate Social Commitment

The Society adopted a Corporate Social Responsibility Policy in 2008 delivering amongst other things:

- Its commitment to reducing its impact on the environment;
- Formalising the annual adoption of a Charity of the Year, and
- Adopting a volunteering policy for employees.

Community

Charitable donations and political contributions

In addition to providing considerable 'in kind' support, the Society made financial donations to charities and grass roots community activities amounting to £83,370 (2007: £72,500). There were no political contributions during the year.

Registered Social Housing

The Society continues to be a major lender in the Social Housing sector which, in turn, helps those who cannot afford their own home.

Taxes

During the year, the Society paid taxes in excess of £30.7m (2007: £31.2m) on behalf of the Newcastle Group companies, employees and members.

Directors

As at 31 December 2008, the members of the Board were:
CJ Hilton, C Greaves*, FD Holborn, W Lee*, RD Mayland, RJ McCormick, JM Pott, CJ Seccombe*, J Westhoff*, NA Westwood.

All the above directors served throughout the year.
Under Rule 26 (1) CJ Hilton, FD Holborn and RD Mayland retire at the Annual General Meeting. All are eligible and willing to serve on the Board for a further three years.

*Executive Directors

Independent Auditors

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

Statement of Directors' Responsibilities

Directors' Responsibilities for preparing Annual Accounts

The following statement, which should be read in conjunction with the statement of auditors' responsibilities on page 20, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, Annual Business Statement and Directors' Report.

The Building Societies Act 1986 ('the Act') requires the Directors to prepare Annual Accounts for each financial year which give a true and fair view of:

- the Group's and Society's income and expenditure and cash flows for the year; and
- the state of affairs of the Group and Society at the end of the financial year.

In preparing the Accounts, the Directors are required to:

- Select proper, appropriate accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Prepare the Annual Accounts on the going concern basis.

In addition to the Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and its subsidiary undertakings. The Directors are also responsible for the Remuneration Committee and Risk Management Reports.

Directors' Responsibilities in respect of Accounting Records and Internal Controls

The Directors are responsible for ensuring that the Society and its subsidiary undertakings:

- Keep proper accounting records in accordance with the Building Societies Act 1986; and
- Take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to these businesses in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The effectiveness of these controls is closely monitored by senior management and reported to the Board, via the Audit Committee, on a regular basis.

Statement of Disclosure to Auditors

So far as each Director is aware, there is no relevant audit information of which the Society's auditors are unaware.

Each Director has taken all steps that he or she ought to have taken as a Director in order to make him / herself aware of any relevant information and to establish that the Society's auditors are aware of that information.

ON BEHALF OF THE BOARD
CHRIS HILTON
5 MARCH 2009

Report of the Directors on Corporate Governance

In discharging its responsibilities to be accountable to the Society's members for the operation of the Society, the Board regards good corporate governance as extremely important. The FSA encourages building societies to have regard to the Combined Code.

Moreover, the Board acknowledges that it should seek wherever possible to comply with the updated Combined Code published in 2006. This is now effective for publicly quoted companies, but while it does not apply to building societies the Board looks to adopt those principles that are relevant to it and the Board believes it complies with all such provisions.

The Board

The Board met 15 times during the year and has responsibility for monitoring operational and financial performance in pursuit of its strategy. It also approves annual budgets, financial policy, risk management strategy, adequacy of capital plans and major capital expenditure, as well as the issue of annual and interim accounts.

At the year end, the Board consisted of six Non-executive and four Executive Directors. Each receives information and key performance indicators to ensure that the Board functions effectively. The Chairman ensures that the adequacy and relevance of this information is periodically reviewed.

The composition and attendance record of the Board for 2008 was:

	MEETINGS ATTENDED	ELIGIBLE TO ATTEND
Chris Hilton (Chairman)	15	15
Colin Seccombe	15	15
Colin Greaves	13	15
David Holborn	14	15
Jonathan Westhoff	14	15
Lucy Armstrong	4	4
Maxine Pott	12	15
Nigel Westwood	14	15
Olivia Grant	4	4
Richard Mayland	13	15
Ron McCormick	14	15
Tony Glenton	4	4
Wendy Lee	15	15

There are currently four main Committees of the Board, as detailed within this Report.

1 Audit Committee

This Committee considers all audit matters relating to the Group, the system of internal control, financial reporting and evaluation of first and second lines of defence for risk management. It receives reports from the Internal Audit function and external auditors, and considers all prudential requirements.

The composition and attendance record of this Committee for 2008 was:

	MEETINGS ATTENDED	ELIGIBLE TO ATTEND
Richard Mayland (Chairman)	5	5
Chris Hilton	1	1
Lucy Armstrong	1	1
Maxine Pott	5	5
Tony Glenton	1	1

Following Tony Glenton's retirement at the Society's AGM in 2008, Richard Mayland took over as Chairman of the Committee. Committee members are Non-executive Directors.

2 Financial Risk Committee

This Committee meets to consider and make recommendations to the Board on the level of credit, market and liquidity risk to which the Society seeks to be exposed by virtue of its treasury and lending activities. It also assesses the Society's insurance arrangements and pension risk exposure. All lending and treasury policies are set by this Committee.

The composition and attendance record of this Committee for 2008 was:

	MEETINGS ATTENDED	ELIGIBLE TO ATTEND
David Holborn (Chairman)	4	4
Chris Hilton	4	4
Colin Seccombe	4	4
Jonathan Westhoff	4	4
Nigel Westwood	4	4
Olivia Grant	1	1
Ron McCormick	2	4

At the end of the year the Committee comprised four Non-executive Directors and two Executive Directors.

3 Remuneration Committee

This Committee considers and makes recommendations on executive emoluments and contracts of employment as well as on the level of non-executive fees and pension arrangements. Its report is included on pages 16 & 17.

The composition and attendance record of this Committee for 2008 was:

	MEETINGS ATTENDED	ELIGIBLE TO ATTEND
David Holborn (Chairman)	2	2
Maxine Pott	2	2
Richard Mayland	2	2
Ron McCormick	2	2

The Committee comprises four Non-executive Directors.

4 Nominations Committee

This Committee advises on the structure of the Board, on nominations to it and the re-election of Board members retiring by rotation. The Committee consists of the entire Board.

Non-executive Directors

In the opinion of the Board, each of its Non-executive Directors is independent and free of any relationships or circumstances which materially influence the exercise of their judgement. Following Olivia Grant's retirement as a Non-executive Director (and Vice Chairman) at the AGM in April 2008, David Holborn was appointed as Senior Independent Director.

Appointments to the Board

The appointment of new Directors is considered by the Nominations Committee (see above) which makes its recommendations to the Board.

Only one Non-executive Director was appointed during the year, namely Lucy Armstrong on 25 February 2008, who subsequently resigned on 6 June 2008.

Under the Society's rules, Directors have to submit themselves for re-election at least once every three years. New Non-executive Directors are usually expected to serve two full three year terms following their election and, subject to their age and performance evaluation, may be proposed for a further term. Only in exceptional circumstances will Non-executive Directors be able to seek re-election when they have served for more than nine years.

Auditors

The Society has established a policy on the use of the external auditors for non-audit work which is considered and approved annually by the Audit Committee. The principal purpose of this policy is to ensure the continued independence and objectivity of the external auditors.

Remuneration Committee Report

Having regard to the Combined Code on Corporate Governance, the Remuneration Committee consists solely of Non-executive Directors, currently David Holborn (Chairman), Richard Mayland, Ron McCormick and Maxine Pott and meets to consider and make recommendations on the level of remuneration for Executive and Non-executive members of the Board as well as the contractual arrangements for the Executive Directors. In its consideration of remuneration levels and employment terms, the committee 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 by taking into account salary levels within similar sized financial services organisations and the market as a whole, so as to attract and retain the skills levels that are appropriate to operate an organisation as complex as the Society. Basic salary levels also reflect the individual performance of each Executive Director.
- The Executive Directors are appraised annually by the Chief Executive; and in turn, he is appraised by the Chairman.
- Three Executive Directors and one Non-executive Director are members of the Newcastle Building Society Pension and Assurance Scheme, details of which are set out in Note 30 to the Society's Annual Accounts.
- Executive Directors receive a range of taxable benefits which includes a motor vehicle or cash equivalent, private health care and concessionary mortgage arrangements. Life cover for a lump sum on death in service and dependant's pensions are also provided.
- The Executive Directors have service contracts which are terminable at any time by the Society on one year's notice. 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 annually in light of those paid to directors of other financial services organisations and reflect individual involvement in board committees and subsidiaries. Non-executive Directors do not participate in any bonus scheme. The performance of Non-executive Directors is reviewed by the Chairman annually and the performance of the Chairman is reviewed by the Non-executive Directors, led by the Senior Independent Director.

DAVID HOLBORN
SENIOR INDEPENDENT DIRECTOR
5 MARCH 2009

Directors' Emoluments (Audited)

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

	Salary or fees £000	Annual bonus £000	Benefits £000	Increase in accrued pension benefits earned in year (excl. inflation) £000	2008 Total £000	2007 Total £000
Executive Directors						
C Greaves	129	-	9	4	142	189
W Lee	139	-	13	3	155	265
CJ Seccombe	258	-	30	6	294	367
J Westhoff (appointed 1 September 2007)	155	-	44	-	199	139
	681	-	96	13	790	960
Non-executive Directors						
CJ Hilton	63	-	-	2	65	61
LVW Armstrong (appointed 25 February 2008, resigned 6 June 2008)	8	-	-	-	8	-
AAE Glenton (retired 29 April 2008)	12	-	-	-	12	38
MO Grant (retired 29 April 2008)	14	-	-	-	14	43
FD Holborn	43	-	-	-	43	37
RD Mayland	37	-	-	-	37	31
RJ McCormick (appointed 16 August 2007)	33	-	-	-	33	11
JM Pott (appointed 3 January 2007)	32	-	-	-	32	38
NA Westwood (appointed 3 January 2007)	32	-	-	-	32	38
	955	-	96	15	1,066	1,257

The benefits of Mr J Westhoff include a contribution to personal pension arrangements of £30,992 (2007: £10,000). In 2007 the benefits of Mr J Westhoff included relocation expenses amounting to £57,904, which was subject to deduction of tax and national insurance together with a contribution to personal pension arrangements of £10,000.

In 2007 the benefits of Ms W Lee included a payment made, in respect of her accepting the office of Director and foregoing payments due from a former employer which would have become payable in 2007. This amounted to £61,016 and was subject to deduction of tax and national insurance.

In 2007 the benefits of Mrs JM Pott and Mr NA Westwood each included an amount of £11,665 in respect of tax and national insurance on directors' liability insurance paid on behalf of the former Universal Building Society.

Set out below are details of the pension benefits, including unfunded arrangements, payable on retirement, to which each of the Directors is entitled at 31 December 2008. The accrued benefits include any benefits earned as an employee prior to becoming a Director, as well as those earned for qualifying services after becoming a Director.

	Total accrued benefits at 31-Dec-08 £000	Transfer value of accrued benefits at 31-Dec-08 £000	Transfer value of accrued benefits at 31-Dec-07 £000	Director's contributions during year £000	Increase in transfer value, less director's contribution £000
Executive Directors					
C Greaves	44	676	607	12	57
W Lee	10	102	76	13	13
CJ Seccombe	49	793	700	24	69
Non-executive Directors					
CJ Hilton	33	511	435	-	76
AAE Glenton (retired 29 April 2008)	13	211	219	-	(8)
MO Grant (retired 29 April 2008)	9	153	141	1	11

The accrued pension benefit shown is the amount that would be the annual amount due to the Director in the form of a pension if he or she left at the end of the year but will be adjusted for inflation until it becomes payable at Normal Retirement Date. This pension is calculated based on the total period of service with the Society, both before and after becoming a Director. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

Risk Management Report

Overview

The Society and Group risk management framework operates under the 'three lines of defence' principle. The first line of defence is within departments, business units and subsidiaries where executives, managers and staff have primary responsibility for risk management and ensuring adequate controls are in place to mitigate risk. The second line of defence is provided by the Financial Risk Committee and supporting sub-committees together with oversight by the Group Risk departments. The third line of defence is provided by Business Assurance and the Audit Committee, which are responsible for reviewing the effectiveness of the first and second lines of defence.

The Board is currently reviewing the Society's risk governance structure with a view to adopting a more holistic basis for the oversight of risk across the Group in 2009. This will involve establishing a Group Risk Committee with three new sub-committees in place to cover credit risk, market risk and liquidity risk, and operational risk.

The Group has detailed risk management policies setting out how risk is managed across the Group, including specific risk appetite statements. The risk appetite statement sets out for each risk area the various limits and key criteria that must be followed in order to mitigate risk exposures. The various limits and criteria are embedded into daily, weekly and monthly management and board reporting in order to monitor compliance and risk profile.

Credit Risk

Credit risk is the risk that a treasury counterparty, debtor or borrower will not be able to meet their obligations as they fall due. Credit risk arises primarily on retail and commercial loans, and on treasury assets held for liquidity purposes. The Group has comprehensive policies in place covering all aspects of credit risk management that set out strict criteria that must be followed before funds are advanced and also incorporate limits for concentration risk arising from, inter alia, large exposures, geographical areas and sectors. Return on Capital Employed benchmarks are set for all areas of lending, which incorporate Pillar I and Pillar II capital requirements, thus ensuring reward is commensurate with the risk taken.

For retail lending the Group operates manual underwriting procedures to prudent policy criteria including restrictions on loan to value and maximum income multiples/rental cover. The Group does not undertake sub-prime or self-certification lending. The level of Buy to Let (BTL) lending has been capped via the application of portfolio limits that reflect the risk appetite for this type of lending.

The Group no longer undertakes commercial lending but the Commercial Risk Division will continue to assess the credit risk of new loans to housing associations and monitor the performance of the commercial and residential investment portfolios through annual reviews, and key risk management information, including tenant and borrower watchlists, arrears trends and breach reports.

During 2008 a new collections division was established within the Group Risk Division, reflecting the difficult economic circumstances. This division has a more targeted approach to collections and recovery for commercial and BTL portfolio borrowers, featuring a rapid response where difficulties are identified such as late payments, tenant failure, ratings downgrades and general negative market news.

Credit risk of liquid assets is controlled via the operation of counterparty and country limits for treasury assets. Historically, counterparty limits were set with regard to external ratings agency assessments with the Society investing only in highly rated financial institutions or other building societies. The Society has developed more extensive credit assessment procedures for counterparty limits, following the ratings agency failures to predict banking defaults, in particular for the Icelandic banks. Treasury counterparty risk is monitored within Treasury Middle Office in accordance with the Financial Risk Policy.

Liquidity Risk

Liquidity risk is the risk of loss caused by the Group being unable to meet its liabilities or commitments as they fall due, or to be able to do so only at excessive cost. The nature of the business of a building society is to lend longer term (typically 25 years) and fund with short term savings accounts. This leads to a maturity mismatch between assets and liabilities.

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding and enable the Group to meet its financial obligations as and when they fall due. This is achieved by maintaining a prudent level of liquid assets (including considering the impact where assets have become less liquid) and ensuring that funding and lending plans are always in balance.

Following the continued turbulence in markets in 2008, the Board concluded that in order to manage down still further the Society's liquidity risk, and ensure that it was well positioned to deal with liabilities that mature in 2009, it would:

- Scale back lending operations for the second half of 2008 and all of 2009, specifically exiting the commercial lending market
- Target a reduction in wholesale funding of around 30% over 2009, whilst holding the level of retail savings broadly unchanged
- Launch a Covered Bond programme (delivered in January 2009), firstly to position the Society such that it has access to high quality funding lines should the market for the more secure paper return, whilst at the same time holding paper that would be eligible for a range of Bank of England initiatives to ease liquidity in the market
- Establish the Society's eligibility for the Government's Credit Guarantee Scheme (as detailed on the website of the Debt Management Office).

By implementing the above, the Board considers that it has acted to minimise the risk of the wholesale markets suffering further tightening in 2009.

In terms of the instruments held in the Society's liquidity portfolio, the Board has again considered the impact of the continuing market difficulties. This has resulted in the Society moving to very high quality liquid instruments over the year, despite the impact on margin. The table that follows identifies the key features of this:

Risk Management Report Continued

INSTRUMENT	2008	2007
Short term (mainly overnight) deposits with prime banks and building societies	56%	23%
Gilts and treasury bills	19%	1%
Floating rate notes	11%	13%
Short term Certificates of Deposit	9%	56%
AAA mortgage backed securities	4%	6%
Other	1%	1%
TOTAL	**100%**	**100%**

The Balance Sheet Management Team continues to review the adequacy of the Group's liquidity under normal and stressed scenarios and is currently enhancing procedures and stress testing for new FSA liquidity standards due to come into effect over the next year, including the new Individual Liquidity Assessment Process.

Operational Risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. For the Group this definition includes legal risk, strategic risk and reputation risk.

The Group has a well established operational risk framework with a detailed Operational Risk Policy that sets out the framework for operational risk, including the measurement and management of risk, risk appetite, managing project risk, capital adequacy requirements, tracking of risk events and operational losses, timescales for implementation of action plans and escalation procedures for more serious risk events that require immediate action to mitigate loss.

A key feature of the Group's operational risk framework is that key risks and controls are identified for all areas of the business ranging from the high level risks, discussed at Board level, down to the risks within individual departments. Risk assessments remain the responsibility of the relevant departmental managers and executives, and are updated monthly for new risks, the results of risk events and following business assurance reviews. All risks are scored in terms of the impact and probability of the risk arising and are scored before and after considering the impact of controls. The operational risk system is also fully utilised by Business Assurance with the internal audit inspection plan based on high scoring risk areas or where there is significant reliance on key controls to mitigate the impact of catastrophic and major risks. The Group Corporate Insurance policies are also negotiated with full regard to the key risks within the Group requiring greater mitigation.

Market Risk

The principal market risk to which the Group is exposed is interest rate risk. The Group has no exposure to foreign currency and only a very moderate direct net exposure to equities through a small shareholding in Standard Life arising from the demutualisation of the insurance company in 2006. The Group has an indirect exposure to the performance of equities through its defined benefit pension schemes.

Interest Rate Risk

Interest rate risk arises on mortgages, savings and treasury instruments due to timing differences on re-pricing of assets and liabilities and the imperfect matching of interest rates between different assets and liability types. This risk is managed using financial instruments including derivatives. Natural hedging strategies are also utilised e.g. matching two year fixed rate mortgages with two year fixed rate bonds.

The Group's risk appetite for interest rate risk is documented in the Financial Risk Policy Statement and includes limits for the maximum adverse impact on net interest margin, maximum value at risk as well as limits to minimise gaps in specific time buckets.

The table below describes the activities undertaken by the Group and the derivatives used to manage the associated risks.

ACTIVITY	RISK	TYPE OF HEDGE
Fixed rate savings products and funding instruments	Sensitivity to fall in interest rates	Fair value interest rate swap
Fixed rate mortgage products and funding investment instruments	Sensitivity to rise in interest rates	Fair value interest rate swap
Index-linked savings products	Sensitivity to changes in underlying indices	Fair value hedges with index-linked swaps
General - balance sheet management	Sensitivity to different types of interest rates moving in different ways e.g. LIBOR and Base Rate	Basis risk swaps

Derivatives are only used by the Group in accordance with the Building Societies Act 1986. These instruments are not used for trading or speculative purposes and their sole purpose is to mitigate risks arising from movement in interest rates or indices.

The table in Note 11 (page 32) gives details of the derivative financial instruments held at 31 December 2008.

Capital Management

The European Union Capital Adequacy Requirements Directive has been incorporated into the FSA Handbook and came into effect in the UK from 1 January 2008. The Group has adopted the standardised approach to calculating capital requirements for credit and operational risk under Basel II and has applied the detailed requirements of BIPRU in calculating Pillar I capital requirements.

On a six monthly basis the Group updates the ICAAP for changes in the rolling three year strategic plan including revised three year financial projections incorporating changes in the mix and volume of lending and business activity generally. A full risk assessment is completed covering the risks to which the Group is exposed in pursuit of the strategic plan and the capital requirements to cover those risks. This includes the consideration and update of stressed scenarios across the Group to identify additional capital required at Pillar II, where insufficient capital is held at Pillar I.

Capital adequacy is monitored on a monthly basis by the Board and the three year capital plan has been updated on a regular basis between ICAAP reviews against the background of changing economic circumstances. The Group maintains its capital at a level in excess of the capital guidance level set by the FSA.

Under Basel II Pillar III (disclosure) the Group is required to publish further information about risk exposures. The Group's Pillar III disclosures will be published on the Society's website www.newcastle.co.uk at the same time as these Accounts.

ON BEHALF OF THE BOARD
CHRIS HILTON
5 MARCH 2009

Independent Auditors' Report to the Members of Newcastle Building Society

We have audited the Group and Society Annual Accounts of Newcastle Building Society for the year ended 31 December 2008 which comprise the Group and Society Income Statements, the Group and Society Statements of Recognised Income and Expense, the Group and Society Balance Sheets, the Group and Society Cash Flow Statements and the related notes. These Annual Accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited and the information contained in the Risk Management Report.

We have examined the Annual Business Statement (other than the details of Directors and Officers upon which we are not required to report) and the Directors' Report.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for the preparation of the Annual Report, including the Annual Accounts, the Directors' Remuneration Report, the Annual Business Statement and the Directors' Report in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Annual Accounts, the part of the Directors' Remuneration Report to be audited and the Risk Management Report in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for, and only for, the Society's Members as a body in accordance with Section 78 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 report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Annual Accounts including the Risk Management Report give a true and fair view and whether the Annual Accounts, the part of the Directors' Remuneration Report to be audited and the Risk Management Report have been properly prepared in accordance with the Building Societies Act 1986, regulations made under it and Article 4 of the IAS Regulation. We also report to you our opinion as to whether certain information included within the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts, and whether the Annual Business Statement and the Directors' Report have been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the Annual Accounts are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Annual Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Accounts, the Annual Business Statement or the Directors' Report. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts, the Annual Business Statement, the part of the Directors' Remuneration Report to be audited and the Risk Management Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Annual Accounts, the part of the Directors' Remuneration Report to be audited and the Risk Management Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Annual Accounts, the part of the Directors' Remuneration Report to be audited and the Risk Management Report.

Opinion

In our opinion:

- the Annual Accounts give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Society's affairs at 31 December 2008 and of the Group's and the Society's income and expenditure and cash flows for the year then ended;
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- the Annual Accounts, the part of the Directors' Remuneration Report to be audited, The Risk Management Report, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986, regulations made under it and, as regards the Annual Accounts, Article 4 of the IAS Regulation.

PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
NEWCASTLE UPON TYNE
5 MARCH 2009

Income Statements for the year ended 31 December 2008

	Note	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Interest receivable and similar income	2	**287.9**	264.8	**281.0**	257.0
Interest expense and similar charges	3	**(249.3)**	(221.1)	**(242.1)**	(213.5)
Net interest income		**38.6**	43.7	**38.9**	43.5
Other income	4	**26.6**	21.0	**21.6**	16.9
Other charges	4	**(2.4)**	(2.5)	**(2.8)**	(3.1)
Gains less losses from financial instruments		**0.5**	(2.9)	**0.5**	(2.9)
Dividend income	5	**-**	-	**-**	6.4
Total operating income		**63.3**	59.3	**58.2**	60.8
Administrative expenses	6	**(47.5)**	(41.2)	**(45.1)**	(38.8)
Operating profit before impairments and FSCS levy		**15.8**	18.1	**13.1**	22.0
Impairment losses	9-12	**(44.7)**	(0.5)	**(44.7)**	(0.5)
FSCS levy		**(6.8)**	-	**(6.8)**	-
(Loss) / profit for the year before taxation		**(35.7)**	17.6	**(38.4)**	21.5
Taxation credit / (expense)	8	**9.9**	(5.5)	**10.7**	(4.8)
(Loss) / profit for the financial year	27	**(25.8)**	12.1	**(27.7)**	16.7

Statements of Recognised Income and Expense for the year ended 31 December 2008

	Note	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Available for sale investments:					
Valuation gains taken to equity		**6.6**	-	**6.6**	-
Cash flow hedges:					
Losses taken to equity		**(1.2)**	-	**(1.2)**	-
Actuarial (loss) / gain on retirement benefit obligations	30	**(5.0)**	4.8	**(5.0)**	4.8
Taxation on items taken directly through reserves	16	**3.4**	(1.5)	**3.4**	(1.5)
Net expense recognised directly in reserves		**3.8**	3.3	**3.8**	3.3
(Loss) / profit for the financial year		**(25.8)**	12.1	**(27.7)**	16.7
Total recognised income and expense since last annual accounts		**(22.0)**	15.4	**(23.9)**	20.0

The notes on pages 25 to 52 form part of these Accounts.

Balance Sheets at 31 December 2008

	Note	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
ASSETS					
Cash and balances with the Bank of England		**5.0**	5.8	**5.0**	5.8
Loans and advances to banks	9	**604.4**	228.0	**594.4**	216.2
Debt securities	10	**459.8**	689.0	**459.8**	689.0
Derivative financial instruments	11	**18.7**	14.5	**18.7**	14.1
Fair value adjustments for hedged risk		**68.6**	34.1	**63.3**	33.5
Loans and advances to customers	11, 12	**3,838.8**	3,772.5	**3,691.8**	3,643.4
Investment in subsidiaries	13	**-**	-	**64.2**	39.2
Property, plant and equipment	14	**32.1**	30.0	**22.7**	20.2
Investment properties	15	**13.9**	8.9	**-**	-
Current tax assets		**5.2**	1.2	**5.5**	2.3
Deferred tax assets	16	**11.6**	2.4	**11.6**	2.4
Other assets	17	**34.8**	28.9	**37.1**	32.3
Non-current assets held for sale	18	**-**	0.4	**-**	0.4
TOTAL ASSETS		**5,092.9**	4,815.7	**4,974.1**	4,698.8

The notes on pages 25 to 52 form part of these Accounts.

Balance Sheets at 31 December 2008

	Note	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
LIABILITIES					
Due to customers - shares	19	**3,302.3**	2,921.7	**3,302.3**	2,921.7
Due to other customers	20	**907.2**	774.4	**911.0**	778.0
Deposits from banks	21	**72.9**	96.2	**72.9**	96.2
Debt securities in issue	22	**409.2**	655.3	**297.7**	540.1
Derivative financial instruments	11	**70.2**	37.3	**63.9**	35.7
Fair value adjustments for hedged risk		**8.6**	3.0	**8.6**	2.6
Other liabilities	23	**26.0**	29.7	**24.5**	27.8
Provisions for liabilities and charges	24	**7.9**	0.5	**7.9**	0.5
Retirement benefit obligations	30	**7.8**	3.4	**7.8**	3.4
Deferred tax liabilities	16	**1.4**	2.8	**0.6**	2.0
Subordinated liabilities	25	**60.8**	60.8	**60.8**	60.8
Subscribed capital	26	**29.9**	19.9	**29.9**	19.9
Reserves	27	**188.7**	210.7	**186.2**	210.1
TOTAL LIABILITIES		**5,092.9**	4,815.7	**4,974.1**	4,698.8

These Accounts were approved by the Board of Directors on 5 March 2009 and signed on its behalf by:

CHRIS HILTON, CHAIRMAN
COLIN SECCOMBE, CHIEF EXECUTIVE
JONATHAN WESTHOFF, FINANCE DIRECTOR

The notes on pages 25 to 52 form part of these Accounts.

Cash Flow Statements for the year ended 31 December 2008

	Note	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Cash flows from operating activities	28	170.1	186.6	190.6	195.2
Taxation paid		(1.5)	(0.9)	(0.7)	(0.9)
Payment into defined benefit pension scheme		(0.4)	(0.4)	(0.4)	(0.4)
Dividend received		-	-	-	6.4
Payments made to qualifying members and borrowers in respect of merger		-	(14.5)	-	(14.5)
Net cash flows from operating activities		168.2	172.8	189.5	185.8
Cash flows from investing activities					
Purchase of property, plant and equipment		(5.4)	(5.7)	(5.4)	(5.6)
Purchase of investment properties		(5.0)	(6.8)	-	-
Sale of property, plant and equipment		0.6	1.0	0.6	1.0
Increase in loans to subsidiary undertakings		-	-	(25.0)	(22.4)
Purchase of investment securities		(1,615.8)	(1,353.7)	(1,615.8)	(1,353.7)
Sale and maturity of investment securities		1,830.9	1,209.2	1,830.9	1,209.2
Net cash flows from investing activities		205.3	(156.0)	185.3	(171.5)
Cash flows from financing activities					
Issue of Permanent Interest Bearing Shares		10.0	-	10.0	-
Interest paid on subordinated liabilities		(4.9)	(4.9)	(4.5)	(4.5)
Interest paid on subscribed capital		(2.4)	(2.3)	(2.4)	(2.3)
Repayments under finance lease agreements		(0.4)	(0.3)	(0.4)	(0.3)
Net cash flows from financing activities		2.3	(7.5)	2.7	(7.1)
Net increase in cash		375.8	9.3	377.5	7.2
Cash and cash equivalents at start of year		230.3	221.0	218.6	211.4
Cash and cash equivalents at end of year	28	606.1	230.3	596.1	218.6

The notes on pages 25 to 52 form part of these Accounts.

Notes to the Accounts for the year ended 31 December 2008

1 Significant Accounting Policies

Basis of preparation

The Accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC); as adopted for use in the EU; interpretations issued by the International Financial Reporting Interpretations Committee; and with those parts of the Building Societies (Accounts and Related Provisions) 1998 applicable to building societies reporting under IFRSs.

During 2008, global financial markets experienced difficult conditions which have been characterised by a marked reduction in liquidity. As a consequence of this, governments and central banks carried out a series of actions to address the lack of liquidity within their respective banking systems. In the UK these actions have included the introduction of the Bank of England's Special Liquidity Scheme whereby banks and building societies can exchange eligible securities for UK Treasury bills; and the creation of a credit guarantee scheme by HM Treasury, providing a government guarantee for certain short and medium term senior debt securities issued by eligible banks and building societies, including Newcastle Building Society.

Despite the continuing deterioration in the economy and the uncertainties that exist, based upon projections prepared by management, which include the continued availability of the existing and announced government sponsored schemes, should the Society have the desire to make use of them, the Directors are satisfied that the Society and the Group have adequate resources to continue in business for the forseeable future. The Society has taken steps to strengthen its capital position, through the issue of £10m of Permanent Interest Bearing Shares, in order to provide a buffer against any further shocks to the financial system.

Accordingly, the financial statements of the Society and the Group have been prepared on a going concern basis.

The Accounts have been prepared under the historical cost convention except for those financial assets and hedging instruments which are required by IAS 39 to be carried at fair value. A Group segmental analysis is not provided since, in the opinion of the Directors, the Group's activities are predominantly UK based and within one business sector. A summary of the Group's principal accounting policies is set out below:

Basis of consolidation

The Group Accounts include the results of the Society and its subsidiary undertakings, all of which have accounting periods ending 31 December. Subsidiaries are entities, including special purpose vehicles (SPVs), over which the Society has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the group and are deconsolidated from the date that control ceases. Upon consolidation, inter-company transactions, balances and unrealised gains on transactions are eliminated.

Securitisation transactions

In accordance with IAS 39, where the Society has entered into securitisation transactions in which mortgages are transferred to SPVs, the Group continues to recognise securitised assets as loans and advances to customers. The Group does not own the equity of the SPVs created for these securitisations. However, to comply with the Building Societies Act 1986 (International Accounting Standards and Other Amendments) Order 2004 and Standing Interpretations Committee 12 (SIC 12), the SPVs are included as subsidiaries in the Group Accounts.

Financial assets

The Group classifies its financial assets into the following categories:

Loans and receivables

The Group's mortgage assets and similar loans are classified as loans and receivables and measured at amortised cost using the effective interest method (EIR). In accordance with EIR methodology, incremental up-front costs and fees receivable which are directly related to the loans (including administration and completion fees, arrangement fees, early redemption charges, procuration fees and commissions paid to agents) are deferred and released to income over the effective life of the mortgage assets.

Financial assets at fair value through profit or loss

Classified as such when designated by management on initial recognition and permitted by IAS 39, these assets are recognised both initially and subsequently at fair value with changes recognised in the Income Statements. On 13 October 2008 amendments to IAS 39 and IFRS 7 were published which allow reclassification of certain financial instruments held for trading (fair value through the profit and loss) to either the held to maturity, loans and receivables or available for sale categories. These amendments were made in response to requests by regulators to enable banks to record instruments which are no longer traded in an active market at amortised cost, thereby reducing reported profit and loss volatility. The value of the instruments at 1 July 2008 becomes the 'cost' of the assets which are now 'held to maturity'. The difference between this cost and the higher amount that will be received on maturity is recognised through the interest margin as effective interest rate (EIR) over the remaining life of each instrument. Details of the impact of these reclassifications are given in note 10.

Available for sale

These assets are non-derivative financial instruments where the intention is to hold for an indefinite period of time. They are initially measured at fair value with subsequent movements recognised directly in equity, until the asset is derecognised or impaired, at which point the cumulative gain or loss previously recognised in equity is recognised in the Income Statements. Interest received on the asset is recognised immediately in the Income Statements.

Cash and cash equivalents

For the purpose of the Cash Flow Statements, 'Cash and cash equivalents' comprises cash in hand and loans and advances to credit institutions available on demand or with original maturities of three months or less i.e. highly liquid assets readily convertible into cash with a low risk of material changes in value.

Impairment of financial assets

Individual assessments are made against all those known loans and advances in arrears, in possession, where an event or default has occurred, or where fraud has been identified. Based on these assessments, which consider such data as current valuation, time expected to sell the property and the amount ultimately expected to be recoverable, the value of those loans and advances that are considered to be impaired is reduced on an individual basis. Collective impairment allowances are also made to reduce the value of those loans and advances where there has been some event such as a death or divorce which will give rise to an impairment but of which we are not yet aware at the Balance Sheet date, with the result that the amount advanced may not be recovered in full. For the purposes of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Any impairment loss or allowance is recognised in the Income Statements.

Financial liabilities

Financial liabilities are carried at amortised cost, using the EIR method.

Investment properties

Investment properties are stated at their fair value at the Balance Sheet date. Movements on revaluation are charged directly to the Income Statements.

Property, plant, equipment and depreciation

On transition to IFRS, the Group elected to adopt the exemption in IFRS 1 which permits an entity to use, on transition to IFRS, a value, which is not depreciated cost, as the 'deemed cost' of the asset. Property, plant and equipment are stated at cost (or 'deemed cost') less accumulated depreciation and any provisions for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation on assets commences when they are ready for their intended use and is provided at rates calculated to write down the assets to their estimated residual values over the course of their anticipated useful lives, on the following bases:

Freehold buildings and leasehold buildings	
With a residual lease term of greater than fifty years	- 2% per annum, straight line
Other leasehold buildings	- over the term of the lease
Equipment, fixtures, fittings and motor vehicles:	
Refurbishment expenditure	- 6.67% - 10% per annum, straight line
Equipment, fixtures and fittings	- 10% per annum, straight line with effect from 1 January 2005
Computer equipment	- 20% per annum, straight line
Motor vehicles	- over the term of the lease

Land and property in the course of construction are not depreciated.

Estimated useful lives are reviewed annually and adjusted, if appropriate. Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount of the asset and are included in the Income Statements.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use and where the sale is expected to complete within one year of the classification.

Lease purchase and leasing

The Group enters into lease purchase contracts and finance and operating leases. Assets held under lease purchase contracts and finance leases are capitalised in Property, plant and equipment at the fair value of the asset at the inception of the lease, with an equivalent liability categorised under other liabilities. Assets are depreciated in accordance with the relevant Group policy, over the lower of the useful life of the asset and the term of the lease. Finance charges are allocated to accounting periods over the life of each lease on a straight line basis or using the sum of digits method, depending on the cash flows attaching to the agreement. Rentals under operating leases are charged on a straight line basis over the lease term. Both finance charges and rentals are recognised in administrative expenses in the Income Statements.

Notes to the Accounts for the year ended 31 December 2008

Significant Accounting Policies Continued

Taxation
Corporation tax is charged on profits adjusted for tax purposes.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Derivatives and hedging instruments
The Group enters into derivative contracts only for the purposes of providing an economic hedge. Details regarding the use of derivatives are given in the Risk Management Report on pages 18 & 19. The criteria required for an instrument to be classified as a hedge are that the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cash flows being hedged and which results from potential movements in interest rates, equities or house price indices. At the outset of the transaction, the Group documents the relationship between the hedging instrument and the hedged item or transaction, the risk management objective and strategy for undertaking the hedge, together with the nature of the risk being hedged. It also documents how the hedging instrument's effectiveness in offsetting the exposures to changes in the hedged item's fair value flows, attributable to the hedged risk, will be assessed both at the inception of the hedge and on an ongoing basis. In accordance with IAS 39, all derivatives are measured at fair value.

The Group has classified its derivatives as fair value hedges or cash flow hedges.

Fair Value Hedges
Where a derivative qualifies for hedge accounting i.e. there is an effective hedge in place, the value of the hedged item is largely offset by changes in the value of the underlying assets and liabilities. Changes in fair value are recognised in the Income Statements.

Cash Flow Hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the Income Statement immediately. Amounts accumulated in equity are recycled to the Income Statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires, is sold, no longer meets the criteria for hedge accounting, or when a forecast transaction is no longer expected to occur, any cumulative gain or loss is recognised in the Income Statements.

Pension scheme costs
The Society operates both defined benefit and defined contribution schemes on behalf of directors and staff. The defined benefit schemes are funded by contributions partly from the employees and partly from the Society at rates determined by independent actuaries. These contributions are invested separately from the Group's assets. Under IAS 19, the Scheme assets are measured at bid value at each Balance Sheet date and the obligations are measured by independent actuaries using the projected unit valuation method, discounted using a high quality corporate bond rate. The resulting pension scheme surplus or deficit is recognised immediately on the Balance Sheets and any resulting actuarial gains and losses are recognised immediately in the Statements of Recognised Income and Expense. For the defined contribution schemes, contributions are charged to the Income Statements, as they become payable, in accordance with the rules of the Scheme.

Provisions
A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated.

Interest income and expense
Interest income and expense on all financial instruments are recognised within interest receivable or payable on an effective interest rate basis. The effective interest rate is the method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument. In calculating the effective Interest rate all contractual terms of the financial instrument (for example, early redemption charges) are taken into account.

Accounting developments
IFRIC 14 – IAS 19: The limit on a defined benefit asset, minimum funding requirement and their interaction
During the period, the Group adopted IFRIC 14 which provides guidance on the recognition of a defined benefit asset and specifies how a minimum funding requirement could give rise to an increased liability. IFRIC 14 had no impact on the results for the year.

The following developments will be relevant to the Group but were not effective at 31 December 2008 and have not been adopted in preparing the Accounts. None of these developments are expected to have any significant impact on the Group's results.

Annual Improvements to IFRSs
The IASB has issued the 'Improvements to IFRSs' standard which amends 20 standards, basis of conclusions and guidance based on the exposure draft issued in October 2007. The improvements include changes in presentation, recognition and measurement plus terminology and editorial changes.

IFRS 8: Operating Segments
The standard requires disclosures on operating segments based on how information is reported and evaluated internally.

IAS 1: Presentation of Financial Statements
The objective of this revised version is to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements. The new Standard includes guidance on the meaning of 'present fairly' and emphasises that the application of IFRS is presumed to result in financial statements that achieve a fair presentation.

IAS 23: Borrowing Costs
Applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed.

IFRS 3 (Revised): Business Combinations
The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date and all transaction costs will be expensed. This standard will affect the way building society mergers are accounted for but no review work has been undertaken within the Society on this point.

Amendment to IAS 39, Financial Instruments: Recognition and measurement on eligible hedged items
The IASB has issued an amendment to IAS 39, Financial Instruments:Recognition and measurement on eligible hedged items. This amendment will introduces new rules whereby inflation can only be designated as hedge if it is a contractual cash flow and it specifies the circumstances where a portion of the cash flows of a financial instrument may be designated as a hedge. It will have no retrospective impact on the Group's Accounts.

Accounting Estimates and Judgements in applying Accounting Policies
The Group has to make judgements in applying its accounting policies which affect the amounts recognised in the Accounts. These judgements are based on management's best knowledge but the eventual outcome may differ from them. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following year. The most significant areas where judgements and assumptions are made are as follows:

Pensions
The Group operates two defined benefit pension schemes. Significant judgements (on issues such as discount, interest and mortality rates, inflation and future salary increases) have to be exercised in estimating the assets and liabilities of the scheme. These judgements, which are based upon the Board receiving independent external advice from the scheme actuaries, are outlined in Note 30 to the Accounts.

Effective interest rate (EIR)
To calculate the appropriate EIR, certain assumptions are made in respect of the expected lives of specific asset portfolios which take into account such factors as the terms of the particular product, historic repayment data and prevailing economic conditions. These estimates are reviewed on a regular basis to ensure they reflect the portfolio's actual performance.

Impairment of financial assets
Key assumptions, resulting in predictions of the value of underlying assets held as security for loans advanced, based on historic data and prudent expectations around future conditions, are used to determine the level of impairment required in respect of financial assets.

Taxation
The Group is subject to tax in three jurisdictions and, consequently, estimates are required in determining the provision for corporation tax.

Notes to the Accounts for the year ended 31 December 2008

2 Interest receivable and similar income

	GROUP		SOCIETY	
	2008 £m	2007 £m	**2008 £m**	2007 £m
On loans and advances to customers	**219.4**	209.7	**212.5**	201.8
On debt securities				
- interest and other income	**38.6**	34.6	**38.6**	34.6
- profits net of losses on realisation	**3.3**	1.9	**3.3**	1.9
On other liquid assets				
- interest and other income	**16.1**	8.4	**16.5**	9.0
Net income on derivative hedging assets	**10.5**	10.2	**10.1**	9.7
	287.9	264.8	**281.0**	257.0

3 Interest expense and similar charges

	GROUP		SOCIETY	
	2008 £m	2007 £m	**2008 £m**	2007 £m
On shares held by individuals	**154.3**	135.6	**154.3**	135.6
On subscribed capital	**2.4**	2.3	**2.4**	2.3
On deposits and other borrowings				
- subordinated liabilities	**4.9**	4.9	**4.5**	4.5
- to subsidiary companies	**-**	-	**0.1**	0.2
- to other depositors and borrowers	**86.2**	80.9	**79.3**	73.5
Net income on derivative hedging liabilities	**(0.2)**	(2.6)	**(0.2)**	(2.6)
Covered bond costs	**1.7**	-	**1.7**	-
	249.3	221.1	**242.1**	213.5

4 Other income and charges

	GROUP		SOCIETY	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Other income				
Fee and commission income	**11.5**	10.0	**7.1**	6.2
Other operating income	**15.1**	11.0	**14.5**	10.7
	26.6	21.0	**21.6**	16.9

	GROUP		SOCIETY	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Other charges				
Fee and commission expense	**2.4**	2.5	**2.8**	3.1
	2.4	2.5	**2.8**	3.1

Notes to the Accounts for the year ended 31 December 2008

5 Dividend income

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Received from subsidiary undertaking	-	-	-	6.4

6 Administrative expenses

	Note	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Staff costs	7	29.9	25.9	27.8	24.1
Depreciation of property, plant and equipment	14	3.2	2.7	2.8	2.3
Rentals under operating leases for land and buildings					
- payable to third parties		1.5	1.0	1.5	1.0
- payable to subsidiary undertaking		-	-	0.1	0.1
Other administrative expenses		12.9	11.6	12.9	11.3
		47.5	41.2	45.1	38.8

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

	GROUP 2008	GROUP 2007	SOCIETY 2008	SOCIETY 2007
Fees payable for statutory audit	0.2	0.1	0.1	0.1
Fees payable for non audit services	0.1	0.1	0.1	0.1
	0.3	0.2	0.2	0.2

7 Staff costs

	Note	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Wages and salaries		25.8	22.5	23.9	20.9
Social security costs		2.3	2.1	2.1	1.9
Pension costs					
- defined benefit plans		1.2	0.9	1.2	0.9
- defined contribution plans		0.6	0.4	0.6	0.4
	6	29.9	25.9	27.8	24.1

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

	GROUP 2008	GROUP 2007	SOCIETY 2008	SOCIETY 2007
Full time	929	766	889	732
Part time	277	286	275	283
	1,206	1,052	1,164	1,015
Principal Office	978	828	960	813
Branches	228	224	204	202
	1,206	1,052	1,164	1,015

Notes to the Accounts for the year ended 31 December 2008

8 Taxation (credit) / expense

	Note	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Current tax					
UK corporation tax on (loss) / profit for the year		0.1	4.7	0.1	3.8
Group relief for the year		-	-	(0.8)	0.1
Overprovision in respect of previous years		(2.8)	(2.4)	(2.8)	(2.4)
Total current tax		(2.7)	2.3	(3.5)	1.5
Deferred tax					
Current year	16	(10.0)	0.8	(10.0)	0.9
Underprovision in respect of previous years		2.8	2.4	2.8	2.4
Total deferred tax		(7.2)	3.2	(7.2)	3.3
Total taxation (credit) / expense in the Income Statements		(9.9)	5.5	(10.7)	4.8

Analysis of taxation (credit) / expense for the year	GROUP 2008	GROUP 2007	SOCIETY 2008	SOCIETY 2007
(Loss) / profit before taxation	(35.7)	17.6	(38.4)	21.5
(Loss) / profit before taxation at the average standard rate of corporation tax in the UK of 28.5% for 2008 (2007: 30%)	(10.2)	5.3	(11.0)	6.5
Non-taxable income	-	(0.1)	-	(2.0)
Expenses not deductible for tax purposes	0.2	0.3	0.2	0.3
Other	0.1	-	0.1	-
Total taxation (credit) / expense	(9.9)	5.5	(10.7)	4.8

Factors affecting future tax charges

The Society has unrelieved trading losses which are expected to affect materially future taxable profits.

9 Loans and advances to banks

Repayable from the date of the Balance Sheets in the ordinary course of business as follows:

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Accrued interest	0.8	1.0	0.8	1.0
On demand	13.4	18.7	3.4	6.9
In not more than three months	617.3	205.8	617.3	205.8
In more than three months but not more than one year	-	-	-	-
In more than one year but not more than five years	2.5	2.5	2.5	2.5
Gross loans and advances to banks	634.0	228.0	624.0	216.2
Less: allowance for losses on loans and advances to banks	(29.6)	-	(29.6)	-
	604.4	228.0	594.4	216.2

10 Debt securities

Transferable debt securities	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Issued by public bodies - listed	**204.1**	10.7	**204.1**	10.7
Issued by other borrowers - unlisted	**258.7**	678.3	**258.7**	678.3
Gross debt securities	**462.8**	689.0	**462.8**	689.0
Less: allowance for losses on debt securities	**(3.0)**	-	**(3.0)**	-
	459.8	689.0	**459.8**	689.0
These have remaining maturities as follows:				
Accrued interest	**6.0**	11.1	**6.0**	11.1
In not more than one year	**162.9**	481.6	**162.9**	481.6
In more than one year	**293.9**	196.3	**293.9**	196.3
Gross debt securities	**462.8**	689.0	**462.8**	689.0
Less: allowance for losses on debt securities	**(3.0)**	-	**(3.0)**	-
	459.8	689.0	**459.8**	689.0

The Directors consider that the primary purpose of holding securities is to comply with prudential requirements. All transferable debt securities are held with the intention of use on a continuing basis in the Group's activities. They are designated by management on initial recognition as being available for sale and are recognised, both initially and subsequently, at fair value with changes recognised directly in equity.

Reclassification of financial instruments

Pursuant to the amendments to IAS 39 and IFRS 7 (see note 1) the Group reclassified certain financial instruments from fair value through profit or loss to held to maturity. At 1 July 2008 the Group had the intention and ability to hold these instruments for the forseeable future or until maturity.

Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. The table below sets out the financial instruments reclassified and their carrying and fair values:

	1 July 2008 Carrying value £m	1 July 2008 Fair value £m	31 December 2008 Carrying value £m	31 December 2008 Fair value £m
Faire value through profit or loss financial instruments reclassified to held to maturity financial instruments	156.9	156.9	141.6	134.1

The table below sets out the amounts actually recognised in profit or loss and equity during 2008 in respect of the financial instruments reclassifed to held to maturity financial instruments. There were no amounts recognised in equity.

	Profit or loss £m
Period before reclassification	
Fair value through profit or loss financial instruments reclassified to held to maturity financial instruments	
Interest income	5.0
Net change in fair value	(1.2)
	3.8
Period after reclassification	
Fair value through profit or loss financial instruments reclassified to held to maturity financial instruments	
Interest income	4.4
Net impairment loss on financial assets	(3.0)
Net change in fair value	0.6
	2.0

During 2007 the Group recognised interest income of £9.4m and fair value loss of £2.1m in respect of the financial instruments subsequently reclassified from fair value through profit or loss to held to maturity.

11 Financial instruments

Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's or Society's balance sheet at their fair value.

GROUP

	Note	Carrying value 2008 £m	Carrying value 2007 £m	Fair value 2008 £m	Fair value 2007 £m
Financial assets					
Cash and balances with the Bank of England		**5.0**	5.8	**5.0**	5.8
Loans and advances to banks	9	**604.4**	228.0	**604.2**	228.1
Debt securities held to maturity	10	**141.6**	170.0	**134.1**	170.0
Loans and advances to customers	12	**3,838.8**	3,772.5	**4,065.3**	3,833.2
Financial liabilities					
Due to customers - shares	19	**3,302.3**	2,921.7	**3,327.0**	2,922.5
Due to other customers	20	**907.2**	774.4	**914.2**	774.4
Deposits from banks	21	**72.9**	96.2	**73.0**	92.3
Debt securities in issue	22	**409.2**	655.3	**410.6**	656.3
Subordinated liabilities	25	**60.8**	60.8	**69.6**	65.2
Subscribed capital	26	**29.9**	19.9	**35.4**	32.9

SOCIETY

	Note	Carrying value 2008 £m	Carrying value 2007 £m	Fair value 2008 £m	Fair value 2007 £m
Financial assets					
Cash and balances with the Bank of England		**5.0**	5.8	**5.0**	5.8
Loans and advances to banks	9	**594.4**	216.2	**594.3**	216.2
Debt securities held to maturity	10	**141.6**	170.0	**134.1**	170.0
Loans and advances to customers	12	**3,691.8**	3,643.4	**3,909.6**	3,703.8
Financial liabilities					
Due to customers - shares	19	**3,302.3**	2,921.7	**3,327.0**	2,922.5
Due to other customers	20	**911.0**	778.0	**918.0**	774.4
Deposits from banks	21	**72.9**	96.2	**73.0**	96.1
Debt securities in issue	22	**297.7**	540.1	**299.1**	541.0
Subordinated liabilities	25	**60.8**	60.8	**69.6**	65.2
Subscribed capital	26	**29.9**	19.9	**35.4**	32.9

Loans and advances to banks

Loans and advances to banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate and overnight deposits is their carrying amount. The fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Due to customers

The fair value of shares is assumed to approximate to the amount payable at the balance sheet date.

Deposits from banks

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities in issue

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Notes to the Accounts for the year ended 31 December 2008

11 Financial instruments Continued

Derivatives held for hedging

Derivative financial instruments used by the Group have been described previously in the Risk Management Report. The fair values of the derivative instruments held are set out below:

GROUP	2008 Notional Amount £m	2008 Fair Value Assets £m	2008 Fair Value Liabilities £m	2007 Notional Amount £m	2007 Fair Value Assets £m	2007 Fair Value Liabilities £m
At 31 December						
Interest rate swaps designated as fair value hedges	1,928.0	12.5	(57.3)	1,834.0	11.8	(33.8)
Interest rate swaps designated as cash flow hedges	450.0	-	(1.2)	-	-	-
Other derivatives						
Interest rate caps	-	-	-	190.0	0.1	-
Interest rate swaps	372.1	6.2	(11.7)	410.6	2.6	(3.0)
Basis risk derivatives	-	-	-	200.0	-	(0.5)
		18.7	(70.2)		14.5	(37.3)

SOCIETY	2008 Notional Amount £m	2008 Fair Value Assets £m	2008 Fair Value Liabilities £m	2007 Notional Amount £m	2007 Fair Value Assets £m	2007 Fair Value Liabilities £m
At 31 December						
Interest rate swaps designated as fair value hedges	1,928.0	12.5	(57.3)	1,834.0	11.8	(33.8)
Interest rate swaps designated as cash flow hedges	450.0	-	(1.2)	-	-	-
Other derivatives						
Interest rate caps	-	-	-	190.0	0.1	-
Interest rate swaps	253.8	6.2	(5.4)	288.6	2.2	(1.4)
Basis risk derivatives	-	-	-	200.0	-	(0.5)
		18.7	(63.9)		14.1	(35.7)

Liquidity risk

For each material category of financial liability a maturity analysis is provided in notes 21 and 22, which represents the contractual maturities.

The table below analyses the Group's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 December 2008	Repayable on demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Due to customers - shares	2,805.7	6.9	207.7	273.9	8.1	3,302.3
Due to other customers	32.9	565.6	245.6	63.0	0.1	907.2
Deposits from banks	0.6	67.2	4.2	0.9	-	72.9
Debt securities in issue	2.8	-	294.9	-	111.5	409.2
Derivative financial instruments	-	-	0.3	21.0	48.9	70.2
Fair value adjustments for hedged risk	-	-	3.1	3.3	2.2	8.6

At 31 December 2007	Repayable on demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Due to customers - shares	2,519.9	155.2	76.8	162.4	7.4	2,921.7
Due to other customers	28.3	437.7	281.5	26.8	0.1	774.4
Deposits from banks	0.7	79.3	15.0	1.2	-	96.2
Debt securities in issue	5.3	-	335.0	199.8	115.2	655.3
Derivative financial instruments	-	-	0.8	16.2	20.3	37.3
Fair value adjustments for hedged risk	-	-	0.4	0.7	1.9	3.0

Equity risk

The Group has no material direct exposure to equity risk. The Group has a number of structured products which have an embedded derivative attached to them i.e. the return payable is derived from the performance of an underlying index / unit trust price / company share price. Under IAS 39 both the underlying product and the derivative are fair value accounted through the Income Statements. The fair value amounts are approximately equal and offsetting so there is no material charge or credit in the accounts.

Notes to the Accounts for the year ended 31 December 2008

11 Financial instruments Continued

Credit risk

The average loan to value (LTV) ratio of the Group's loans and advances to customers is estimated to be **60.4%** (2007: 55.6%).

Further LTV and payment performance information is shown below:

Prime residential mortgage book

The Prime residential mortgage book consists of traditional residential loans. No sub-prime or self-certification lending has been undertaken.

Loan to value analysis (indexed)	2008 £m	2008 %	2007 £m	2007 %
<70%	1,759.1	84.4	1,959.8	87.2
70% - <80%	128.4	6.2	68.1	5.0
80% - <90%	98.1	4.7	27.2	4.6
>90%	98.4	4.7	44.1	3.2
	2,084.0	100.0	2,099.2	100.0

The table below provides further information by payment due status:

	2008 £m	2008 %	2007 £m	2007 %
Neither past due nor impaired	1,808.7	86.7	1,902.6	88.0
Past due but not impaired	191.2	9.2	139.5	8.4
Impaired:				
Past due up to 3 months	67.2	3.2	45.0	2.8
Past due 3 to 6 months	9.4	0.5	7.5	0.5
Past due over 6 months	6.0	0.3	4.0	0.2
In possession	1.5	0.1	0.6	0.1
	2,084.0	100.0	2,099.2	100.0

Against past due and possession cases, **£624.8m** (2007: £581.1m) of collateral is held.
No loans that would be past due or impaired have had terms renegotiated.

Specialist residential mortgage book

The Specialist residential mortgage book consists of buy-to-let and residential investment loans.

Loan to valued (indexed)	2008 £m	2008 %	2007 £m	2007 %
<70%	49.8	17.1	50.7	16.9
70% - <80%	75.9	26.0	76.5	25.4
80% - <90%	64.1	22.0	125.0	41.6
>90%	101.7	34.9	48.5	16.1
	291.5	100.0	300.7	100.0

The table below provides further information by payment due status:

	2008 £m	2008 %	2007 £m	2007 %
Neither past due nor impaired	176.7	60.6	223.3	74.2
Past due but not impaired	12.9	4.4	52.2	17.4
Impaired:				
Past due up to 3 months	70.2	24.1	19.2	6.4
Past due 3 to 6 months	21.8	7.5	4.1	1.4
Past due over 6 months	5.6	1.9	1.6	0.5
In possession	4.3	1.5	0.3	0.1
	291.5	100.0	300.7	100.0

Against past due and possession cases, **£138.5m** (2007: £98.0m) collateral is held.
No loans that would be past due or impaired have had terms renegotiated.

11 Financial instruments Continued

Commercial lending book

The commercial lending book comprises:

GROUP	2008 £m	2008 %	2007 £m	2007 %
Loans secured on commercial property	576.0	41.2	470.8	36.5
Loans to Registered Social Landlords	820.5	58.8	819.6	63.5
	1,396.5	100.0	1,290.4	100.0

Loans to Registered Social Landlords are secured on residential property.

Loans secured on commercial property are diversified by industry type and an analysis is shown below:

	2008 £m	2008 %	2007 £m	2007 %
Retail	237.2	41.2	201.0	42.7
Office	76.2	13.2	69.2	14.7
Industrial	112.7	19.6	155.8	33.1
Hotel / Leisure	93.4	16.2	44.5	9.4
Other	56.5	9.8	0.3	0.1
	576.0	100.0	470.8	100.0

SOCIETY	2008 £m	2008 %	2007 £m	2007 %
Loans secured on commercial property	458.4	35.8	349.5	29.9
Loans to Registered Social Landlords	820.5	64.2	819.6	70.1
	1,278.9	100.0	1,169.1	100.0

	2008 £m	2008 %	2007 £m	2007 %
Retail	177.7	38.8	157.0	44.9
Office	56.6	12.3	44.2	12.7
Industrial	84.4	18.4	122.0	34.9
Hotel / Leisure	83.2	18.2	26.0	7.4
Other	56.5	12.3	0.3	0.1
	458.4	100.0	349.5	100.0

At the year end an impairment provision of £8.9m was made against a commercial loan, the terms of which have been renegotiated. The Society has written down the loan by £8.9m and received an equity stake in the business, to which the Society has attributed a fair value of £nil. This loan appears in both the Group and Society accounts.

11 Financial instruments Continued

Interest rate risk

Interest rate risk is the exposure of the Group's net interest income to movement in interest rates. This is managed using a combination of limits set by the Board and by use of derivative instruments. The sensitivity to interest rate movements is measured using dynamic stress tests for a series of parallel rate shifts over various time periods.

The table below shows the impact of various interest rate scenarios on Group profit before tax:

	+1% £m	+2% £m	-1% £m	-2% £m
At 31 December 2008				
Next 12 months	3.7	6.4	(4.9)	(4.9)
Next 2 years	0.3	(0.4)	(1.7)	(0.8)
Next 3 years	0.9	0.8	(2.2)	(1.7)
At 31 December 2007				
Next 12 months	0.1	0.3	(0.1)	(0.5)
Next 2 years	(0.6)	(0.7)	0.6	0.4
Next 3 years	(0.1)	0.5	0.1	(0.9)

The main risk measure used by the Asset and Liabilities Committee is an immediate 200 basis points parallel shift in interest rates.

The derivative gains less losses for the year in respect of fair value hedges comprise losses on derivatives of **£28.7m** (2007: £36.7m loss) and associated gains on hedged items of **£27.8m** (2007: £35.4m gain).

Interest rate risk in the pension schemes

A reduction of 0.1% in the discount rate would increase the pension deficit by approximately £1.2m.

Currency risk

The Group has no exposure to currency risk.

12 Loans and advances to customers

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Loans fully secured on residential property	3,192.6	3,188.8	3,149.9	3,166.0
Loans fully secured on land	575.6	439.9	471.3	333.6
Other loans	86.8	147.9	86.8	147.9
Gross loans and advances	3,855.0	3,776.6	3,708.0	3,647.5
Less: allowance for losses on loans and advances	(16.2)	(4.1)	(16.2)	(4.1)
	3,838.8	3,772.5	3,691.8	3,643.4

Loans and advances to customers have remaining maturities as follows:

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
On demand	22.2	10.5	22.2	10.5
In not more than three months	38.7	29.1	37.2	27.5
In more than three months but not more than one year	72.7	108.3	67.2	103.6
In more than one year but not more than five years	608.9	479.2	588.4	463.8
In more than five years	3,112.5	3,149.5	2,993.0	3,042.1
Gross loans and advances	3,855.0	3,776.6	3,708.0	3,647.5
Less: allowance for losses on loans and advances	(16.2)	(4.1)	(16.2)	(4.1)
	3,838.8	3,772.5	3,691.8	3,643.4

Where a loan is repayable by instalment, each such instalment has been treated as a separate repayment in the maturity analysis set out above. The Group's experience is that in many cases mortgages are redeemed before their scheduled maturity date. As a consequence, the maturity analysis illustrated above may not reflect actual experience.

Allowance for losses on loans and advances

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Balance at 1 January	4.1	3.8	4.1	3.8
Transferred to provisions during the year	-	(0.2)	-	(0.2)
Impairment losses on loans and advances	12.1	0.5	12.1	0.5
At 31 December	16.2	4.1	16.2	4.1

Of the above allowances, **£2.4m** (2007: £1.5m) is regarded as being 'collective provisioning' under FSA regulations.

13 Investments in subsidiary undertakings

SOCIETY

	Shares £m	Loans £m	Total £m
Investments in subsidiary undertakings			
Cost			
At 1 January 2008	7.8	35.0	42.8
Additions	-	25.0	25.0
At 31 December 2008	**7.8**	**60.0**	**67.8**
Provisions			
At 1 January and 31 December 2008	**1.8**	**1.8**	**3.6**
Net book amount at 31 December 2008	**6.0**	**58.2**	**64.2**
Net book amount at 31 December 2007	6.0	33.2	39.2

The Society directly holds 100% of the issued ordinary share capital of all its subsidiary undertakings, with the exception of Newcastle Building Society Covered Bonds LLP. The Society's interest in Newcastle Building Society Covered Bonds LLP is the same, in substance, as if it held a 100% interest so it is consolidated in the Group accounts. The entity was incorporated on 17 September 2008 and had not commenced trading at 31 December 2008.

Name of principal subsidiary undertakings	Principal activity
Kings Manor Properties Limited	Residential property rental
Newcastle Building Society Covered Bonds LLP	Acquisition and management of loans
Newcastle Commercial Lending Limited	Commercial lending
Newcastle Financial Services Limited	Provision of financial services
Newcastle Mortgage Loans (Jersey) Limited	Mortgage lending
Newcastle Mortgage Services Limited	Provision of mortgage processing services
Newcastle Portland House Limited	Commercial property rental
Newcastle Strategic Solutions Limited	Provision of specialised products and services
Newton Facilities Management Limited	Provision of managed IT services
Newton Facilities Computer Purchasing Limited	Purchase, sale and leasing of IT equipment
Newton Facilities Computer Leasing Limited	Leasing of IT equipment

All the above subsidiary undertakings, except for Newcastle Mortgage Loans (Jersey) Limited, which is incorporated and operates in Jersey, are incorporated in England and Wales and operate in the United Kingdom. A Group segmental analysis is not provided since, in the opinion of the directors, the Group's activities are predominantly UK based and within one business sector.

The results of the following securitisation vehicles are consolidated into the Group under International Accounting Standard 27: 'Consolidated and separate Financial Statements'.

Name	Principal activity
Bamburgh Finance No. 1 PLC	Securitisation vehicle
Bamburgh Holdings Limited	Holding company
Bamburgh Mortgages Trustee Limited	Securitisation vehicle

The Society has no shareholdings in any of the companies listed above. Bamburgh Finance No. 1 PLC is incorporated in England and Wales and operates in the United Kingdom. The other companies are incorporated in Jersey.

14 Property, plant and equipment

GROUP

	Freehold buildings £m	Leasehold land and buildings £m	Property in the course of construction £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost					
At 1 January 2008	7.0	13.8	2.4	17.1	40.3
Additions	-	-	0.5	4.9	5.4
Disposals	-	-	-	(0.4)	(0.4)
Transfer	-	-	(2.9)	2.9	-
At 31 December 2008	**7.0**	**13.8**	**-**	**24.5**	**45.3**
Accumulated depreciation					
At 1 January 2008	0.3	1.9	-	8.1	10.3
Charge for the year	0.1	0.3	-	2.8	3.2
Disposals	-	-	-	(0.3)	(0.3)
At 31 December 2008	**0.4**	**2.2**	**-**	**10.6**	**13.2**
Net book amount at 31 December 2008	**6.6**	**11.6**	**-**	**13.9**	**32.1**

GROUP

	Freehold buildings £m	Leasehold land and buildings £m	Property in the course of construction £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost					
At 1 January 2007	7.3	13.8	-	14.0	35.1
Additions	-	-	2.4	3.5	5.9
Disposals	(0.3)	-	-	(0.4)	(0.7)
At 31 December 2007	**7.0**	**13.8**	**2.4**	**17.1**	**40.3**
Accumulated depreciation					
At 1 January 2007	0.4	1.6	-	6.1	8.1
Charge for the year	0.1	0.3	-	2.3	2.7
Disposals	(0.2)	-	-	(0.3)	(0.5)
At 31 December 2007	**0.3**	**1.9**	**-**	**8.1**	**10.3**
Net book amount at 31 December 2007	**6.7**	**11.9**	**2.4**	**9.0**	**30.0**

Notes to the Accounts for the year ended 31 December 2008

14 Property, plant and equipment Continued

SOCIETY	Freehold buildings £m	Leasehold land and buildings £m	Property in the course of construction £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost					
At 1 January 2008	7.0	2.5	2.4	14.9	26.8
Additions	-	-	0.5	4.9	5.4
Disposals	-	-	-	(0.4)	(0.4)
Transfer	-	-	(2.9)	2.9	-
At 31 December 2008	**7.0**	**2.5**	**-**	**22.3**	**31.8**
Accumulated depreciation					
At 1 January 2008	0.3	0.1	-	6.2	6.6
Charge for the year	0.1	-	-	2.7	2.8
Disposals	-	-	-	(0.3)	(0.3)
At 31 December 2008	**0.4**	**0.1**	**-**	**8.6**	**9.1**
Net book amount at 31 December 2008	**6.6**	**2.4**	**-**	**13.7**	**22.7**

SOCIETY	Freehold buildings £m	Leasehold land and buildings £m	Property in the course of construction £m	Equipment, fixtures, fittings and motor vehicles £m	Total £m
Cost					
At 1 January 2007	7.3	2.5	-	11.9	21.7
Additions	-	-	2.4	3.4	5.8
Disposals	(0.3)	-	-	(0.4)	(0.7)
At 31 December 2007	**7.0**	**2.5**	**2.4**	**14.9**	**26.8**
Accumulated depreciation					
At 1 January 2007	0.4	0.1	-	4.3	4.8
Charge for the year	0.1	-	-	2.2	2.3
Disposals	(0.2)	-	-	(0.3)	(0.5)
At 31 December 2007	**0.3**	**0.1**	**-**	**6.2**	**6.6**
Net book amount at 31 December 2007	**6.7**	**2.4**	**2.4**	**8.7**	**20.2**

Included within Equipment, fixtures, fittings and motor vehicles are assets under finance leases, which comprise motor vehicles and a long leasehold property, and have the following net book amounts.

	GROUP and SOCIETY 2008 £m	GROUP and SOCIETY 2007 £m
Cost		
At 1 January	**1.6**	1.5
Accumulated depreciation	**(0.3)**	(0.2)
Net book amount at 31 December	**1.3**	1.3

Notes to the Accounts for the year ended 31 December 2008

15 Investment properties

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Fair value				
At 1 January	**8.9**	2.1	**-**	-
Additions	**5.0**	6.8	**-**	-
At 31 December	**13.9**	8.9	**-**	-

Investment properties are carried at fair value. The fair value at 31 December 2008 was arrived at by reference to market prices for similar properties, as estimated by a qualified staff valuer who was not independent of the Group. Investment properties are subject to an annual impairment test.

Investment property rental income (included within Other income) and direct operating expenses (included within Administrative expenses) for the Group are shown below:

	GROUP 2008 £m	GROUP 2007 £m
Income from rental properties which are all leased under operating leases expiring in less than one year	**0.5**	0.2
Operating expenses relating to rental properties	**(0.2)**	(0.1)
Net rental income from rented properties	**0.3**	0.1
Operating expenses above include unlet property expenses of:	**-**	-

16 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a tax rate of **28%** (2007: 28%). The movement on the deferred tax account is shown below.

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
At 1 January	(0.4)	4.3	0.4	5.2
Income Statements credit / (expense)	10.0	(0.8)	10.0	(0.9)
Underprovision in respect of prior years	(2.8)	(2.4)	(2.8)	(2.4)
Credited / (charged) on items taken directly through reserves	3.4	(1.5)	3.4	(1.5)
At 31 December	10.2	(0.4)	11.0	0.4

Deferred tax assets and liabilities are attributable to the following items.

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Deferred tax assets				
Short term timing differences	0.6	0.5	0.6	0.5
Retirement benefit obligations	2.5	0.9	2.5	0.9
Fair value adjustments on adoption of IAS 32 and IAS 39	0.9	1.0	0.9	1.0
Trading losses	7.6	-	7.6	-
	11.6	2.4	11.6	2.4
Deferred tax liabilities				
Accelerated capital allowances	(1.4)	(1.3)	(0.6)	(0.5)
Pensions and other post retirement benefits	-	(1.5)	-	(1.5)
	(1.4)	(2.8)	(0.6)	(2.0)

The deferred tax credit / (expense) in the Income Statements comprises the following temporary differences:

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Accelerated capital allowances	(0.1)	-	(0.1)	(0.1)
Short term timing differences	-	(0.3)	-	(0.3)
Pensions and other post retirement benefits	(0.3)	(0.4)	(0.3)	(0.4)
Trading losses	10.4	-	10.4	-
Change in UK corporation tax rate	-	(0.1)	-	(0.1)
	10.0	(0.8)	10.0	(0.9)

17 Other assets

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Group relief receivable from subsidiary undertakings	-	-	1.2	0.2
Other assets	15.0	8.1	9.0	4.1
Interest receivable on financial instruments	8.8	14.3	8.8	14.3
Other prepayments and accrued income	11.0	6.5	18.1	13.7
	34.8	28.9	37.1	32.3

Notes to the Accounts for the year ended 31 December 2008

18 Non-current assets held for sale

	GROUP and SOCIETY 2008 £m	GROUP and SOCIETY 2007 £m
Cost		
At 1 January	0.4	0.5
Disposals	(0.4)	(0.1)
At 31 December	-	0.4

These assets were sold during the year.

19 Due to customers - shares

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Held by individuals	3,301.3	2,920.8	3,301.3	2,920.8
Other shares	1.0	0.9	1.0	0.9
	3,302.3	2,921.7	3,302.3	2,921.7

Repayable from the date of the Balance Sheets in the ordinary course of business as follows:

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Accrued interest	62.0	90.2	62.0	90.2
On demand	2,743.7	2,429.7	2,743.7	2,429.7
In not more than three months	6.9	155.2	6.9	155.2
In more than three months but not more than one year	207.7	76.8	207.7	76.8
In more than one year but not more than five years	273.9	162.4	273.9	162.4
In more than five years	8.1	7.4	8.1	7.4
	3,302.3	2,921.7	3,302.3	2,921.7

Included in the shares balance is the contractual balance of **£239.1m** (2007: £252.4m) of Capital Protection Bonds with fair values at 31 December 2008 of **£249.1m** (2007: £261.4m). The fair value adjustments of **£10.0m** (2007: £9.0m) to the carrying value of the bonds are included in the figures above. All the changes in fair value are attributable to changes in benchmark equity and interest rates. The Society is contractually required to pay only the par value of the shares on maturity.

20 Due to other customers

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Amounts owed to subsidiary undertakings	-	-	3.8	3.6
Other	907.2	774.4	907.2	774.4
	907.2	774.4	911.0	778.0

Repayable from the date of the Balance Sheet in the ordinary course of business as follows:

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Accrued interest	19.0	9.8	19.0	9.8
On demand	13.9	18.5	13.9	18.5
In not more than three months	565.6	437.7	569.4	441.3
In more than three months but not more than one year	245.6	281.5	245.6	281.5
In more than one year but not more than five years	63.0	26.8	63.0	26.8
In more than five years	0.1	0.1	0.1	0.1
	907.2	774.4	911.0	778.0

Notes to the Accounts for the year ended 31 December 2008

21 Deposits from banks

Repayable from the date of the Balance Sheets in the ordinary course of business as follows:

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Accrued interest	**0.6**	0.7	**0.6**	0.7
In not more than three months	**67.2**	79.3	**67.2**	79.3
In more than three months but not more than one year	**4.2**	15.0	**4.2**	15.0
In more than one year but not more than five years	**0.9**	1.2	**0.9**	1.2
	72.9	96.2	**72.9**	96.2

22 Debt securities in issue

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Accrued interest	**2.8**	5.3	**2.8**	5.3
Certificates of deposit and Medium Term Notes repayable in not more than one year	**294.9**	335.0	**294.9**	335.0
Medium Term Notes repayable in more than one year but not more than five years	**-**	199.8	**-**	199.8
Non recourse finance on securitised advances repayable after five years	**111.5**	115.2	**-**	-
	409.2	655.3	**297.7**	540.1

The Medium Term Notes are repayable on 16 November 2009.

Non recourse finance repayable after five years comprises:

		GROUP and SOCIETY 2008 £m	GROUP and SOCIETY 2007 £m
Class A	Mortgage backed floating rate notes due 2038	**74.3**	77.9
Class B	Mortgage backed floating rate notes due 2038	**13.6**	13.6
Class C	Mortgage backed floating rate notes due 2038	**14.1**	14.2
Class D	Mortgage backed floating rate notes due 2038	**9.5**	9.5
		111.5	115.2

The mortgage backed floating rate notes due 2038 (the 'Notes') are secured over a portfolio of mortgage loans secured by first charges over commercial properties in the United Kingdom. Prior to redemption of the Notes on the final interest payment date falling in May 2038, the Notes will be subject to mandatory and/or optional redemption in certain circumstances, on each interest payment date.

There are four classes of Notes. All classes are subject to interest based on the prevailing three month Libor plus an additional margin. The three month Libor is revised quarterly and the following margins, subject to revision, apply to the classes of notes as follows:

	Until 22 Feb 2011	23 Feb 2011 until Dec 2038
Class A	0.45%	0.90%
Class B	0.60%	1.20%
Class C	0.85%	1.70%
Class D	1.85%	2.85%

Notes to the Accounts for the year ended 31 December 2008

23 Other liabilities

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Amounts payable to subsidiary undertakings	**-**	-	**3.6**	1.2
Third party income tax withheld	**3.4**	4.1	**3.4**	4.1
Amounts payable to qualifying shareholding members and borrowers	**-**	0.3	**-**	0.3
Obligations under finance leases	**1.3**	1.3	**1.3**	1.3
Other creditors	**5.3**	10.6	**4.0**	8.0
Accruals and deferred income	**16.0**	13.4	**12.2**	12.9
	26.0	29.7	**24.5**	27.8

Obligations under finance leases fall due as follows:

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
Within one year	**0.3**	0.2	**0.3**	0.2
In one to two years	**0.1**	0.2	**0.1**	0.2
In two to five years	**0.1**	0.1	**0.1**	0.1
In more than five years	**0.8**	0.8	**0.8**	0.8
	1.3	1.3	**1.3**	1.3

These liabilities are secured by charges over the assets to which they relate.

24 Provisions for liabilities and charges

	GROUP 2008 £m	SOCIETY 2008 £m
Balance at 1 January	**0.5**	**0.5**
New provisions during the year	**7.5**	**7.5**
Amounts utilised during the year	**(0.1)**	**(0.1)**
At 31 December	**7.9**	**7.9**

	GROUP 2008 £m	SOCIETY 2008 £m
Provision for contingent liabilities and commitments	**0.3**	**0.3**
Provision for discontinued operations	**0.1**	**0.1**
Provision for restructuring	**0.7**	**0.7**
Provision for Financial Services Compensation Scheme levy	**6.8**	**6.8**
	7.9	**7.9**

It is expected that these liabilities will predominantly crystallise over the next 2 years.

Provision for Financial Services Compensation Scheme levy

In common with all regulated UK deposit takers, the Society pays a levy to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims. The FSCS levy consists of two parts - a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During the latter part of 2008 claims against the FSCS were triggered by the transfer of Bradford and Bingley plc's retail deposit business to Abbey National plc, the defaults of Kaupthing Singer and Friedlander, Heritable Bank, Landsbanki ('Icesave') and London Scottish Bank plc.

The FSA has informed the Society that the FSCS has met, or will meet, the claims by way of loans received from the Bank of England, which will eventually be replaced by a loan from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loans from the Bank of England and may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to repay fully the respective Bank of England loans.

To recover the interest cost, the FSCS will charge a management expense levy to all UK deposit takers, including the Society. Based on notifications the Society has received from the Financial Services Authority, the Society has recognised a provision of £6.8m in this year's results for the scheme years 2008/9, 2009/10 and 2010/11, which is calculated with reference to the deposits the Society held at 31 December 2007 and 31 December 2008. As the scheme year 2008/9 runs to 31 March 2009, 2009/10 runs to 31 March 2010 and 2010/11 runs to 31 March 2011, there remains the potential for additional levies to be payable by the Society that are not provided for in the accounts.

These amounts do not take account of any compensation levies that may arise from claims against the FSCS in subsequent years.

Notes to the Accounts for the year ended 31 December 2008

25 Subordinated liabilities

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
6.380% fixed rate subordinated notes 2015	**11.0**	11.0	**11.0**	11.0
6.190% fixed rate subordinated notes 2017	**25.0**	25.0	**25.0**	25.0
6.625% fixed rate subordinated notes 2019	**25.0**	25.0	**25.0**	25.0
Less: unamortised issue costs	**(0.2)**	(0.2)	**(0.2)**	(0.2)
	60.8	60.8	**60.8**	60.8

On a winding up, the subordinated notes rank behind the claims against the Society of all depositors, creditors and investing members (other than holders of deferred shares i.e. permanent interest bearing shares) of the Society. The notes are repayable at the Society's option and with the prior consent of the Financial Services Authority, on any interest date within five years of the maturity date.

26 Subscribed capital

	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
12.625% permanent interest bearing shares	**10.0**	10.0	**10.0**	10.0
10.750% permanent interest bearing shares	**10.0**	10.0	**10.0**	10.0
12.000% permanent interest bearing shares	**10.0**	-	**10.0**	-
	30.0	20.0	**30.0**	20.0
Less: unamortised issue costs	**(0.1)**	(0.1)	**(0.1)**	(0.1)
	29.9	19.9	**29.9**	19.9

The subscribed capital was issued for an indeterminate period and is only repayable in the event of the winding up of the Society.

27 Statement of movement in reserves

General reserve	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
At 1 January	**210.7**	195.3	**210.1**	190.1
Actuarial (loss) / gain on retirement benefit obligations	**(5.0)**	4.8	**(5.0)**	4.8
Taxation on items taken directly through reserves	**3.4**	(1.5)	**3.4**	(1.5)
(Loss) / profit for the financial year	**(25.8)**	12.1	**(27.7)**	16.7
At 31 December	**183.3**	210.7	**180.8**	210.1
Available for sale reserve				
At 1 January	**-**	-	**-**	-
Net (loss) / gain from changes in fair value	**6.6**	-	**6.6**	-
At 31 December	**6.6**	-	**6.6**	-
Cash flow hedge reserve				
At 1 January	**-**	-	**-**	-
Amounts recognised in equity	**(1.2)**	-	**(1.2)**	-
At 31 December	**(1.2)**	-	**(1.2)**	-
Reserves				
At 1 January	**210.7**	195.3	**210.1**	190.1
At 31 December	**188.7**	210.7	**186.2**	210.1

Notes to the Accounts for the year ended 31 December 2008

28 Notes to the Cash Flow Statements

Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities	GROUP 2008 £m	GROUP 2007 £m	SOCIETY 2008 £m	SOCIETY 2007 £m
(Loss) / profit before taxation and dividends	**(35.7)**	17.6	**(38.4)**	15.1
Depreciation and amortisation	**3.2**	2.7	**2.8**	2.3
Interest on subordinated liabilities	**4.9**	4.9	**4.5**	4.5
Interest on subscribed capital	**2.4**	2.3	**2.4**	2.3
Increase in derivative financial instruments	**28.7**	36.6	**23.6**	35.2
Decrease in other financial liabilities at fair value through profit or loss	**(28.7)**	(31.1)	**(23.8)**	(30.5)
Actuarial loss / (gain) on retirement benefit obligations	**5.0**	(4.8)	**5.0**	(4.8)
Other non-cash movements	**25.9**	4.5	**27.2**	4.5
Deferred tax on these movements	**(3.4)**	1.5	**(3.4)**	1.5
Net cash inflow before changes in operating assets and liabilities	**2.3**	34.2	**(0.1)**	30.1
Increase in loans and advances to customers	**(78.4)**	(230.5)	**(60.5)**	(227.9)
Increase in shares	**380.6**	250.2	**380.6**	250.2
Decrease in loans and advances to banks	**-**	9.0	**-**	9.0
Increase in amounts due to other customers and deposits from banks	**109.5**	98.5	**109.6**	93.6
(Decrease) / increase in debt securities in issue	**(246.0)**	35.6	**(242.3)**	46.0
Decrease in investment securities	**-**	0.1	**-**	0.1
Increase in other assets, prepayments and accrued income	**(1.7)**	(9.6)	**(0.7)**	(4.9)
Increase in other liabilities	**3.8**	1.1	**4.0**	(1.0)
Net cash inflow from operating activities	**170.1**	188.6	**190.6**	195.2
Cash and cash equivalents				
Cash and cash balances with the Bank of England	**5.0**	5.8	**5.0**	5.8
Loans and advances to banks repayable on demand	**13.4**	18.7	**3.4**	7.0
Investment securities	**587.7**	205.8	**587.7**	205.8
At 31 December	**606.1**	230.3	**596.1**	218.6

Cash and cash equivalents comprise cash in hand and loans and advances to banks available on demand or with original maturities of three months or less and investment securities with a maturity period of three months or less i.e. highly liquid assets readily convertible into cash.

Notes to the Accounts for the year ended 31 December 2008

29 Guarantees, contingent liabilities and commitments

(i) Until 11 June 1996, under Section 22 of the Building Societies Act 1986, the Society had an obligation to discharge the liabilities of its subsidiary undertakings insofar as they were unable to discharge the liabilities out of their own assets. Subsequently, the Society has voluntarily agreed to provide continued support to all of its subsidiary undertakings, insofar as any liabilities are not covered by legislation.

(ii) In common with other financial institutions, the Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000. Details are given in note 24.

(iii) The Society has received grant aid of £0.3 million in relation to the premises at Cobalt Business Park. In certain circumstances this grant could become repayable.

(iv) Commitments

	GROUP and SOCIETY	
	2008 £m	2007 £m
Capital commitments for the acquisition of property, plant and equipment at 31 December for which no provision has been made in the Accounts	0.1	0.6
Irrevocable undrawn committed loan facilities	152.1	352.6
Payments under operating lease agreements in respect of land and buildings		
Commitments which expire:		
Within one year	0.1	-
In one to five years	0.9	0.8
Over five years	12.2	6.3
	13.2	7.1

Notes to the Accounts for the year ended 31 December 2008

30 Retirement benefit obligations

Group and Society Pension schemes

The Group operates two defined benefit pension schemes, the Newcastle Building Society Pension and Assurance Scheme (NBS Scheme) and the Universal Building Society Pension and Assurance Scheme (UBS Scheme), in addition to its defined contribution schemes.The principal funds are in the defined benefit schemes which pay out pensions at retirement based on service and final pay.

The Group has applied IAS 19 (Revised 2004) to these schemes and the following disclosures relate to this Standard. Any accumulated gains and losses in each period are recognised in the Statements of Recognised Income and Expense.

Neither of the pension scheme assets include assets from Newcastle Building Society's own financial instruments or property occupied by Newcastle Building Society, or other assets used by Newcastle Building Society.

The Group expects to contribute to the NBS defined benefit pension scheme in the next financial year regular monthly contributions (inclusive of expenses and life assurance premiums) of 23.4% of pensionable earnings plus running expenses for 60ths members and 19.0% of pensionable earnings for 80ths members, and regular monthly contributions of 21.3% of pensionable earnings plus running expenses for the UBS Scheme. Also, the Society has agreed to make additional annual contributions to the UBS Scheme of £0.4m through to 2013 and a final payment of £0.1m in 2014 under an agreed recovery plan.

NBS Scheme	2008 £m	2007 £m
The amounts recognised in the Balance Sheets are as follows:		
Present value of pension obligation	47.7	55.6
Fair value of scheme assets	(41.5)	(54.0)
Net pension liability	6.2	1.6
The amounts recognised in the Income Statements are as follows:		
Current service cost	1.0	0.9
Interest on obligation	3.2	3.0
Expected return on scheme assets	(3.8)	(3.5)
Total included in 'employee benefits expense'	0.4	0.4
Actual return on scheme assets	(12.6)	3.5
Changes in the present value of the defined benefit obligation are as follows:		
Opening defined benefit obligation	55.6	57.3
Current service cost	1.0	0.9
Interest cost	3.2	3.0
Actuarial gains	(11.4)	(4.3)
Contributions by employees	0.3	0.3
Benefits paid	(1.0)	(1.6)
Closing defined benefit obligation	47.7	55.6
Changes in the fair value of scheme assets are as follows:		
Opening fair value of scheme assets	54.0	51.1
Expected return	3.8	3.5
Actuarial losses	(16.4)	-
Contributions by employer	0.8	0.7
Contributions by employees	0.3	0.3
Benefits paid	(1.0)	(1.6)
Closing fair value of scheme assets	41.5	54.0

30 Retirement benefit obligations Continued

The major categories of Scheme assets as a percentage of total Scheme assets are as follows:

	2008	2007
Equities	**68.6%**	62.7%
Corporate Bonds	**7.6%**	14.8%
Government Bonds	**23.5%**	22.4%
Cash	**0.3%**	0.1%

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages)

		2008	2007
Discount rate		**6.5%**	5.8%
Future salary increases		**4.6%**	4.9%
Future pension increases	- pre 1 July 2000*	**5.0%**	5.0%
	- post 30 June 2000	**3.1%**	3.4%
Inflation assumptions		**3.2%**	3.5%

* On the excess over Guaranteed Minimum Pension

Mortality - current pensioners

Life expectancy at age 62

	2008	2007
Males	**24.2 years**	24.1 years
Females	**27.1 years**	27.0 years

Mortality - future pensioners

Life expectancy at age 62 (age 45 now)

	2008	2007
Males	**25.2 years**	25.1 years
Females	**28.0 years**	28.0 years

No allowance has been made for commutation of pension for cash by members on retirement.

Where investments are held in bonds and cash, the expected long term rate of return is taken to be the yields generally prevailing on such assets at the Balance Sheet date. A higher rate of return is expected on equity investments, which is based more on realistic future expectations than on the returns that have been available historically. The overall expected long term rate of return on assets is then the average of these rates, taking into account the underlying asset portfolio of the pension scheme.

The expected rates of return for each asset class, gross of Scheme expenses, were:

	2008	2007
Equities	**7.00%**	7.80%
Corporate Bonds	**6.50%**	5.80%
Government Bonds	**3.74%**	4.55%
Cash	**2.00%**	5.25%

30 Retirement benefit obligations Continued

Amounts for the current and previous four periods are as follows:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Defined benefit obligation	**47.7**	55.6	57.3	54.4	44.8
Scheme assets	**(41.5)**	(54.0)	(51.1)	(38.8)	(29.3)
Deficit	**6.2**	1.6	6.2	15.6	15.5
Experience adjustments on plan liabilities	**0.6**	-	-	-	2.8
Experience adjustments on plan assets	**(16.4)**	-	0.3	2.8	0.6

Analysis of amounts recognised in Statements of Recognised Income and Expense:

	2008 £m	2007 £m
Total amount of actuarial gains recognised in the Statements of Recognised Income and Expense for the year:	**(5.0)**	4.3
Cumulative amount of actuarial losses recognised in the Statements of Recognised Income and Expense at the year end:	**(5.8)**	(0.8)

UBS Scheme

	2008 £m	2007 £m
The amounts recognised in the Balance Sheets are as follows:		
Present value of pension obligation	**9.6**	10.9
Fair value of scheme assets	**(8.0)**	(9.1)
Net pension liability	**1.6**	1.8
The amounts recognised in the Income Statements are as follows:		
Current service cost	**0.2**	0.2
Interest on obligation	**0.6**	0.6
Expected return on scheme assets	**(0.5)**	(0.5)
Total included in 'employee benefits expense'	**0.3**	0.3
Actual return on scheme assets	**-**	0.5
Changes in the present value of the defined benefit obligation are as follows:		
Opening defined benefit obligation	**10.9**	11.4
Current service cost	**0.2**	0.2
Interest cost	**0.6**	0.6
Actuarial gains	**(1.9)**	(0.7)
Contributions by employees	**0.1**	0.1
Benefits paid	**(0.3)**	(0.7)
Closing defined benefit obligation	**9.6**	10.9
Changes in the fair value of scheme assets are as follows:		
Opening fair value of scheme assets	**9.1**	8.8
Expected return	**0.5**	0.5
Actuarial losses	**(1.9)**	(0.2)
Contributions by employer	**0.5**	0.6
Contributions by employees	**0.1**	0.1
Benefits paid	**(0.3)**	(0.7)
Closing fair value of scheme assets	**8.0**	9.1

30 Retirement benefit obligations Continued

The major categories of Scheme assets as a percentage of total Scheme assets are as follows:

	2008	2007
Equities and properties	**53%**	54%
Bonds	**13%**	12%
Gilts	**34%**	33%
Cash	**0%**	1%

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages)

	2008	2007
Discount rate	**6.5%**	5.8%
Future salary increases	**4.6%**	4.9%
Rate of increase in pensions in payment		
Pre 6 April 1997 pension	**3.0%**	3.0%
Post 5 April 1997 pension	**3.1%**	3.4%
Revaluation rate for deferred pensioners	**3.2%**	3.5%
Inflation assumptions	**3.2%**	3.5%

The expected rates of return for each asset class, gross of Scheme expenses, were:

	2008	2007
Equities and properties	**7.00%**	7.80%
Bonds	**6.70%**	5.80%
Gilts	**3.75%**	4.55%
Cash	**2.00%**	3.50%

Amounts for the current and previous four periods are as follows:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Defined benefit obligation	**9.6**	10.9	11.4	10.7	8.8
Scheme assets	**(8.0)**	(9.1)	(8.8)	(8.0)	(6.2)
Deficit	**1.6**	1.8	2.6	2.7	2.6
Experience adjustments on plan liabilities	**(0.1)**	(0.3)	0.2	0.1	-
Experience adjustments on plan assets	**(1.9)**	(0.2)	0.3	0.8	0.2

Analysis of amounts recognised in the Statements of Recognised Income and Expense:

	2008 £m	2007 £m
Total amounts of actuarial gains recognised in the Statements of Recognised Income and Expense for the year:	**-**	0.5
Cumulative amount of actuarial losses recognised in the Statements of Recognised Income and Expense at the year end:	**(1.5)**	(1.5)

31 Related parties

The Group is controlled by Newcastle Building Society which is registered in England and Wales and operates in the United Kingdom. Further details of subsidiary undertakings are disclosed in Note 13 to these Accounts. The Directors are considered to be the only key management personnel as defined by IAS 24.

Transactions with directors and their close family members

Directors and their close family members have entered into the following transactions with Newcastle Building Society in the normal course of business.

Loans outstanding to directors and their close family members

	2008 £000	2007 £000
At 31 December	**708**	1,405

These loans were made on normal commercial terms and a register of them is available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

Deposits and investments held by directors and their close family members

	2008 £000	2007 £000
At 31 December	**458**	787

Amounts deposited by directors and members of their close families earn interest on the same terms and conditions applicable to other customers.

Other transactions

Mr CJ Hilton is a partner in Eversheds. Professional services amounting to **£15,230** (2007: £118,570) were supplied by Eversheds to the Group during the year.

Mr AAE Glenton, who retired as a director on 29 April 2008, is senior partner in Ryecroft Glenton. Professional services amounting to **£Nil** (2007: £2,817) were supplied by Ryecroft Glenton to the Group during the period during which he was a director.

Mr CJ Seccombe is treasurer of the MEA Trust which maintained a loan, on commercial terms, with the Society throughout this and the previous year.

Mrs JM Pott, is a partner in RMT Accountants. **£8,019** (2007: £927) was received by RMT Financial Management Limited for mortgages placed with Newcastle Building Society. **£Nil** was paid to RMT Accountants for a Nursery Voucher Scheme in 2008 (2007: £2,427).

Mr NA Westwood is a director of Sanderson Weatherall Limited. Professional services amounting to **£2,408** (2007: £Nil) were supplied by Sanderson Weatherall Limited to the Group during the year.

Notes to the Accounts for the year ended 31 December 2008

31 Related parties Continued

Year ended 31 December 2008

	Interest paid to Society £000	Interest received from Society £000	Rent received from Society £000	Other amounts paid to Society £000	Other amounts received from Society £000
Kings Manor Properties Limited	767	-	-	-	4,715
Newcastle Financial Services Limited	-	14	-	-	-
Newcastle Mortgage Loans (Jersey) Limited	2,239	-	-	-	17,517
Newcastle Portland House Limited	-	129	66	-	-
Newcastle Strategic Solutions Limited	-	-	-	285	1,000
Newton Facilities Computer Leasing Limited	-	4	-	-	514
Newton Facilities Computer Purchasing Limited	23	-	-	-	-
Newton Facilities Management Limited	-	3	-	262	263

Year ended 31 December 2007

	Interest paid to Society £000	Interest received from Society £000	Rent received from Society £000	Other amounts paid to Society £000	Other amounts received from Society £000
Newcastle Financial Services Limited	-	65	-	-	-
Newcastle Mortgage Loans (Jersey) Limited	820	-	-	-	22,700
Newcastle Portland House Limited	-	152	66	-	-
Newcastle Strategic Solutions Limited	-	-	-	297	1000
Newton Facilities Computer Leasing Limited	-	4	-	-	520
Newton Facilities Computer Purchasing Limited	25	-	-	-	-
Newton Facilities Management Limited	-	3	-	344	346

At the year end the following unsecured balances were outstanding.

	Amounts owed by Society 2008 £000	Amounts owed to Society 2008 £000	Amounts owed by Society 2007 £000	Amounts owed to Society 2007 £000
Adamscastle Limited	-	1,320	-	1,320
Adamson Newcastle Limited	36	-	36	-
Kings Manor Properties Limited	234	14,735	95	9,253
NBS Financial Services Limited	81	149	81	149
Newcastle Developments Limited	-	437	-	437
Newcastle Mortgage Corporation Limited	7	-	7	-
Newcastle Mortgage Loans (Jersey) Limited	-	43,276	-	23,520
Newcastle Mortgage Services Limited	5	-	5	-
Newcastle Portland House Limited	2,906	19	2,783	18
Newcastle Strategic Solutions Limited	1,905	487	1,205	202
Newcastle Financial Services Limited	3,650	837	1,870	31
Newton Facilities Management Limited	100	69	151	56
Newton Facilities Computer Leasing Limited	79	2	75	39
Newton Facilities Computer Purchasing Limited	78	368	70	524
Strachans (Newcastle) Limited	591	5	591	5
NBS Mortgage Advisor Limited	7	21	6	47

Transactions with securitisation vehicles

Newcastle Building Society undertook the following transactions with securitisation vehicles during the year.

	Interest paid to Society 2008 £000	Interest received from Society 2008 £000	Interest paid to Society 2007 £000	Interest received from Society 2007 £000
Bamburgh Finance No. 1 PLC	809	-	699	-

At the year end the following balances were outstanding with securitisation vehicles.

	Loans owed by Society 2008 £000	Loans owed to Society 2008 £000	Loans owed by Society 2007 £000	Loans owed to Society 2007 £000
Bamburgh Finance No. 1 PLC	-	10,548	-	10,548

Annual Business Statement for the year ended 31 December 2008

1 Statutory percentages

	2008 %	Statutory %
Lending limit	17.66	25.00
Funding limit	27.90	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The statutory limits are as laid down under the Building Societies Act 1986, as amended by the Building Societies Act 1997, and ensure that the principal purpose of a building society is that of making loans which are fully secured on residential property and are funded substantially by its members.

2 Other percentages

As a percentage of shares and borrowings:	2008 %	2007 %
Gross capital	6.10	6.72
Free capital	5.15	5.83
Liquid assets	23.28	21.05
(Loss) / profit for the year as a percentage of mean total assets	(0.52)	0.26
Management expenses as a percentage of mean total assets	0.96	0.90

The above percentages have been prepared from the Group Accounts.

Gross capital represents the aggregate of the general reserve, available for sale reserve, cash flow hedge reserve, subordinated liabilities and subscribed capital.

Free capital represents gross capital less Property, plant and equipment, investment property and non-current assets held for sale.

Liquid assets are as shown in the Group Balance Sheet but exclude liquidity balances held in special purpose securitisation vehicles.

Shares and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue but exclude balances owed by special purpose vehicles.

Management expenses represent the aggregate of administrative expenses and depreciation.

Mean total assets are the average of the 2008 and 2007 total assets.

Annual business statement for the year ended 31 December 2008

Directors at 31 December 2008

To comply with the requirements of Section 63 of the Building Societies Act 1986, general notice is hereby given of Directors' interests in the following companies, firms and organisations:-

	Date of Birth	Date of Appointment	Occupation
C Greaves PG Dip, MSc Operations Director	**21.08.55**	**26.05.06**	**Building Society Executive**
	Other Directorships/Interests: Newcastle Mortgage Services Limited, Newcastle Savings Management Limited, Newcastle Strategic Solutions Limited, Newton Facilities Management Limited.		
CJ Hilton MA (Cantab), FCIArb, DL Chairman	**19.01.50**	**01.01.78**	**Solicitor**
	Other Directorships/Interests: Newcastle Strategic Solutions Limited; Council of the University of Newcastle upon Tyne (Deputy Chair); Eversheds LLP (Partner); NEPIA Trust Company Limited; Sunderland Marine Mutual Insurance Company Limited; Salvus Bain (Management) Limited (Trustee); Joint Company Secretary of Graig Shipping plc.		
FD Holborn FCIB Senior Independent Director	**26.05.47**	**01.01.03**	**Former Director**
	Other Directorships/Interests: Newcastle Commercial Lending Limited; Newcastle Portland House Limited; Rothley Trust (Vice Chairman).		
W Lee MBA Commercial Director	**05.06.63**	**12.07.04**	**Building Society Executive**
	Other Directorships/Interests: Newcastle Financial Services Limited; Newcastle Mortgage Loans (Jersey) Limited.		
RD Mayland FCA	**22.05.53**	**27.06.05**	**Company Director**
	Other Directorships/Interests: Norprime Limited; The Children's Heart Unit Foundation at the Freeman (Trustee).		
RJ McCormick FCA, FIIA, MIIA	**09.05.49**	**16.08.07**	**Business Consultant**
	Other Directorships/Interests: Mascot Financial Services Consultants LLP (Partner).		
JM Pott BA (Hons), FCA	**19.04.58**	**03.01.07**	**Chartered Accountant**
	Other Directorships/Interests: RMT (Partner); Maxbox Developments Ltd; Treasurer: of German/British Chamber of Commerce.		
CJ Seccombe BSc (Hons) FCA Chief Executive	**28.10.52**	**01.09.97**	**Building Society Executive**
	Other Directorships/Interests: Newcastle Commercial Lending Limited; Newcastle Developments Limited; Newcastle Mortgage Corporation Limited; Newcastle Mortgage Loans (Jersey) Limited; Newcastle Mortgage Services Limited; Newcastle Portland House Limited; Newcastle Savings Management Limited; Newcastle Strategic Solutions Limited; Newton Facilities Computer Leasing Limited; Newton Facilities Computer Purchasing Limited; Newton Facilities Management Limited; Strachans (Newcastle) Limited; Community Foundation serving Tyne & Wear and Northumberland, Sponsors Club for Arts & Business (Chairman); Adamscastle Limited; Adamson Newcastle Limited; Bamburgh Finance No. 1 PLC; Bamburgh Options Limited; Bank of Newcastle Limited; MEA Trust; NBS Financial Services Limited; NBS Mortgage Advisor Limited; Newcastle Bank Limited; Universal Limited; Universal Financial Services Limited; Kings Manor Investments Limited; Kings Manor Estate Agents Limited; Kings Manor Properties Limited, Newcastle Building Society Pension and Assurance Scheme (Trustee), Universal Building Society Pension and Assurance Scheme (Trustee).		
J Westhoff BA (Hons) Fin Serv, ACIB Finance Director	**11.07.64**	**01.09.07**	**Building Society Executive**
	Other Directorships/Interests: Newcastle Financial Services Limited; Newcastle Savings Management Limited; Newcastle Strategic Solutions Limited; Kings Manor Properties Limited; Newcastle Building Society Pension and Assurance Scheme (Trustee)		
NA Westwood RFO, FRICS	**30.04.50**	**03.01.07**	**Chartered Surveyor**
	Other Directorships/Interests: Sanderson Weatherall Limited, Sanderson Townend & Gilbert Limited; Consul for Norway.		

Annual business statement for the year ended 31 December 2008

Other Officers at 31 December 2008

	Occupation
PG Grand MCMI, DMS, MBA	**Building Society Executive**
	Directorships/Other Interests: Newcastle Savings Management Limited.
CW Jopling BA	**Building Society Executive**
IJ Kilmartin DPM, DMS, BA, MSc	**Building Society Executive**
	Directorships/Other Interests: Newcastle Mortgage Services Limited; Newcastle Savings Management Limited; Newcastle Strategic Solutions Limited.
S Marks ACIBS, DMS	**Building Society Executive**
	Directorships/Other Interests: NBS Mortgage Advisor Limited; Newcastle Commercial Lending Limited.
RJ Mottershead	**Building Society Executive**
	Directorships/Other Interests: Newcastle Financial Services Limited.
AM Russell BA, FCA, CPA	**Building Society Executive**
	Directorships/Other Interests: St. Cuthberts Care Limited.
G Tiplady LLB	**Building Society Executive**
	Directorships/Other Interests: Kings Manor Properties Limited; Group Secretary; Seven Stories the Centre for Children's Books (Trustee).
SA Urwin BSc, DipM	**Building Society Executive**
	Directorships/Other Interests: Newcastle Mortgage Loans (Jersey) Limited.
S Watchman BSc	**Building Society Executive**

Documents marked 'private and confidential' may be served on the above named directors at the following address: Portland House, New Bridge Street, Newcastle Upon Tyne NE1 8AL. The executive directors have service contracts which are terminable at any time by the Society on one year's notice. There are no contracts for non-executive directors and no compensatory terms for loss of office.