

# Putting you **First**

ANNUAL REVIEW  
AND SUMMARY  
FINANCIAL  
STATEMENT 2006



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# Dear member

, welcome to the 2006

**Annual Review which incorporates the Summary Financial Statement. This Review has been designed to highlight our activities and progress throughout 2006 and to explain the range of products and services available to our members.**

**The Summary Financial Statement, on pages 14 and 15 and pages 20 to 22, provides an overview of the Group's financial performance during the year.**

**It is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors, free of charge on demand, at every branch of the Newcastle Building Society from 9 April 2007.**

Approved by the Board of Directors on 8 March 2007 and signed on its behalf by:

**CJ Hilton**, Chairman  
**MO Grant**, Vice-Chairman  
**CJ Seccombe**, Chief Executive

In another successful year, the Newcastle has managed to achieve considerable growth whilst dealing with relatively uncertain markets. I'm pleased to report that we have further strengthened our position as the largest Building Society in the North East and we now employ over 1,000 staff. As we move into 2007, we have assets under management in excess of £4.4bn which puts us in a financially strong position and will provide a solid base for future growth and expansion.

Our most significant development during the year was the merger with the Universal Building Society, which took place on the 31 December 2006 and is already delivering benefits. We now have more branches in our heartland area, a wider choice of products and services for our customers and greater career opportunities for our staff. The enlarged Society remains committed to mutuality and answerable to our members rather than to shareholders. We also remain dedicated to supporting our local communities. In 2006 we gave £85,000 to 36 charities and worthy causes. We will certainly look to match that during 2007 and to honouring community commitments entered into by the former Universal.

Looking after the financial interests of our members is central to everything we do. This is why throughout 2006 we strengthened our

position as a premier provider of financial advice and information on issues including pension provision, inheritance tax, insurance, savings and mortgages. In particular I am delighted to be able to tell you that our Guaranteed Equity Bonds, life assurance and general insurance were more popular than ever before.

I am also pleased to inform you of the substantial progress made by our Strategic Solutions business, where we sell our services and core skills to other financial institutions. The most notable success came from providing a fully managed savings account service to key partners, including BMW, 'icesave', Bristol & West and Bradford & Bingley. As this business prospers and contributes more to the Society then so does our ability to offer our members better value products and services.

Further details of all our products and services can be found in the following pages of this Annual Review.

I hope you find it a useful and informative read.



**Colin Seccombe**  
**CHIEF EXECUTIVE**

# Understanding your needs...

Plotting a path to a secure and comfortable financial future is one of the biggest challenges we face today. Although the mix and variety of products and services available to us is greater than at any other time, choosing the right ones can be confusing and sometimes stressful. Economic uncertainties only add to the difficulties. Given these issues the need for suitable and trusted advice really has never been greater.

Managing your finances to ensure a secure future has never been more important, but without the right advice this can seem an elusive goal. This is why our key focus throughout 2006 was to become more customer orientated and dedicated to providing expert financial advice to help our members make informed choices.

Lifetime mortgages are a good example of this. A type of equity release scheme, lifetime mortgages can help improve the quality of people's lives by enabling homeowners to release funds tied up in their home without having to move. They are not suitable for everyone, however, and obtaining proper advice is crucial.

Newcastle Lifetime Mortgages can help you decide if a lifetime mortgage is appropriate and, if it is, find the best available product from a wide selection of lenders.

Of course to provide specialist advice we first need to understand your needs and that's why over the past year we have been asking members to complete an 'Understanding Your Needs' survey.

Building up information across our membership on financial planning, savings, mortgages and insurance is proving invaluable and so far, more than 20,000 members have taken part. If you have time to complete the survey please visit

## ...and helping you make the right choice.

your nearest branch or call 0845 606 5522 for a leaflet.

At the Newcastle we also offer a 'Priority Register' service which allows members to find out about new products and services first. If you would like to be added to our Priority Register please ask at your local branch or call 0845 606 5522.



# Fabulous at 60.



Jenifer Scott from our Whitley Bay branch became the Society's latest poster girl by fronting the marketing campaign for the Newcastle 50+ Account. Press adverts and posters featuring Jenifer appeared in all Newcastle branches and in the national press.

Steve Urwin, Senior Marketing Executive, said: 'Once we saw Jenifer we knew she was ideal. She looks absolutely fabulous at 60 and was the perfect face for the campaign.'

Jenifer added: 'I had a great time filming and it's been fun being recognised in the street.'

## Savings and investments

Regardless of your age or circumstances, healthy savings can undoubtedly make life more comfortable. The need for sufficient retirement funds for the over 50s is clear. Young people starting out in life are also wise to start saving and, if you are a parent fighting to keep pace with the soaring cost of bringing up children, you will need no persuading about the benefits of solid investments to fall back on. Liverpool Victoria, the UK's largest Friendly Society, recently estimated the total cost of raising a child to the age of 21 can exceed £180,000 and is increasing at a faster rate than property prices.

One of our most popular accounts in 2006 was our 50:50 Balanced Bond. This Bond splits the investment equally between an equity-linked element tracking the FTSE 100 Index and a standard savings account paying 0.50% above the Bank of England Base Rate. The equity half offers unlimited earnings potential linked to any growth in the FTSE 100 Index but also a guarantee to pay back all the original capital invested at the end of the term, however the FTSE 100 Index performs. The savings account offers a guaranteed return, instant access and the option of monthly income on balances over £1,000.

Another successful account was our no notice Newcastle 55 Account designed specifically for the over 55s and guaranteeing to pay the Bank of England Base Rate. This account received considerable coverage in the Daily Mail, which has been campaigning for high quality accounts for the over 50s.

Early in 2006 we launched a TV campaign to promote the Newcastle 50+ Account, offering a competitive rate to the over 50s. Such was the success of this product that we repeated the TV campaign at the end of the year. Full details of all our accounts are available from our branches and by visiting our website [www.newcastle.co.uk](http://www.newcastle.co.uk).

# First time buyer? We've got the perfect mortgage for you.

The Society recently enlisted the help of two of its newest borrowers to star in a TV advert highlighting the options available to first time buyers. Without adequate deposits, Tynesiders Chloe Dent, 28, and Paul Todd, 29, were both struggling to acquire their first home. Fortunately, Newcastle's 100% mortgage offered the ideal solution and they are now proud home owners.

Neither had acted before but they turned out to be naturals and thoroughly enjoyed the shooting. The adverts were broadcast throughout May and included high profile slots during the commercial breaks of Coronation Street.

## Mortgages

By the end of 2006 the average price of a house in the UK was breaking through £200,000, according to the Land Registry, pricing many first time buyers out of the market. This is why we focussed heavily on their needs in 2006 with a range of innovative facilities, including 100% loan to value mortgages, no completion fees, assistance with valuation costs and cash-back offers to help with the additional costs of home ownership.

On some first time buyer mortgages, and only where appropriate, we also increased our income multiples to 4 times a single salary and 3.75 times a joint salary. We feel this approach shows we are responding to our customers' needs, while at the same time still lending in a responsible manner.

Our Offset Account continued to attract borrowers, particularly with its family feature which allows parents to link their savings to the child's mortgage and thereby reduce the interest payments over the lifetime of the loan.

We also made our guarantor mortgage available to a wider range of borrowers, again making it possible for parents to help their children on to the property ladder.

In 2006 we entered the market in Jersey by offering a range of products through The Mortgage Shop Plus; a locally-based firm with considerable experience and expertise. We will be closely monitoring the situation during 2007 to test if there is scope to extend this service in future.

# Insurance and protection

Insurance is increasingly valuable in today's uncertain world. With storms and floods wreaking havoc on the UK countryside, it is vital to be covered if the unthinkable happens and disaster strikes. Crime levels have supposedly fallen but muggings and identity theft are more prevalent than ever before.

With the New Year bringing a further rise to interest rates and record levels of debt, it is even more important to protect your home.

People who put off insuring leave themselves and their families exposed. All of these things can be covered with insurance products but it may be too late if you delay.

To find out more about any of our protection policies including home insurance, mortgage payment cover, travel or motor insurance please visit your nearest branch or click on [www.newcastle.co.uk](http://www.newcastle.co.uk) for an online quote.

## Make sure you're insured.



To promote home insurance the Newcastle recently mocked up its branches as if there had been a break-in. Boarded up windows carried the message 'Good job we do insurance'. However, so realistic were the visuals that one watchful bobby dropped into the South Shields branch to investigate further. He was met by sheepish staff who confessed to the marketing stunt.

Christine Heslop, Marketing Manager, said: 'It's always reassuring to know the Police are looking after us. We were trying to be eye-catching - and these window displays certainly were. There was, of course, a serious message behind the campaign and ensuring you and your property are properly covered can save you time, money and distress in the event of the unexpected.'

# Community Support

## Grass-roots Charities

Each year the Newcastle donates around £85,000 to a mix of grass-roots charities and voluntary organisations. Last year we supported community groups ranging from anti-bullying programmes in schools, to centres offering IT and computer literacy courses for the over 50s, and an initiative encouraging children from state schools and all ethnic backgrounds to play cricket.

Following the merger the Society will honour key community projects set up by Universal Building Society, including Seven Stories and the Centre for Children's Books. Now in its final year, this three-year joint initiative between the Universal and Arts and Business is designed to bring the joy of story telling to children.

Many Society members and staff cite strong community links as a major reason for joining the Building Society and they undoubtedly appreciate the support offered.

Volunteer work among our staff is also popular. We have volunteers working with

the Prince's Trust as business mentors offering support and commercial skills to business start ups in the region. Other volunteers sit on a variety of committees providing their expertise and business skills to charitable organisations. Last year four runners from the Society also completed the New York Marathon, raising a staggering £30,000 for Macmillan Cancer Relief.

## Anti-money Laundering Qualification

Society employee Hazel Spence is helping defeat financial crime after scoring the highest marks in a national anti-money laundering qualification. The Diploma in Anti-money Laundering recognises the highest professional standards, and candidates must demonstrate an in-depth knowledge of the issues and a thorough understanding of the threats posed.

More than 130 delegates took the year-long diploma and, as the candidate with the highest marks, Hazel was presented with an 'Outstanding Overall Achievement' award.

# Social Lending

As a mutual organisation we recognise we have a role to play in helping to provide affordable housing for all which is why, since 1992, we have built up a strong reputation and a high level of expertise in lending to registered social landlords (RSL's). The Society currently has funds in excess of £750 million loaned to the sector and relationships with around 60 social housing landlords throughout the UK, including our heartland North East.

We are working closely with a number of RSL's, including Nomad and Home Housing, who are developing a range of purpose-built, refurbished and supported housing projects helping towards the creation of sustainable communities all over the country. Some developments now incorporate facilities such as community centres within retirement 'villages'. Shared ownership schemes may also be offered by RSL's to help with affordability issues, for young and old alike.

A growing population, combined with longer life expectancy and house price rises outstripping salary increases, means demand for this type of social and supported housing is ever-strengthening and not just for people on low incomes. Newcastle Building Society will continue to support the sector with competitive funding packages.

## Newcastle Building Society Cup

Newcastle Building Society has announced it is renewing its support for one of the largest youth football leagues in the North-East.

For the past two seasons the Society has been a main sponsor of The Northumberland Association of Clubs for Young People NABC Football League. This arrangement finished at the end of the

2005/06 season, however, the success of the support and the positive response from players and officials has persuaded the Society to remain involved for the 2006/07 season.

It has therefore provided £1,000 to sponsor 'The Northumberland Association of Clubs for Young People County Football Cup Competition', which is to be renamed the 'Newcastle Building Society Cup'.

# Summary Financial Statement

for the year ended 31 December 2006

## Summary Directors' Report

### OVERVIEW

2006 was another challenging yet successful year for the Newcastle. We continued to grow the business through prudent lending and by offering our members a range of exciting new products and services, while our Strategic Solutions business tendered for and won a number of major new contracts to provide fully managed Internet savings accounts to other financial institutions which included the Icelandic bank, Landsbanki (under the 'Icesave' banner) and Bristol & West.

### PUTTING OUR MEMBERS FIRST

It is the intention of the directors that the 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.

### DEVELOPMENT, PERFORMANCE AND FINANCIAL POSITIONS

The most significant development during the year crystallised on 31 December 2006 when the Newcastle merged with our close neighbour, the Universal Building Society. The Group's balance sheet reflects the inclusion of Universal's balance sheet at 31 December 2006 but there is no impact on Newcastle's reported results for the year, other than the costs associated with the merger.

### Business Review

#### Highlights of the year:

- Retail funding inflows increased by more than **£200 million** during the year and our 50+ Account continues to prove a popular choice for many of our customers.
- Group profit after tax amounted to **£8.1 million**, an increase of **15.71%** when compared to the previous year which, as a percentage of mean total assets, was **0.20%** (2005: 0.19%).
- Our assets now stand at **£4.42 billion**. (2005: £3.86 billion).
- Management expenses as a percentage of mean total assets in 2006 was **81p** per £100 of assets (2005: 76p per £100; 93p per £100, including discontinued operations).
- The Society continued to promote its IT capabilities and core business processing services to a range of new business partners. These fully complement our existing and very successful arrangements with Bradford & Bingley and others and this has resulted in a healthy increase in other income during the year. It also enables the Society to offer increased employment opportunities both to its existing staff and to the local economy generally.

- Despite repeated economic warnings about the increasing and non-sustainable levels of personal debt in the UK, the overall credit quality of our lending book remains very good with **6** properties in possession at the end of the year and only **0.34%** of our portfolio with arrears of more than 2½% of the balance.
- Gross mortgage advances made during the year amounted to **£693 million** (2005: £684 million).

### COMMUNITY

#### Charitable giving and working in the community

In addition to providing considerable 'in-kind' support through our work with local and national charitable organisations, the Society made annual charitable donations amounting to £85,000. It has recently renewed its support for one of the largest youth football teams in the North East region and will retain those community and charitable links forged by the former Universal Building Society.

#### Social Housing

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

#### Taxes

During the year, we paid taxes in excess of **£18.8 million** (2005: £19.8 million) on behalf of the Newcastle Building Society Group, its employees and members.

### STAFF

The dedication and professionalism of our employees remains a key success factor for the Society and for this we thank them.

We now employ over 1,000 people throughout our region and remain a very active recruiter in the North East. The Society prides itself on being an Investor in People and believes in developing staff to reach their full potential. We consider that the merger will increase career opportunities for all members of our staff.

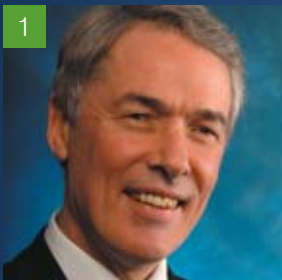
### FUTURE OUTLOOK

The environment in which we operate will not get any easier and we fully expect the level of competition we face in our markets to increase. Industry commentators have predicted five further mergers in the sector in 2007 but we see that as good news for our Strategic Solutions business and our ambitious expansion plans.

Margins will continue to be squeezed downwards so we intend to focus on those areas where margins are still available, even if this results in more modest asset growth rates.

We have much to be proud of in 2006 and the merger has put us in a very strong position to offer better service to our customers and with which to face the challenges of 2007.

## Our Directors



**1 Chris Hilton, CHAIRMAN** is in his sixth year as Chairman of Newcastle Building Society. He is a commercial lawyer and senior partner at Eversheds in Newcastle, with specific expertise in international trade and is adviser to 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 is also a member of the Council of the University of Newcastle upon Tyne, for whom he is currently leading a working party on corporate governance.



**2 Colin Seccombe, CHIEF EXECUTIVE** 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.

**3 Olivia Grant, VICE-CHAIRMAN** has served as a director since 1995 and brings with her a wide knowledge of the business community in the North-East, and of the personnel, training and skills issues facing the Society today. She also chairs the Pension Committee and the Pension Trustees. Olivia has numerous business and other interests, including Chairman of the Council of the University of Newcastle upon Tyne, and is Chair of Culture North East Limited. Olivia is also a director of HBI which is an inventory company in the field of Bioscience.

**4 Tony Glenton** is the Senior Partner in Chartered Accountants, Ryecroft Glenton. He has been a director for 19 years, 6 of which as Chairman. He chairs the Society's Audit Committee and, until recently, was Chairman of the Port of Tyne.

**5 Colin Greaves** 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 development of the Strategic Solutions business.

**6 David Holborn** is 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 a trustee of Rothley Trust and chairs the Financial Risk and the Remuneration Committees.

**7 Wendy Lee** 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,

**8 Richard Mayland** 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 Children's Heart Unit Fund.

**9 Maxine Pott** was appointed to the Universal Building Society Board in 2000, Maxine joined the Newcastle Board following the merger in December 2006 with the Universal. 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.

**10 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.

# Remuneration Committee Report

Having regard to the Combined Code on Corporate Governance 2003, the remuneration committee consists solely of non-executive directors, currently FD Holborn (Chairman), AAE Glenton and RD Mayland and meets at least twice a year to consider and make recommendations on the level of remuneration for executive and non-executive members of the Board 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 reviewed annually 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 and responsibility of each executive director.
- The executive directors are appraised annually by the Chief Executive; and in turn, he is appraised annually by the Chairman.
- An annual performance-related bonus scheme has been established for executive directors and senior executives. In any one year a bonus is primarily determined based on the achievement of specific objectives that have been set in the Society's corporate plan. The maximum bonus is 25% of basic salary and is non-pensionable.

- Executive directors, and three non-executive directors, are members of the Newcastle Building Society pension scheme, details of which are set out in Note 35 to the Society's Annual Accounts.
- The pensions are subject to a maximum of two-thirds of basic salary. Where basic salary is in excess of the earnings cap as set out by the Inland Revenue rules, a provision is made for an unfunded scheme which produces a pension on that excess as if the cap did not apply. Life cover for a lump sum of four times basic salary on death in service and dependant's pensions are also provided.
- Executive directors receive a range of taxable benefits which includes a car or cash equivalent, private health care and concessionary mortgage arrangements.
- 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 the 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 Vice-Chairman.

## Directors' emoluments

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

	Salary or Fees	Annual Bonus	Benefits	Increase in accrued pension benefits earned in year (excl. inflation)	2006 Total	2005 Total
	£000	£000	£000	£000	£000	£000
<b>Executive directors</b>						
C Greaves (appointed 26 May 2006)	69	12	5	6	92	-
RJ Hollinshead (resigned 30 June 2006)	Note 1 264	-	32	5	301	275
W Lee	Note 2 122	22	121	2	267	164
CJ Seccombe	183	36	13	14	246	163
JV Towers (resigned 31 July 2006)	72	-	4	-	76	133
	<b>710</b>	<b>70</b>	<b>175</b>	<b>27</b>	<b>982</b>	<b>735</b>
<b>Non-executive directors</b>						
CJ Hilton	58	-	-	-	58	57
RB Allan (retired 20 April 2006)	12	-	-	-	12	29
AAE Glenton	33	-	-	-	33	34
MO Grant	37	-	-	2	39	31
JW Heppell (retired 20 April 2006)	15	-	-	-	15	35
FD Holborn	35	-	-	-	35	34
RD Mayland	30	-	-	-	30	13
	<b>930</b>	<b>70</b>	<b>175</b>	<b>29</b>	<b>1,204</b>	<b>968</b>

Note 1

Mr RJ Hollinshead resigned on 30 June 2006. He has a service contract terminable by the Society on one year's notice and he will continue to receive cash and non-cash benefits under the terms of his contract until 31 March 2007. These emoluments, which are subject to deduction of tax and national insurance, are included in the figures above and amount to £168,190.

Note 2

The benefits of Ms W Lee include relocation expenses amounting to £108,320 which are subject to deduction of tax and national insurance.

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 2006. 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-06	Transfer value of accrued benefits at 31-Dec-06	Transfer value of accrued benefits at 31-Dec-05	Director's contributions during year	Increase in transfer value less director's contribution
	£000	£000	£000	£000	£000
<b>Executive directors</b>					
C Greaves (appointed 26 May 2006)	34	556	332	10	214
RJ Hollinshead (resigned 30 June 2006)	90	1,474	946	20	508
W Lee	5	53	17	11	25
CJ Seccombe	32	544	236	16	292
JV Towers (resigned 31 July 2006)	22	279	176	6	97
<b>Non-executive directors</b>					
CJ Hilton	28	423	303	1	119
RB Allan (retired 20 April 2006)	-	-	-	-	-
AAE Glenton	11	211	178	1	32
MO Grant	8	124	71	3	50
JW Heppell (retired 20 April 2006)	15	246	191	1	54
FD Holborn	-	-	-	-	-
RD Mayland	-	-	-	-	-

The accrued pension benefit shown is the amount that would be paid each year to the director in the form of a pension if he or she left at the end of the year. 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.

# Summary Financial Statement

for the year ended 31 December 2006

<b>Group results for the year</b>	2006 £m	2005 £m
Net interest receivable	32.9	33.1
Other income and charges	12.5	9.6
Administrative expenses	(33.5)	(28.0)
Impairment losses	(0.3)	0.1
<b>Profit for the year before taxation</b>	<b>11.6</b>	<b>14.8</b>
Taxation	(3.5)	(4.4)
<b>Profit for the year from continuing operations</b>	<b>8.1</b>	<b>10.4</b>
Discontinued operations	-	(3.4)
<b>Profit for the year</b>	<b>8.1</b>	<b>7.0</b>

## Group financial position at the end of the year

	2006 £m	2005 £m
<b>Assets</b>		
Liquid assets	773.3	653.3
Mortgages	3,420.6	2,953.0
Other loans	121.6	123.6
Derivative financial instruments	12.4	29.0
Fair value adjustments for hedged risk	28.4	29.8
Fixed and other assets	65.2	74.7
<b>Total assets</b>	<b>4,421.5</b>	<b>3,863.4</b>
<b>Liabilities</b>		
Shares	2,671.5	2,060.3
Borrowings	1,391.8	1,488.9
Derivative financial instruments	14.6	33.1
Fair value adjustments for hedged risk	12.4	3.8
Other liabilities	55.3	39.0
Subordinated liabilities	60.7	49.7
Subscribed capital	19.9	19.9
Reserves	195.3	168.7
<b>Total liabilities</b>	<b>4,421.5</b>	<b>3,863.4</b>

<b>Summary of key financial ratios</b>	2006 %	2005 %
Gross capital as a percentage of shares and borrowings	7.01	7.03
Liquid assets as a percentage of shares and borrowings	19.41	18.84
Profit for the year as a percentage of mean total assets	0.20	0.19
Management expenses for the year as a percentage of mean total assets	0.81	0.76

## Notes

### Gross capital as a percentage of shares and borrowings

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

### Liquid assets as a percentage of shares and borrowings

Liquid assets are assets held by a society which are in the form of cash or assets which are readily convertible into cash. Newcastle Building Society has a ratio of liquid assets to shares and borrowings which is at a similar level to other societies. The ratio is maintained at a level which the directors consider appropriate for the activities of the Society.

### Profit for the year as a percentage of mean total assets

A building society needs to make a reasonable level of profit each year in order to maintain and strengthen its gross capital ratio. It is similar to a company's return on assets.

The Newcastle Building Society operates a policy of 'profit sufficiency' and one of the most appropriate measures of profitability is to express profit as a percentage of mean total assets.

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

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

## Independent Auditors' Statement on the Summary Financial Statement

### Independent auditors' statement to the members and depositors of Newcastle Building Society

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

### Respective responsibilities of directors and auditors

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

This opinion has been prepared for and only for the Society's members and depositors in accordance with Section 76 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Basis of opinion

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

### Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, Annual Business Statement and Directors' Report of Newcastle Building Society Group for the year ended 31 December 2006 and conforms with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

**PRICEWATERHOUSECOOPERS LLP**  
**CHARTERED ACCOUNTANTS AND**  
**REGISTERED AUDITORS**  
**NEWCASTLE UPON TYNE**  
**8 MARCH 2007**