NEWCASTLE BUILDING SOCIETY ANNOUNCES FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

Key Highlights

- Profit before tax up by 35% to £5.4m from £4.0m
- Strong Capital ratios - Common Equity Tier 1 ratio of 13.6% and Leverage ratio of 5.6%
- Robust liquidity ratio of 17.7%
- Mortgage lending of £342m and loans in 3 months arrears at a record low of 0.49%
- Solid performance from Solutions business with 4 new contracts launched in 2015
- Overall Customer Satisfaction rating of 95%
- Customer Satisfaction for financial advice of 99%
- Overall staff satisfaction index of 91%

Chief Executive's Statement

I am pleased to report good progress in 2015 across both financial and non-financial key performance indicators. As a mutual our customers are at the heart of our business so I am very pleased to see higher customer satisfaction scores, low complaint volumes and achievement of great customer service levels. Of course financial performance is vitally important and whilst we have improved profitability, maintained strong capital and liquidity ratios and achieved record low arrears figures, we have also made significant investment in the business.

In moving forward with our strategy it is essential that we focus on the long term success of the Society and invest for the future in our people, branches and technology so that we grow and develop to meet the changing needs of our customers.

Since taking on the role of Chief Executive in May 2015 I have been genuinely impressed with the culture and values that are central to the mutual ethos of the Society. These are demonstrated by our staff on a day to day basis, underpinning our vision to be the best regional building society, delivering excellent customer outcomes for people of the North East and beyond.

2015 has been another year where we have seen uncertainty in financial markets with the path for UK interest rates still unclear. What is clear is that the world economy is still fragile and may provide significant headwinds to the UK's economic recovery whether this is from China, uncertainty around a potential Brexit or from the Middle East. The Bank of England has indicated that the UK base rate of 0.5% will remain lower for longer and there is no sign of an increase coming through in 2016.

Low rates have been great news for borrowers who have seen some of the most competitive mortgage products ever whilst at the same time seeing house prices rise and disposable incomes grow. Of course savers continue to fund the low rates on mortgages through lower rates on savings balances and this makes the provision of good financial advice to Members even more important so they can understand the options for investing their savings.

Financial Performance

Profit before tax improved to £5.4m for the year ended 31 December 2015 compared to £4.0m for 2014, an increase of 35%. Operating profit before impairment charges and the FSCS levy was down slightly from £12.4m to £11.9m due to a higher depreciation charge reflecting higher levels of investment in infrastructure and also increased investment in staff as we build our capability to grow the business. Net interest margin improved from 0.70% to 0.75% reflecting lower funding costs although spreads on mortgage lending also narrowed due to a much more competitive mortgage market.

The profitability of our outsourcing subsidiary, Newcastle Strategic Solutions, improved reflecting the launch of 4 new contracts in 2015. It is the nature of these contracts that there is significant investment in the year of launch but then as the contracts build over time the income and profitability grows. The Solutions business provides a diversified income stream, based on core competencies within the building society business. All of the profits from this business are ploughed back in to the Society and support increased investment in services for Members as well as providing capital to support and grow the business. The pipeline for the Solutions business continues to be very strong.

Our financial advice subsidiary, Newcastle Financial Services Limited, delivered a 7% increase in income in 2015 although profitability was flat compared to 2014 due to increased staff costs arising from investment in an administrative support team to enhance service to customers and higher salaries for financial planning managers. Significant investment is going in to this area of our business, which has the highest customer satisfaction rating across all areas of the Society's business at 99%. As part of this investment we will be expanding our seminar activity for new and existing customers and also creating two new financial advice centres in our heartland, this is in addition to the major refurbishment of our branches to provide a welcoming and engaging environment within which to provide face to face advice.

There was a decrease in impairment charges from £5.9m to £4.6m reflecting the ongoing reduction in the legacy commercial portfolio and the FSCS levy also decreased from £2.5m to £1.9m due to a reduction in the amount of the levy and lower eligible balances.

Capital ratios continued to improve with Common Equity Tier 1 ratio improving from 12.7% to 13.6% and Tier 1 capital ratio increasing from 14.6% to 15.3%. The Group's overall capital ratio (Solvency ratio) increased from 18.6% to 18.7% and the leverage ratio improved from 5.2% to 5.6%.

The mortgage market was extremely competitive in 2015 which impacted our achievement of gross and net lending targets with both figures showing a reduction on the previous year; gross residential mortgage lending was £342m in 2015 compared to £350m in 2014 and net lending was £10m against £134m in the prior year. Net lending was also impacted by a higher level of mortgage maturities and capital repayments. We have a much stronger mortgage pipeline going in to 2016.

The percentage of mortgage loans in arrears of 3 months or more, across the whole mortgage portfolio based on the number of loans, reduced again from 0.53% to 0.49%; considerably lower than the industry average with 2015 seeing a record low since we have been tracking 3 months arrears.

Our liquidity at the end of the year was 17.7%, excluding encumbered assets, slightly ahead of the level at the end of 2014 of 17.4%. Including encumbered assets the ratio increased from 23.6% to 24.3%. On 1 October 2015 a new European liquidity regime was introduced with the focus on the liquidity coverage ratio; against this new measure the Society's ratio was 230% against a minimum required level of 80%. This significant headroom reflects the quality of the Society's liquidity with the majority of it invested in highly rated assets.

Supporting our Members

Over the last 12 months we have engaged with our Members through meet the chief executive road-shows, branch events, our customer panel, and most importantly listening to what our Members tell us when they give us feedback whether it's good or bad. By understanding what is important to our Members we can continue to improve and expand the products and services we offer and also enhance the quality of our customer service.

2015 was a good year for Members moving home or taking their first steps to get on the property ladder. Throughout the year we offered a wide range of mortgage products with fixed rates ranging from 2 to 10 years duration, first time buyer products where only a 5% deposit was required and our fees free mortgage products continued to be extremely popular with borrowers. Many of our products featured in best buy tables and were available directly with the Society and via mortgage brokers.

In 2015 the Society launched a new Buy to Let proposition with a maximum loan to value of 75% and prudent lending criteria, this recognises that a large proportion of residential lending in the UK relates to this sector. In addition the Society also launched a new online mortgage application system for mortgage brokers with further upgrades and enhancements made during the year. Following on from the launch of new mortgage regulations in 2014 (the Mortgage Market Review) there has also been major activity on regulatory projects in 2015 with the Society already implementing some of the changes required for the new European Mortgage Credit Directive due in March 2016.

The Government has also taken steps to help First Time Buyers with the launch of the Help to Buy ISA on 1 December 2015 with the Society being one of only 14 providers of the product at the date of launch. The government scheme is very similar to the Big Home Saver product the Society has operated for many years with a bonus payable when the customer buys a home based on the amount saved. The Society has continued to offer its own home savings product alongside the government scheme which means our customers can benefit from both great schemes by splitting their annual ISA allowance using our innovative CustomISA functionality.

While the low rate environment has meant another challenging year for savers the Society continues to offer a range of good value savings products including easy access, regular savings and fixed rate bonds, providing competitive rates wherever possible. We also offered Member exclusive products with better rates to reward our loyal savers. Our Big Little Saver was popular with parents and grandparents alike to help promote the savings habit in young children.

We have seen a significant fall in complaint volumes in 2015; total complaints fell by 26% with Mortgage Payment Protection Insurance ("MPPI") complaints falling by 12% and non-MPPI complaints falling by 37%. The majority of cases referred to the Financial Ombudsman are found in the Society's favour.

Our most pleasing achievement has come in the form of increased customer satisfaction with the percentage increasing to 95% at the end of 2015 from 92% a year earlier. We also met or exceeded our targets for customer service levels in 2015.

Supporting our Employees

Growing and developing our staff is fundamental to the success of the Society and that is why in 2015 we have invested further in recruitment, training and development of our people. Over the course of 2015 we increased our headcount across the business by 80 staff, an increase of 9%, and the first time we have expanded our workforce since before the credit crisis. New roles have been created across the business to enhance customer service, support the growing Solutions business and other areas that are expanding, including mortgage lending and financial advice. Underpinning our staff development programme is strong and regular communication so everyone understands their role in delivering the Society's strategy, culture and values.

In 2015 we partnered with Openwork LLP to launch 'Ocademy' to our staff, a dedicated training academy for staff to become Financial Planning Managers with Newcastle Financial Services Limited. The 12 month programme provides great career progression and means we are developing our own talent to support our financial advice proposition.

In 2014 we introduced the Talent Management programme, which is designed to develop potential future leaders of our business, and after an 18 month journey our first management placements have now graduated. All placements completed master classes at the University of Sunderland Business School. This supplements other programmes that the Society already has in place.

Our staff turnover rate across the business increased from 12.6% in 2014 to 13.2%, reflecting a more competitive employment market and reducing rates of unemployment. While this increase was not unexpected given very low levels of turnover over recent years, we are still working hard to retain staff and also ensure we attract the best talent to the Society.

The results of the annual staff survey were again strong with overall satisfaction at 91%, a slight increase over 90% last year. The most pleasing aspects of the survey are that so many of our staff would recommend the Society as a place to work 84% and that 94% of staff are committed to the Society and understand its future strategy.

In April we gave an annual pay award of 2% which was ahead of UK CPI inflation. In December the Remuneration Committee approved a Society-wide corporate bonus, based on achievement of the Corporate Key Performance Indicators, of 3% of base salary.

Supporting our Communities

As a mutual we believe it is important to give something back to the communities in which we operate and in doing so we seek to reflect the views of our Members and staff in the charities and activities we support. The work we do with communities and charities in the region was recently recognised at the Charity Times Better Society Awards where the Society was awarded the top prize for Commitment to the Community.

Our financial education programme is now in its sixth year and has helped more than 1,700 school pupils learn about managing money and becoming financially independent. The main part of this programme is the “Boardroom Charity Challenge” where schoolchildren develop business ideas that focus on benefiting their local community while also making a profit. The £1,000 prize money is then put towards turning the idea into reality with all proceeds going to a local charity. This six week long curriculum based learning not only helps children learn about business but also helps then develop their communication and presentation skills when they come in to the Society’s Boardroom to pitch their proposal to senior executives.

We launched our new and improved volunteering policy in 2015 and more than 80 staff have already supported charities and local communities, turning their hand to a range of activities including painting and decorating, gardening, serving in hospice shops and helping to document a charity’s strategy.

We have supported Percy Hedley Foundation, a local charity that provides a wide range of specialist care and education support to disabled people and their families, for almost two years and have raised more than £20,000 during this time. As well as many staff volunteering to help the charity we have also held a number of sponsored events including 19 runners from the Society taking part in the Great North Run.

We have maintained our close relationship with the Sir Bobby Robson Foundation, with donations to this leading cancer research charity in the North East now reaching £1.8m over the period of the relationship.

Our fund within the Tyne & Wear Community Foundation has been running for over 25 years and has allowed us to donate thousands of pounds to local charities. Our staff nominate the charities they want to receive a donation, which ranges from £500 to £2,000, and over the last 12 months we have made donations to charities that support people in the region living with cancer, youth initiatives and help for homeless people. We are looking to expand the charities and communities we support in the region even further through the expansion of our Community Foundation fund in 2016.

Summary

I am delighted with the Society's performance in 2015 which is against a backdrop of investment and development of the business for the longer term. Whilst there may be ongoing volatility in financial markets we will continue to focus on what is important to our Members; providing a great range of straightforward savings and mortgage products and trusted financial advice. We will continue to invest in the business, updating our branch footprint and digital presence whilst developing our staff to their full potential.

I would like to thank my predecessor, Jim Willens, for the excellent progress achieved since 2010 which means I have inherited a business in much better shape, allowing me to focus my efforts on building the performance and capability of the Society in the years ahead.

Last but not least, I would like to pay tribute to the fantastic team of people we have at the Society who work really hard to provide great service for our customers and make the Society such a great place to work. Their exceptional loyalty and commitment has enabled the Society to deliver the year on year improvement in our results and I would like to thank them for their contribution.

Andrew Haigh
Chief Executive
1 March 2016

NEWCASTLE BUILDING SOCIETY

PRELIMINARY ANNOUNCEMENT
for the year ended 31 December 2015

CONSOLIDATED INCOME STATEMENTS

	2015	2014
	£m	£m
Interest receivable and similar income	**78.0**	85.3
Interest expense and similar charges	**(50.9)**	(60.2)
Net interest receivable	**27.1**	25.1
Other income and charges	**22.9**	22.3
Gains less losses on financial instruments and hedge accounting	**0.1**	-
Administrative expenses	**(36.1)**	(33.2)
Depreciation	**(2.1)**	(1.8)
Operating profit before impairment provisions and FSCS levy	**11.9**	12.4
Impairment losses on loans and advances to customers	**(4.6)**	(5.9)
Provisions for liabilities and charges	**(1.9)**	(2.5)
Profit for the year before taxation	**5.4**	4.0
Taxation expense	**(2.1)**	(1.1)
Profit after taxation for the financial year	**3.3**	2.9

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2015

	2015 £m	2014 £m
Profit for the financial year	**3.3**	2.9
Other comprehensive (expense)/income		
Items that may be reclassified to income statement		
Movement on available for sale reserve	**(0.8)**	(1.3)
Income tax on items that may be reclassified to income statement	**0.2**	0.3
Total items that may be reclassified to income statement	**(0.6)**	(1.0)
Items that will not be reclassified to income statement		
Actuarial remeasurements on retirement benefit obligations	**0.4**	(6.0)
Income tax on items that will not be reclassified to income statement	**(0.1)**	1.2
Total items that will not be reclassified to income statement	**0.3**	(4.8)
Total comprehensive income/(expense) for the financial year	**3.0**	(2.9)

CONSOLIDATED BALANCE SHEETS

as at 31 December 2015

ASSETS	**2015 £m**	2014 £m
Liquid assets	**726.0**	768.1
Derivative financial instruments	**7.3**	16.4
Loans and advances to customers	**2,478.6**	2,660.1
Fair value adjustments for hedged risk	**190.8**	201.8
Assets pledged as collateral	**-**	48.5
Property, plant and equipment	**23.4**	23.0
Other assets	**19.4**	18.3
TOTAL ASSETS	**3,445.5**	3,736.2

LIABILITIES		
Due to Members	**2,678.8**	2,973.7
Fair value adjustments for hedged risk	**5.3**	8.4
Deposits and debt securities	**307.1**	279.5
Derivative financial instruments	**190.4**	201.6
Other liabilities	**14.7**	17.4
Subordinated liabilities	**50.0**	59.5
Subscribed capital	**30.0**	29.9
Reserves	**169.2**	166.2
TOTAL LIABILITIES	**3,445.5**	3,736.2

CONSOLIDATED CASH FLOW STATEMENTS
for the year ended 31 December 2015

	2015 £m	2014 £m
Cash outflows from operating activities	**(61.6)**	(149.1)
Payment into defined benefit pension scheme	**(2.0)**	(2.0)
Net cash outflows from operating activities	**(63.6)**	(151.1)
Cash (outflows)/inflows from investing activities		
Purchase of property, plant and equipment	**(2.5)**	(3.5)
Sale of investment properties	**-**	4.3
Purchase of investment securities	**(317.4)**	(234.4)
Sale and maturity of investment securities	**271.1**	405.0
Net cash flows from investing activities	**(48.8)**	171.4
Cash outflows from financing activities		
Interest paid on subordinated liabilities	**(3.0)**	(3.6)
Interest paid on subscribed capital	**(3.5)**	(3.8)
Repayment of subordinated liabilities	**(9.6)**	-
Repayments under finance lease agreements	**(0.1)**	(0.1)
Net cash outflows from financing activities	**(16.2)**	(7.5)
Net (decrease)/increase in cash	**(128.6)**	12.8
Cash and cash equivalents at start of year	**315.1**	302.3
Cash and cash equivalents at end of year	**186.5**	315.1

Summary of key financial ratios	2015 %	2014 %
Gross capital as a percentage of shares and borrowings	**8.3**	7.9
Liquid assets as a percentage of shares and borrowings	**24.3**	23.6
Result for the year as a percentage of mean total assets	**0.09**	0.08
Management expenses for the year as a percentage of mean total assets	**1.06**	0.93