Stock Exchange Announcement

Strictly embargoed until 9.00 a.m. Tuesday 25th February 2014

NEWCASTLE BUILDING SOCIETY ANNOUNCES FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

Newcastle Building Society today announces continued and steady progress demonstrating the success of its strategy, with an operating profit before impairments, provisions and exceptional items of £10.6m and a profit before tax of £2.0m.

Key Highlights

- **Operating profit (before impairments, provisions and exceptional items) up to £10.6m** from £10.4m
- **Profit before tax up to £2.0m** from £1.5m
- **Capital ratios improved** further with Solvency ratio at 17.8%, Tier 1 ratio of 14.1% and Core Tier 1 ratio of 11.9%
- **Strong liquidity** position at 26.3% of shares, deposits and liabilities
- **Credit Quality of mortgage portfolio remains robust** with the number of loans in 3 months arrears or more reduced to 0.64%, below industry averages
- **Reduction in legacy mortgage portfolios** of £160m covering higher risk/low margin loans
- **Gross mortgage lending of £350m in 2013 and lending to First Time Buyers doubled**
- **Overall Customer Satisfaction of 91%**, with satisfaction within our financial advice subsidiary of 92%
- **Overall staff satisfaction index** remained in excess of 80% with a participation rate of 74%
- **Continuing success of our 'Cornerstone' in the community initiative and £700k donated to Sir Bobby Robson Foundation**

Chief Executive's Statement

I am delighted to report that 2013 has been a successful year for the Society with ongoing improvement across a range of corporate key performance indicators. I am particularly pleased that we have been able to do so much to support lending to our members, especially first time buyers, whilst at the same time offering a good range of competitive savings products. Our financial advice subsidiary, Newcastle Financial Services Limited, also continued to provide advice to customers at a time when others have decided to exit the market for all but high net worth individuals.

In 2013 the Building Society sector continued to punch above its weight in both the mortgage and savings markets and offered a real alternative to the high street banks. Building society net lending almost doubled in 2013 while net lending by other lenders was negative; almost a third of mortgage lending by building societies was to first time buyers, who are key to a thriving housing market. Building societies, including Newcastle Building Society, have been bringing homebuyers and savers together for over 150 years. Being owned by members, Building Societies can focus on the longer term and providing excellent service to members; we don't have to worry about shareholders focussed on share price and investor returns. The Building Society model has proven to be very resilient over recent years. It is pleasing to see building societies at the forefront of the economic recovery, providing a trusted home for savers and helping homebuyers get on to the property ladder.

When I was first appointed, in 2010, we changed our strategic focus to return the Society to a traditional building society model with a diversified income stream via our Solutions business; built on core building society competencies. At the heart of this strategy are our members, our staff and the communities within which we operate alongside ensuring we provide a good range of products and excellent customer service all of which are underpinned by the Society's Values. Our year on year continuing improvement in performance is evidence that our strategy is working and we will continue to pursue our strategic goals with vigour. After five long years of the "credit crunch" we can see signs that the economy is building momentum and that a recovery is more firmly in train, which should enhance ongoing delivery of our strategy.

In terms of our achievements in 2013, from a financial perspective, profitability and capital ratios continue to strengthen further, and the quality and level of our liquidity continues to be robust. Our key non-financial measures, the satisfaction of both our members and employees, continued above target. We exceeded our targets for wind down of legacy assets and delivered on schedule on key regulatory projects. Overall, we have had another very positive year of continued and steady progress.

Financial Performance

Profit before tax improved by 33% from £1.5m to £2.0m reflecting a higher net interest margin that benefitted from increased mortgage lending activity and reduced funding costs. Our operating profit (before provisions and Financial Services Compensation Scheme levy) increased to £10.6m from £10.4m. Whilst profitability remained at a modest level, we were pleased to have achieved this result given lower levels of financial advice income following the implementation of the Retail Distribution Review, and the costs of winding down legacy assets. Our cost-to-income ratio fell to 76% in 2013 from 77% in 2012.

The profitability of our Solutions business remained stable and performed in line with expectations given we had already identified a reduced demand for retail savings from clients due to the availability of cheaper funding from the Funding for Lending Scheme. The Solutions pipeline for new clients continues at record levels and we are currently at project stage on four contracts expected to launch in the next 12 months, with other contracts in prospect for future periods.

The Society's capital ratios continued to improve with the Solvency Ratio improving from 16.4% to 17.8% and the Core Tier 1 ratio, the key measure of focus under new proposed capital regulations, improving from 10.7% to 11.9%. The Tier 1 ratio improved from 12.6% to 14.1%. Under the new capital requirements directive the calculation of capital ratios changes from 1 January 2014, the Society will continue to show capital ratios broadly in line with those at the end of 2013, following this change.

In 2013 the Society continued to unwind legacy portfolios with higher risk or lower margin that do not fit the traditional building society model. A reduction of £160m was achieved including £30m on commercial investment loans and £48m on loans to housing associations. Since the start of 2010 we have reduced legacy portfolios by £600m with the largest element of this reduction relating to commercial investment loans, falling by £270m or 50%. As the risks within the commercial portfolio reduce we have also seen a reduction in provisions for impairment charges on commercial loans of 25%. The backdrop for commercial investment property remains challenging and while property prices have stabilised there continues to be a high incidence of voids, due to tenant failure and lease maturities, particularly in the retail sector. The Society has made great progress in reducing the risk within the Society's balance sheet over the last four years particularly within the commercial investment loan book.

The number of mortgage loans in arrears of 3 months or more, across the whole mortgage portfolio, reduced from 0.76% to 0.64%; well below industry averages.

Our liquidity at the end of the year was strong at 26.3% compared to over 30% at the start of 2013. This fall was in line with our expectations and we expect to see a further fall in 2014 as we see momentum continue on residential lending and we reach a more optimal level of liquidity.

Members

We continued to support first time buyers throughout the year with a range of competitive 90-95% loan to value products, which were very popular with homebuyers. We have operated in the first time buyer space for several years and the Society has its own mortgage indemnity insurance arrangements in place, which has meant we have not had to rely on government schemes to support first time buyer lending. The government initiatives have been successful in starting to rebuild confidence in the housing market and we are very supportive of the objectives of the schemes. Our lending to first time buyers more than doubled in 2013 in comparison to 2012 and our overall gross lending increased to £350m. We expect to maintain this increased level of activity going forward. In addition to offering a great range of mortgage products, we also invested in projects to streamline our mortgage processes with the main focus being on the customer journey and experience. Our “Members First” project team completed a review of the mortgage maturity and application processes and identified significant improvements, with the help of customer feedback, which has resulted in improved retention rates on maturities and quicker response times on mortgage applications. In 2014 we will be devoting significant resource to our online mortgage application system after several years of major investment in people and systems to be ready for the Mortgage Market Review, new regulatory requirements effective from 1 April 2014. We continue to offer all of our mortgage products to both new and existing customers.

Two of our most popular savings products in 2013 were our Big Home Saver and Big Little Saver products, both designed to encourage regular saving for customers wanting to either buy their own home, or younger members who should be encouraged to get into the habit of regular saving. Our Sir Bobby Robson Foundation ISA and Saver accounts continued to be very popular with members and have enabled the Society to make a significant contribution to the Foundation on behalf of members. We enhanced our online savings account in 2013 making it easier for customers to open new accounts and transfer between accounts.

Our annual customer satisfaction survey showed overall satisfaction of 91% in 2013, above our target of 90%, with overall satisfaction within our financial advice subsidiary at 92%. With all the changes implemented at the beginning of 2013 for the impact of the Retail Distribution Review it is pleasing that our most satisfied customers are those that value face-to-face financial advice.

Over the last 18 months we have enhanced our complaint handling processes, firstly to ensure we were doing all that we could to incorporate customer feedback into improving our processes, and secondly to handle the spike we had seen in complaints relating to Mortgage Payment Protection Insurance (MPPI), many of which were speculative. Complaints volumes fell by 58% in 2013, with MPPI complaints falling by 71% and non-MPPI complaints falling by 9%. We upheld 38% of non-MPPI complaints and 3% of MPPI complaints with only 6% of non-MPPI complaints subsequently referred to the Financial Ombudsman Service. The Society has never sold single premium policies with charges loaded up front and the Society has no issues with regard to systemic mis-selling of MPPI.

In 2014 we will continue to engage with Members, and in addition to our existing financial planning seminars, customer panel, focus groups and branch events, we will be meeting our Members face to face via a programme of “Meet the Chief Executive” events, where Members will be able to have their say.

Employees

Our employees are the Society’s most important asset and as a financial services provider it is our customers that benefit from loyal, motivated and well-trained staff. Our staff turnover rate across the whole business was only 10% in 2013, a record low for the Society, and we continued to invest in a number of programmes to develop and engage with staff. Overall staff satisfaction remained in excess of 80% with a participation rate of 74%.

The roll out of our values programme was completed in 2013 and staff are now very familiar with the FORTS (Friendly, Ownership, Respect, Trust and Straightforward) acronym and how this represents the culture of the Society and the way in which we want to do business with customers and support colleagues in the workplace.

We continued to get fantastic feedback on the success of our graduate training and undergraduate student placement programmes and these programmes are proving successful in providing the Society with the managers and leaders of tomorrow. We have a number of managers within the organisation that have previously been involved with these programmes. In 2013 we also invested in a training programme for all of the Society’s Executives, managers and team leaders called “Raising the Performance Bar”, which focussed on how we could be more efficient and effective and ultimately provide an even better service to customers.

Our staff joined us at the historic Newcastle's Great North Museum in June 2013 to celebrate the Society's 150th anniversary year. The event was created and run by staff and was in recognition of the hard work and dedication our staff have shown the organisation during what have been challenging economic times for everyone.

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

Communities

We continued our "Cornerstone of the Community" initiative within our branch network, through activities including volunteering, charity fundraising, local hero awards and a financial education initiative for children.

Through our community foundation endowment fund we donated more than £8k to local grassroots good causes within North East Communities. This was in addition to the time spent by our staff supporting good causes both via their time and through fund raising activities.

We have continued to provide support to our corporate charity of the Year. For 2012/2013 this was Help for Heroes who received a cheque for £24k and for 2013/2014 our chosen charity, as selected by staff, is the Alzheimer's Society. In addition to staff organising fund raising events the Alzheimer's Society has also held "Dementia Friends" training sessions with branch managers to enable them to support any members coming into the branch that have a form of dementia.

As I mentioned in the Members section above, through the popularity of our Sir Bobby Robson Foundation accounts we have managed to donate over £700k to the charity, which has contributed towards its efforts in fighting the battle against cancer.

Summary

The Society continued to make great progress in 2013 towards achieving our long-term goals. With the recovery in the UK economy more firmly in train, I am more confident than ever that building societies will continue to thrive and that the Society will be able to continue its focus on mortgage lending and good long-term value savings products, trusted financial advice and pursuit of excellent customer service.

Our success is dependent on the exceptional loyalty and commitment of our people. I would like to take this opportunity to thank all our staff and the Executive team, for their significant contribution to the Society's successful performance in 2013.

Jim Willens Chief Executive
24 February 2014

NEWCASTLE BUILDING SOCIETY

PRELIMINARY ANNOUNCEMENT
for the year ended 31 December 2013

CONSOLIDATED INCOME STATEMENTS

	2013	2012
	£m	£m
Interest receivable and similar income	**95.0**	110.3
Interest expense and similar charges	**(71.6)**	(90.4)
Net interest receivable	**23.4**	19.9
Other income and charges	**24.7**	27.9
Gains less losses from financial instruments	**0.5**	0.7
Losses recognised on revaluation of investment properties held for sale	**(1.1)**	(1.0)
Administrative expenses	**(34.6)**	(34.5)
Depreciation	**(2.3)**	(2.6)
Operating profit before impairments, provisions and exceptional items	**10.6**	10.4
Impairment credit on loans and advances to banks	**0.8**	0.7
Impairment losses on loans and advances to customers	**(6.7)**	(8.3)
Provisions for liabilities and charges	**(3.3)**	(2.1)
Gain on disposal of Prepaid Cards Business	**0.6**	0.8
Profit for the year before taxation	**2.0**	1.5
Taxation expense	**(1.9)**	(1.5)
Result after taxation for the financial year	**0.1**	-

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2013 £m	2012 £m
Result for the period	**0.1**	-
Other comprehensive (expense)/income		
Items that may be reclassified to income statement		
Movement on available for sale reserve	**(7.0)**	6.8
Income tax credit/(charge) on items that may be reclassified to income statement	**1.3**	(1.6)
Total items that may be reclassified to income statement	**(5.7)**	5.2
Items that will not be reclassified to income statement		
Actuarial gain/(loss) on retirement benefit obligations	**2.1**	(6.7)
Income tax (charge)/credit on items that will not be reclassified to income statement	**(0.6)**	1.5
Total items that will not be reclassified to income statement	**1.5**	(5.2)
Total comprehensive expense for the period	**(4.1)**	-

CONSOLIDATED BALANCE SHEETS

ASSETS	**2013 £m**	2012 £m
Liquid assets	**887.5**	1,114.1
Derivative financial instruments	**21.4**	38.1
Loans and advances to customers	**2,700.7**	2,727.6
Fair value adjustments for hedged risk	**13.6**	40.0
Assets pledged as collateral	**-**	54.0
Property, plant and equipment	**21.4**	23.0
Investment properties held for sale	**4.3**	14.0
Other assets	**20.8**	29.3
TOTAL ASSETS	**3,669.7**	4,040.1
LIABILITIES		
Shares	**3,236.1**	3,445.4
Fair value adjustments for hedged risk	**4.5**	17.5
Deposits and debt securities	**141.6**	246.0
Derivative financial instruments	**13.1**	40.0
Other liabilities	**17.7**	30.5
Subordinated liabilities	**59.0**	58.9
Subscribed capital	**29.7**	29.7
Reserves	**168.0**	172.1
TOTAL LIABILITIES	**3,669.7**	4,040.1

CONSOLIDATED CASH FLOW STATEMENTS

	2013 £m	2012 £m
Cash flows from operating activities	**(257.1)**	(71.3)
Payment into defined benefit pension scheme	**(2.2)**	(2.1)
Net cash flows from operating activities	**(259.3)**	(73.4)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(0.6)**	(1.7)
Sale of investment properties	**8.6**	0.9
Sale of property, plant and equipment	**0.1**	-
Purchase of investment securities	**(625.5)**	(1,005.7)
Sale and maturity of investment securities	**766.0**	1,236.3
Net cash flows from investing activities	**148.6**	229.8
Cash flows from financing activities		
Interest paid on subordinated liabilities	**(3.4)**	(2.6)
Interest paid on subscribed capital	**(3.6)**	(3.6)
Repayments under finance lease agreements	**(0.1)**	(0.2)
Net cash flows from financing activities	**(7.1)**	(6.4)
Net (decrease)/increase in cash	**(117.8)**	150.0
Cash and cash equivalents at start of year	**528.0**	378.0
Cash and cash equivalents at end of year	**410.2**	528.0

Summary of key financial ratios	2013 %	2012 %
Gross capital as a percentage of shares and borrowings	**7.60**	7.05
Liquid assets as a percentage of shares and borrowings	**26.28**	30.18
Result for the year as a percentage of mean total assets	**-**	-
Management expenses for the year as a percentage of mean total assets	**0.96**	0.88