NEWCASTLE BUILDING SOCIETY ANNOUNCES 2016 FINANCIAL RESULTS

Key Highlights
• Profit before tax of £8.1m compared to £5.4m for 2015
• Strong Capital ratios - Common Equity Tier 1 ratio of 14.3% and Leverage ratio of 5.2%
• Robust liquidity ratio of 17.4%
• Gross mortgage lending up 46% to £496m
• The number of mortgages in 3 months arrears or more at a record low of 0.4%
• Launch of Newcastle Community Saver accounts to help support funding for charities and communities within the North East
• Innovative partnership with Stockton Borough Council for branch in Yarm Library
• Launch of financial advice centres in Newcastle City Centre and new flagship Gateshead branch
• Customer Satisfaction rating of 93%
• Over 100 new jobs created across the Group in 2016

Chief Executive's Statement

The Society has made good progress in 2016, despite what has been a challenging and unpredictable external environment. At the start of the year we set out an ambitious agenda including substantial investment to improve our service to customers through digital, branches and mortgage intermediaries and the creation of over 100 new jobs across the North East region. It is very pleasing to report that we achieved the goals we announced at the beginning of the year while also adapting to the changing regulatory agenda and unforeseen events, both in the wider world and closer to home too.

A few of the highlights include: opening new customer facilities at our Head Office, Gateshead and Yarm branches; launching the Advice Centre concept in Newcastle City Centre; delivering good and timely outcomes to some significant regulatory projects such as the Deposit Guarantee Scheme Directive and FCA cash savings study; achieving our goal of creating 100 jobs; development workshops for our staff; launching the Newcastle Building Society Community Fund and Community Saver accounts; continued growth in Newcastle Strategic Solutions; a new website; an expanded and enhanced recruitment team and a brilliant effort in supporting local communities through our volunteering scheme.

Of course financial performance is also important and across 2016 we have improved profitability, maintained strong capital and liquidity ratios and achieved record low arrears figures.

Financial Performance

Profit before tax improved to £8.1m for the year ended 31 December 2016 compared to £5.4m for 2015, an increase of 50%. Operating profit before impairment charges and the Financial Services Compensation Scheme (FSCS) Levy was maintained at £11.9m with a higher contribution from the Solutions business being used to fund investment into the group both in infrastructure and also increased investment in staff as we build our capability to grow. Net interest margin improved from 0.75% to 0.77% reflecting increased levels of residential mortgage lending although the mortgage market continued to be very competitive with mortgage rates at historically low levels.

The profitability of our Solutions business improved reflecting the impact of the 4 contracts launched in 2015 as they continued to grow and build scale. 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 into the Society and support increased investment in services for Members as well as providing capital to support and grow the business. In 2016 we invested significantly in IT systems and supporting processes, particularly around combatting cybercrime, enhancing resilience, reflecting the latest regulatory developments and improving functionality. This is essential to further enhance our market leading Solutions business proposition and also benefits the Society's wider business and service to customers. The pipeline for the Solutions business continues to be very strong, particularly for 2017 implementation.

There was a reduction in impairment charges from £4.6m to £3.2m reflecting the ongoing reduction in the legacy commercial portfolio and the FSCS levy also decreased from £1.9m to £0.6m due to a pleasing reduction in the amount of the levy imposed on retail deposit takers by the FSCS.

The Society's capital ratios continue to improve with Common Equity Tier 1 ratio improving from 13.6% to 14.3% and Tier 1 capital ratio increasing from 15.3% to 15.8%. The Group overall capital ratio (Solvency ratio) remained at 18.7% as strong profitability offset amortisation of Tier 2 capital in the run up to maturity dates in 2017 and 2019. The leverage ratio (on a transitional basis) reduced from 5.3% to 5.2% reflecting a larger balance sheet size, but remains comfortably in excess of minimum requirements.

Despite the mortgage market being extremely competitive in 2016 we achieved a significant uplift in lending reflecting the investment we have made in distribution, our mortgage product range and online systems capability for brokers. Gross residential mortgage lending was up 46% from £340m to £496m and net lending increased from £10m to £195m reflecting the higher levels of lending and greater retention of existing mortgage customers. We also have a strong mortgage pipeline going into 2017.

The percentage of mortgage loans in arrears of 3 months or more, across our whole mortgage portfolio based on the number of loans, reduced again from 0.49% to 0.42%; lower than the industry average with 2016 seeing a record low since we began tracking 3 months arrears. Possession cases also continued at very low levels reflecting the excellent credit quality of the Society's residential lending.

Our liquidity at the end of the year was 17.4%, excluding encumbered assets, down slightly compared to the level at the end of 2015 of 17.7% but well above our minimum operating requirements. Against the liquidity coverage ratio, the new European measure introduced in 2015, the Society's ratio was 202% against a minimum required level of 90% (from 1 January 2017). This significant headroom reflects the quality of the Society's liquidity with the majority of it invested in AAA/AA rated assets, in the UK.

Supporting our Members

Our mortgage borrowers have seen mortgage rates at record lows this year following the base rate cut announced by the Bank of England in August. As well as continuing to offer a great range of products for customers we have expanded our range to include new products tailored for customers who are either self-employed or require a larger loan size.

Our first time buyer lending was successful in 2016 with consistent good value products up to 95% Loan to Value (LTV) for those customers taking their first step onto the property ladder. We extended our support for first time buyers with the launch of Help to Buy mortgage products. Our buy to let and self-build mortgage products have also been well received by brokers and customers and have contributed to strong lending volumes in 2016.

Our 'Home Saver' savings products have been popular and we are now seeing customers buying their home who have been saving through the Government's Help to Buy scheme and the Society's First Home Saver account, taking advantage of the bonuses available on both accounts.

A high point of 2016 has been the successful launch of our Community Saver accounts where we have already attracted over £100m of balances from customers who want to combine a good savings rate with helping to support their local communities. More details of this exciting new initiative are given in the Community Support Round-up report in the Annual Report and Accounts.

Our financial advice subsidiary, Newcastle Financial Advisers Limited, gives customers financial advice regardless of how much they have to invest. We know our customers really value this face-to-face service as this area of the business scores very highly in customer satisfaction (97% for 2016), and experiences high levels of repeat business. We have made further investment into our financial advice proposition this year with the launch of two new advice centres in our branches in the heart of Newcastle.

Over the last 12 months we have engaged with our Members through 'Meet the Chief Executive' roadshows, branch events, our customer panel, and most importantly responding to the feedback our Members give us. I really value the direct feedback I receive through the roadshow events as a measure of where we are doing well and where we need to develop or improve.

At several of our 'Meet the Chief Executive' roadshows I have had questions around security of customer data. Criminals are becoming increasingly sophisticated in their tactics to access and use information held online and it's a challenge faced by every organisation to ensure that confidential customer information is protected. The Society was pleased to be awarded the Cyber Essentials Plus Standard of assurance in 2016. Cyber Essentials is a UK government-backed cyber security certification scheme that sets out how to meet a good cyber security baseline, and provides an independent endorsement of the high cyber security standards we employ across the business. We remain mindful that this is a threat that continues to evolve and we are therefore committed to maintaining our ongoing investment in developing our defences and keeping a strong focus on this key area.

Supporting our Staff

We are conscious of our responsibilities as a leading employer in the region. We continually search for ways to make the Society an even better place to work and help people achieve their potential. We have continued our investment into the recruitment and development of staff across the business. Alongside the introduction of an online recruitment management platform, we have introduced a framework of behaviours to help us achieve our vision, our goals and to underline and support our customer focused culture, including a new customer promise.

We have continued to invest in our 'Ocademy' programme, working with our partner, Openwork, to develop new advisers for Newcastle Financial Advisers Limited. The first candidates graduated this year, with excellent results, and our second cohort have already started the next programme. Our Aspire development programme, our newly launched service academies and our well established relationships with local universities all reflect the investment we are making in our people.

In line with our promised commitment at the start of the year, we reached and exceeded our target of creating 100 new jobs in the region in 2016, supporting our growth plans for 2017 and beyond and we expect to grow our workforce further in the year ahead. It is pleasing to note that as well as increasing the number of new staff at the Society we have also maintained the tradition of building long term career relationships. While we have just passed the 1,000 employee mark, we are also proud of the fact that nearly one quarter of our staff have 10 years' service or more. This is a remarkable sign of commitment and a wealth of experience within the Society.

Summary

I am very pleased with the Society's performance in 2016 which I believe balances the need for a robust financial performance with investing in the products and services we provide for customers both now and for the longer term.

I would like to thank our staff for their exceptional contribution in 2016. We have had a challenging year and whether it has been dealing with the myriad of new regulations, input into projects to grow and develop our business or helping customers navigate financial uncertainties, the flexibility, professionalism and commitment of everyone across the Society has been impressive.

Looking forward to 2017 and beyond we expect the low interest rate environment to continue and the mortgage market to remain competitive. We will continue our programme of investment in our people and infrastructure to support long term growth and success.

We look forward to the future knowing that we will be true to our purpose of Connecting Communities in the North East with a better financial future, encouraging people to save and plan their finances and helping people to own their own home. During what may be uncertain times, our Members and customers can rely on their local building society.

Andrew Haigh
Chief Executive
23 February 2017

NEWCASTLE BUILDING SOCIETY

PRELIMINARY ANNOUNCEMENT
for the year ended 31 December 2016

CONSOLIDATED INCOME STATEMENTS

	2016 £m	2015 £m
Interest receivable and similar income	**69.8**	78.0
Interest payable and similar charges	**(42.7)**	(50.9)
Net interest income	**27.1**	27.1
Other income and charges	**27.4**	22.9
Gains less losses on financial instruments and hedge accounting	**0.1**	0.1
Administrative expenses	**(40.3)**	(36.1)
Depreciation	**(2.4)**	(2.1)
Operating profit before impairment charges and provisions	**11.9**	11.9
Impairment charges on loans and advances to customers	**(3.2)**	(4.6)
Provisions for liabilities and charges	**(0.6)**	(1.9)
Profit for the year before taxation	**8.1**	5.4
Taxation expense	**(2.0)**	(2.1)
Profit after taxation for the financial year	**6.1**	3.3

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2016 £m	2015 £m
Profit for the financial year	**6.1**	3.3
Other comprehensive income/(expense):		
Items that may be reclassified to income statement		
Movement on available for sale reserve	**1.0**	(0.8)
Income tax on items that may be reclassified to income statement	**(0.2)**	0.2
Total items that may be reclassified to income statement	**0.8**	(0.6)
Items that will not be reclassified to income statement		
Actuarial remeasurements on retirement benefit obligations	**2.6**	0.4
Income tax on items that will not be reclassified to income statement	**(0.4)**	(0.1)
Total items that will not be reclassified to income statement	**2.2**	0.3
Total comprehensive income for the financial year	**9.1**	3.0

CONSOLIDATED BALANCE SHEETS

ASSETS	**2016 £m**	2015 £m
Liquid assets	**776.5**	726.0
Derivative financial instruments	**6.5**	7.3
Loans and advances to customers	**2,563.8**	2,478.6
Fair value adjustments for hedged risk	**233.8**	190.8
Property, plant and equipment	**22.8**	23.4
Other assets	**18.1**	19.4
TOTAL ASSETS	**3,621.5**	3,445.5

LIABILITIES		
Shares	**2,709.2**	2,678.8
Fair value adjustments for hedged risk	**5.2**	5.3
Deposits and debt securities	**398.4**	307.1
Derivative financial instruments	**234.3**	190.4
Other liabilities	**16.1**	14.7
Subordinated liabilities	**50.0**	50.0
Subscribed capital	**30.0**	30.0
Reserves	**178.3**	169.2
TOTAL LIABILITIES	**3,621.5**	3,445.5

CONSOLIDATED CASH FLOW STATEMENTS

	2016	2015
	£m	£m
Cash inflows/(outflows) from operating activities	**18.1**	(61.6)
Payment into defined benefit pension scheme	**(2.0)**	(2.0)
Net cash inflows/(outflows) from operating activities	**16.1**	(63.6)
Cash inflows/(outflows) from investing activities		
Purchase of property, plant and equipment	**(2.1)**	(2.5)
Sale of property, plant and equipment	**0.2**	-
Purchase of investment securities	**(133.3)**	(317.4)
Sale and maturity of investment securities	**137.2**	271.1
Net cash inflows/(outflows) from investing activities	**2.0**	(48.8)
Net cash outflows from financing activities		
Interest paid on subordinated liabilities	**(2.6)**	(3.0)
Interest paid on subscribed capital	**(3.5)**	(3.5)
Repayment of subordinated liabilities	**-**	(9.6)
Repayments under finance lease agreements	**(0.1)**	(0.1)
Net cash outflows from financing activities	**(6.2)**	(16.2)
Net increase/(decrease) in cash	**11.9**	(128.6)
Cash and cash equivalents at start of year	**186.5**	315.1
Cash and cash equivalents at end of year	**198.4**	186.5

Summary of key financial ratios	**2016**	2015
	%	%
Gross capital as a percentage of shares and borrowings	**8.31**	8.34
Liquid assets as a percentage of shares and borrowings	**24.99**	24.31
Profit for the year as a percentage of mean total assets	**0.17**	0.09
Management expenses for the year as a percentage of mean total assets	**1.21**	1.06

Notes

1. **The financial information set out above, which was approved by the Board of Directors on 23 February 2017, does not constitute accounts within the meaning of the Building Societies Act 1986.**

2. **The financial information for the years ended 31 December 2016 and 31 December 2015 has been extracted from the Accounts for those years and on which the auditors have given an unqualified opinion.**