Announcement of half-year results for the six months ended 30 June 2017

Key Highlights
• Profit before tax increased from £3.5m to £7.2m reflecting a lower provisions charge and a one-off credit of £2.1m arising on the purchase of our Cobalt office
• Operating profit before provisions, one-off items and FSCS levy was up from £6.1m to £6.2m
• Increased savings balances by £120m with over 10,000 new savers in the first half of the year
• Gross lending increased to £303m from £255m and net lending improved from £116m to £155m in the first half of 2017 compared to the same period in 2016
• The percentage of mortgages in arrears by 3 months or more continued at a very low level of 0.39% compared to 0.47% at the same point last year; well below industry averages
• Capital ratios are robust with Total Capital Ratio (Solvency) at 18.3%, Tier 1 Ratio at 15.8%, Common Equity Tier 1 Ratio at 14.5% and Leverage Ratio at 5%
• Liquidity as a percentage of shares, deposits and liabilities (excluding encumbered assets) was 18.3% compared to 17.4% at the end of 2016
• Achievement of Gold Investors in People status in 2017
• Major investment in staff through leadership programmes, pay and grading review and new apprenticeship programme which add to existing programmes
• Increased contribution to Community Fund and expansion of grant programme benefitting thousands of people across the North East region
• Purchase of our flagship office building at Cobalt Park following nine years of rental - securing our interest for the longer term

Chief Executive's Review

For over 150 years Newcastle Building Society has been bringing communities in the North East together and connecting them with a better financial future. This is our purpose as a building society and our members can rely on us to help save and plan their finances, buy their own home, make positive changes to our local communities and of course be a great place for our staff to work and develop.

In the first half of 2017 we have achieved both a strong financial performance but also made great progress in delivering on our purpose with higher lending, more new savers and increased levels of ongoing financial advice business. In terms of financial performance we are reporting increased profits, strong capital ratios, a robust liquidity position and record low levels of arrears, reflecting the excellent credit quality of our residential mortgage book.

As a mutual, we need to make sufficient profits to grow and invest for the future, while maintaining strong capital ratios. I am pleased that we have been able to increase profitability at a time when we are making investments into our branch network and property infrastructure, strengthening our senior management team, developing our people, upgrading and enhancing the resilience of our systems and, not least, focusing on how we give great service to our customers.

Profitability
Operating profit before provisions, the Financial Services Compensation Scheme levy and a non-recurring credit relating to the purchase of our Cobalt office, was up slightly to £6.2m. Whilst overall income was up by 6% (£1.6m), the significant ongoing investment into the business resulted in higher costs, so the growth in overall operating profit was £0.1m.

Net interest receivable increased from £13.2m to £13.6m due to increased mortgage lending however interest margin remained unchanged at 75bp with lower funding costs being offset by narrower spreads on mortgage lending. Other income and charges increased from £13.1m to £14.3m due mainly to increased mortgage fee income and growth in Newcastle Strategic Solutions income. Management expenses (comprising administration expenses and depreciation) increased by £1.5m from £20.2m to £21.7m. This reflected growth in the headcount to support growing areas of the business, particularly the Solutions business, customer services and support functions such as risk, compliance and change management. Our increased capital investment programme has resulted in a higher charge for depreciation, however this will create benefits to the business in the longer term. Another area of growth has been within information technology where we are investing in projects to enhance our infrastructure and resilience, whilst at the same time expanding our IT development team as we develop our in-house systems to keep pace with digital and regulatory changes. As a result of this investment the cost to income ratio increased from 76.9% to 78.0%, which was in line with expectations of an increase in the short term.

Profit before tax was £7.2m for the six months ended 30 June 2017 compared to £3.5m for the first half of 2016, an increase of £3.7m.

In February 2017 we purchased our office building at Cobalt Park, a site that we have occupied for the last nine years, securing our future occupancy of the building and providing additional space to further grow and develop our business. During the lease period the Society spread the effective cost of the lease over what was a 15 year term and built up a significant creditor for costs recognised but not billed during the rent free period. On purchase of the building this credit has been released, as it is no longer required, generating a £2.1m one-off profit in the period.

Mortgage impairment charges have fallen, as we expected, reducing from £1.8m to £0.2m and for the first time in 10 years the Society had no charge in the period in relation to legacy commercial lending exposures with the book now representing less than 3% of the total mortgage portfolio.

Provisions for liabilities and charges increased by £0.1m from £0.8m to £0.9m. The charge for the Financial Services Compensation Scheme levy reduced from £0.8m to £0.3m reflecting a lower expected interest levy for the 2017/18 Scheme year. This follows HMT's announcement that a substantial proportion of the loans to the FSCS are to be repaid following asset disposals by UK Asset Resolution. However offsetting this reduction was an increase in the provision for consumer redress of £0.6m reflecting increased costs of dealing with claims.

Capital
The Total Capital Ratio (Solvency) increased to 18.3% from 18.2% at the same time last year but was down compared to 31 December 2016 level of 18.7%; this reduction being due to the amortisation of Tier 2 capital as it approaches maturity. Tier 1 ratio improved from 15.1% to 15.8% over the same period. Common Equity Tier 1 ratio improved from 13.7% to 14.5%. The Society's Basel III leverage ratio (transitional basis) was 5.0% compared to 4.9% at 30 June 2016. Capital ratios include half year retained profits.

Liquidity
Liquid assets as a percentage of Shares, Deposits and Liabilities at 30 June 2017 was 25.4% compared to 25.0% at the end of 2016. Excluding encumbered liquid assets the ratio increased from 17.4% to 18.3% at 30 June 2017. The quality of liquidity continues to be excellent, comprising assets held in cash or that can easily be converted to cash through treasury markets (repo) or via the various Bank of England liquidity schemes.

Credit Risk

The percentage of mortgages in arrears by 3 months or more continued at a level lower than the UK average, at 0.39% compared to 0.47% at the half year last year, and 0.42% at 31 December 2016. Possession cases continued at very low levels.

The Society's prime residential mortgage book increased by £155m during the first half of 2016 (£116m first half 2016) which was due mainly to an increase in gross lending to individuals from £255m to £303m with mortgage retention rates on maturity slightly higher.

Supporting our Customers

We pride ourselves on having mortgage products to suit a wide range of house buyers, from 2 to 10 year fixed periods, variable and discounted rates, and fee free products. We also have a range of retention products available on maturity for loyal customers. Our aim is to provide a wide range of options, giving more choice and flexibility to suit borrowers' individual needs.

As the largest building society in the North East it's important that we connect with our region's communities and respond to their very particular circumstances. We therefore launched an exclusive range of mortgages to help local people buy their own home. Whether it's first time buyers taking their first step on the property ladder, supporting existing house buyers move home, or simply helping people save money by remortgaging, we are focused on meeting the needs of our borrowers. We were delighted that our efforts were recognized in the recent "What Mortgage Awards 2017" when we received the award for Best Regional Building Society.

We consider it vitally important, for individuals and for wider society, that people are encouraged to save for their future and to plan their finances. Against a backdrop of falling individual savings levels, we give our savings accounts an added boost by building a local community benefit into the act of saving. The Newcastle Building Society Community Saver accounts, which were launched last year and continue to prove very popular, see us donate an equivalent 0.1% of total balances held in the account to the Newcastle Building Society Community Fund. The fund is held by the Community Foundation and makes grants to charities and community groups across the region, nominated by our members.

The persistent low interest rate environment has been challenging for savers across the UK. We were pleased therefore, to launch market leading 12 month and two year fixed rate ISAs (at 1.2% and 1.3% respectively), together with a competitive 12 month bond at 1.4%. The products offered flexibility, some with an element of penalty free access, and all allowed transfers from existing ISA savings. This helped our savings balances grow by £120m or 4% in the first six months of 2017 with over 10,000 new customers opening accounts with us.

Our financial advice subsidiary, Newcastle Financial Advisers Ltd (NFAL), gives customers financial advice regardless of how much they have to invest. NFAL has a significant and growing level of funds under management for people in the region, and continues to invest in growing local financial adviser talent to meet a customer preference for face-to-face service. This subsidiary scores highly in customer satisfaction (currently at 95%) and has been particularly appreciated in areas of our region that have experienced loss of ongoing service from other financial providers.

Earlier this year we announced further strengthening of our presence and investment in the North East, through a new branch review and continuing investment programme. Following the relocation and upgrade in Darlington to create a purpose-built branch and financial advice centre, we announced plans to invest in the relocation or refurbishment of three other branches - in Durham later this year, and Carlisle and Berwick, to be completed over the next 18 months. We also announced that our branches in Dumfries and Gibraltar will close later this year. Branch closures are always regrettable but the changes reflect our strategic focus on our heartland, and we are ensuring that customers and staff in both locations are fully supported through the closure process.

We are here to deliver a strong, sustainable building society for our members. Our roots are in the North East, and we are committed to focusing on, and supporting communities in our region where we seek to have a long-term positive impact.

Supporting our Staff

Earlier this year, we were delighted to become one of just a handful of companies in the region to be awarded Investors in People – Gold status. This recognises our progress in investing in our people across nine separate criteria, including leadership, support and development of staff. It reflects our genuine involvement with our local communities, our values and behaviours, and our investment in staff development, all of which are driving positive change across the organisation for everyone.

In 2015 our Financial Advice subsidiary teamed up with Openwork to launch what was one of the first partnerships of its kind in the building society sector, to provide a bespoke training programme for talented colleagues within the Society to train to become professional financial advisers. This forms part of the Society's comprehensive training and development programme, designed to help colleagues build meaningful careers within our organisation. The first Ocademy candidates have now graduated and taken up positions as financial advisers in two of our branches. Our second and third intake of candidates are now also on their journey through the programme that will culminate in them becoming an important part of our next generation of financial advisers.

In June we finalised our new Apprenticeship Programme and the recruitment process is already well underway with a fantastic response from school leavers within the region who are searching for that first opportunity to get on the career ladder. Apprenticeships have vastly changed over the past few years; they earn a competitive salary whilst we support them through a structured learning programme with both a nationally recognised qualification and a career at the end. This adds to the graduate recruitment and placement programmes we have been running for many years.

In the first half of 2017 we completed a major review of our pay and grading structures so we could ensure we had fair remuneration, competitive packages and all staff had a clear understanding of their roles. This was aligned with an extensive job evaluation exercise which will ensure we have the right pay and grading structures in place to attract and retain talent.

Having created 118 new jobs during 2016 as part of an ongoing £10m investment programme across our Group, which took our overall headcount past the 1,000 mark, we are already well on the way to creating a further 130 new roles this year.

Supporting our Communities

In just 12 months of operating our Community Fund accounts the Newcastle Building Society Community Fund has made grant donations to the value of £78,000 to local projects, and we estimate this has had a positive impact on the lives of more than 70,000 people across the North East region already. Our donations into the fund linked to the Community Saver accounts are further supported by generous fundraising by our colleagues. A talking newspaper for the blind in Alnwick; a Durham lunch club that tackles social isolation; and a North Shields community garden are just some of the recent projects which will be making use of our grant funding.

Alongside this we continue to support the North East based cancer charity, the Sir Bobby Robson Foundation. We have just passed the £2.5m milestone in cumulative donations to this worthy cause, which funds leading cancer research, diagnosis and treatment for people across our region.

Our colleague volunteering has grown significantly. In just the first six months of this year we have already surpassed last year's total activity levels. Some of our colleagues have even committed beyond the two days per annum funded by our Society to dedicate their own time. Whilst a range of causes have benefited from access to this army of willing helpers, it is not a one way relationship. Our colleagues enjoy and benefit from experiencing a different sort of challenge, from connecting with the residents of our communities, and by supporting the people and causes that are close to their hearts in whatever small way they can.

Our commitment to financial education continues in all its forms. Our regular financial 'Big Talks' are open to members and non members alike, and take place across our heartland. These are ideal for those who want to learn more about how to manage their finances and plan for the future. In addition to the Big Talks there have been a series of mortgage-focused events for first time buyers which have also been popular with young house buyers in the region keen to understand more about how to get onto the property ladder.

Our primary school education programme, the Boardroom Charity Challenge continues to amaze us with the quality of the submissions from primary schools. Schools work on a programme with local branch representatives before going on to present in our Boardroom in a Dragon's Den style challenge. This year Throckley Primary School in Newcastle upon Tyne took the honours and will create Throckley Carnival to raise funds for The Batten Disease Family Association.

I am pleased with the Society's performance for the first half of the year from both a financial and non-financial perspective. We will continue to invest in the business and focus on our purpose and why we are here as a building society. Whilst there may be uncertainty from the impact of European and more Global factors on the UK economy, we'll continue to do what we do best; helping people save and plan their finances and own their own home, being a great place to work and supporting our communities in making positive changes.

Andrew Haigh
Chief Executive
26th July 2017

Forward-looking statements

Certain statements in this half-yearly information are forward-looking. These statements are made in good faith based on the information available up to the time of approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Therefore 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.

Summary Consolidated Income Statement

	Unaudited 6 months 30 Jun 17 £m	**Unaudited 6 months 30 Jun 16 £m**	**Audited 12 months 31 Dec 16 £m**
Interest and similar income	31.9	36.1	69.8
Interest expense and similar charges	(18.3)	(22.9)	(42.7)
Net interest receivable	**13.6**	**13.2**	**27.1**
Other income and charges	14.3	13.1	27.5
Total operating income	**27.9**	**26.3**	**54.6**
Administrative expenses	(20.5)	(19.1)	(40.3)
Depreciation	(1.2)	(1.1)	(2.4)
Operating profit before impairments and provisions	**6.2**	**6.1**	**11.9**
Impairment charges on loans and advances to customers	(0.2)	(1.8)	(3.2)
Provisions for liabilities and charges	(0.9)	(0.8)	(0.6)
Release of lease creditor	2.1	-	-
Profit before taxation	**7.2**	**3.5**	**8.1**
Taxation expense	(1.4)	(0.7)	(2.0)
Profit after taxation for the financial period	**5.8**	**2.8**	**6.1**

The Notes on pages 11 and 12 form an integral part of this condensed consolidated half-yearly financial information.

Summary Consolidated Statement of Comprehensive Income

	Unaudited 6 months 30 Jun 17 £m	Unaudited 6 months 30 Jun 16 £m	Audited 12 months 31 Dec 16 £m
Profit for the period	5.8	2.8	6.1
Other comprehensive income/(expense)			
Items that may be reclassified to income statement			
Movement on available for sale reserve	1.8	(0.5)	1.0
Income tax on items that may be reclassified to income statement	(0.4)	0.1	(0.2)
Total items that may be reclassified to income statement	1.4	(0.4)	0.8
Items that will not be reclassified to income statement			
Actuarial re-measurements on retirement benefit obligations	-	-	2.6
Income tax on items that will not be reclassified to income statement	-	-	(0.4)
Total items that will not be reclassified to income statement	-	-	2.2
Total other comprehensive income/(expense)	1.4	(0.4)	3.0
Total comprehensive income for the financial period	7.2	2.4	9.1

The Notes on pages 11 and 12 form an integral part of this condensed consolidated half-yearly financial information.

Summary Consolidated Balance Sheet

	Unaudited 30 Jun 17 £m	Unaudited 30 Jun 16 £m	Audited 31 Dec 16 £m
ASSETS			
Liquid assets	843.6	810.9	776.5
Derivative financial instruments	5.0	10.5	6.5
Loans and advances to customers	2,702.4	2,547.4	2,563.8
Fair value adjustments for hedged risk	207.7	274.5	233.8
Property, plant and equipment and other assets	57.0	42.3	40.9
TOTAL ASSETS	**3,815.7**	**3,685.6**	**3,621.5**

	Unaudited 30 Jun 17 £m	Unaudited 30 Jun 16 £m	Audited 31 Dec 16 £m
LIABILITIES			
Shares	2,830.2	2,730.6	2,709.2
Fair value adjustments for hedged risk	2.8	8.4	5.2
Deposits and debt securities	490.0	405.0	398.4
Derivative financial instruments	209.3	274.3	234.3
Other liabilities	17.9	15.7	16.1
Subordinated liabilities	50.0	50.0	50.0
Subscribed capital	30.0	30.0	30.0
Reserves	185.5	171.6	178.3
TOTAL LIABILITIES	**3,815.7**	**3,685.6**	**3,621.5**

The Notes on pages 11 and 12 form an integral part of this condensed consolidated half-yearly financial information.

Summary Consolidated Statement of Movement in Members' Interests

For the 6 months ended 30 June 2017 (unaudited)

	General reserve	Available for sale reserve	Total
	£m	£m	£m
At 1 January 2017	178.0	0.3	178.3
Movement in the period	5.8	1.4	7.2
At 30 June 2017	183.8	1.7	185.5

For the 6 months ended 30 June 2016 (unaudited)

	General reserve	Available for sale reserve	Total
	£m	£m	£m
At 1 January 2016	169.7	(0.5)	169.2
Movement in the period	2.8	(0.4)	2.4
At 30 June 2016	172.5	(0.9)	171.6

For the year ended 31 December 2016 (audited)

	General reserve	Available for sale reserve	Total
	£m	£m	£m
At 1 January 2016	169.7	(0.5)	169.2
Movement in the year	8.3	0.8	9.1
At 31 December 2016	178.0	0.3	178.3

The Notes on pages 11 and 12 form an integral part of this condensed consolidated half-yearly financial information.

Summary Consolidated Cash Flow Statement

	Unaudited 6 months to 30 Jun 17 £m	Unaudited 6 months to 30 Jun 16 £m	Audited 12 months 31 Dec 16 £m
Net cash flows from operating activities	87.8	12.7	18.1
Payment into defined benefit pension scheme	(0.9)	(0.9)	(2.0)
Net cash flows from investing activities	(47.9)	19.4	2.0
Net cash flows from financing activities	(3.0)	(3.1)	(6.2)
Net increase in cash and cash equivalents	**36.0**	**28.1**	**11.9**
Cash and cash equivalents at the start of period	198.4	186.5	186.5
Cash and cash equivalents at the end of the period	**234.4**	**214.6**	**198.4**

Other percentages

	6 months 30 Jun 17 %	6 months 30 Jun 16 %	12 months 31 Dec 16 %
Gross capital as a % of shares and borrowings	8.0	8.0	8.3
Liquid assets as a % of shares and borrowings	25.4	25.9	25.0
Wholesale deposits as a % of shares and borrowings	14.8	12.9	12.8
Liquid assets as a % of shares and borrowings excluding encumbered assets	18.3	17.2	17.4
Net interest receivable as a % of mean total assets	0.75	0.75	0.77
Cost to income ratio	78.0	76.9	78.0
Profit after tax as a % of mean total assets	0.31	0.16	0.17
Management expenses as a % of mean total assets*	1.18	1.14	1.21
Common Equity Tier 1 Ratio	14.5	13.7	14.4
Tier 1 Ratio	15.8	15.1	15.9
Total Capital Ratio (Solvency)	18.3	18.2	18.7
Leverage Ratio (Basel III - end point)	4.6	4.5	4.7
Leverage Ratio (Basel III - transitional)	5.0	4.9	5.2

** Expressed on an annualised basis*

The above percentages are unaudited. The figures for the 12 months ended 31 December 2016 are extracted from the audited 2016 accounts. The Notes on pages 11 and 12 form an integral part of this condensed consolidated half-yearly financial information.

Notes

1. General information

1.1. The half-yearly financial information set out above, which was approved by the Board of Directors on 26th July 2017, does not constitute accounts within the meaning of the Building Societies Act 1986.

1.2. The financial information for the 12 months to 31 December 2016 has been extracted from the accounts for that year, and on which the auditors gave an unqualified opinion, and which have been filed with the Financial Conduct Authority and Prudential Regulation Authority.

1.3. The half-yearly financial information for the 6 months to 30 June 2017 and the 6 months to 30 June 2016 is unaudited.

1.4. The announcement will be sent to holders of the Society's permanent interest bearing shares. Copies are available from the Society's Principal Office at Portland House, Newcastle upon Tyne NE1 8AL.

2. Basis of preparation

The condensed consolidated half-yearly financial information for the half-year ended 30 June 2017 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The half-yearly financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRSs as adopted by the European Union.

The Board has reviewed medium and long term plans over a 5 year horizon with particular emphasis on examining forecast capital, profitability and liquidity of the Group and the risks to those forecasts through a variety of stress testing scenarios. In reviewing the Group capital plans the Board has also considered the impact of recent pronouncements from the Financial Policy Committee which increase the capital requirements for Banks and Building Society's through a higher countercyclical capital buffer. This horizon is considered appropriate through alignment to the Group's usual forecasting and management reporting allowing robust and continuous assessment of the Group's expected position and principal risks over the time-frame. Active risk management is undertaken to mitigate the Group's principal risks as detailed in note 4 of this half-yearly financial information.

The outcome of this review is that the Directors are satisfied that the Society and the Group have adequate resources to continue in business and meet its liabilities throughout the period of assessment.

Accordingly the financial statements of the Group have been prepared on a going concern basis with no material uncertainties that the going concern basis of accounting is appropriate.

3. Accounting policies

The half-yearly financial information has been prepared on the basis of the accounting policies adopted for the year ended 31 December 2016, as described in those financial statements.

4. Principal Risks and Uncertainties

The Group's activities expose it to a variety of risks: market risk (predominantly interest rate risk), credit risk, liquidity risk and operational risk. There have been no changes in the principal risks and uncertainties facing the Group and no significant changes to these risks are expected in the second half of the year.

The interim condensed consolidated financial information does not include all risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's Annual Report and Accounts for December 2016.

Since year end there has been a strengthening of risk management departments involving a restructure and expansion of the team. There have been no material changes in risk management policies or procedures.

5. Taxation

The effective tax rate is 19.25% (first half 2016 – 20%). The tax charge has been calculated as far as possible to approximate to the expected full year tax rate and includes an adjustment to deferred tax assets, and to current tax for changes in the enacted corporation tax rate.

6. Related Party Transactions

During the 6 months to 30 June 2017 the Society purchased £7.7m (2016: £6.4m) of Business Support Services from Newcastle Strategic Solutions Limited (NSSL) and £2.2m (2016: £2.0m) Managed IT and Property Services from Newcastle Systems Management Limited (NSML), both wholly owned subsidiary companies. The Society received £6.3m (2016: £2.1m) from NSSL and £0.5m (2016: £0.5m) from NSML for the provision of financial and administrative services during the same period. For further detail see Note 28 of the Newcastle Building Society Annual Report and Accounts 2016.

7. Fair value measurement

The following table summarises the fair value measurement basis used for assets and liabilities held on the Balance Sheet at fair value.

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets				
Debt securities - available for sale	379.4	-	-	379.4
Derivative financial instruments	-	5.0	-	5.0
Fair value adjustments for hedged risk on underlying instruments	-	207.7	-	207.7
Financial liabilities				
Derivative financial instruments	-	209.3	-	209.3
Fair value adjustments for hedged risk on underlying instruments	-	2.8	-	2.8

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as price) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

These definitions have been taken from the March 2009 amendment to IFRS 13 'Improving Disclosures: Financial Instruments'.

There were no transfers between levels in the period.

Statement of Directors' responsibilities

The Directors confirm that this condensed consolidated half-yearly financial information has been prepared in accordance with IAS 34 as adopted by the European Union, and that the half-yearly management report herein includes a true and fair review of the information required by the Disclosure and Transparency Rules (DTR 4.2.4, DTR 4.2.7 and DTR 4.2.8).

The Society's Home Member State is the United Kingdom.

The Directors of Newcastle Building Society are listed in the Annual Report for 2016. Ron McCormick, Non-Executive Director and Deputy Chairman, retired at the conclusion of the Annual General Meeting on 26 April 2017. David Buffham was appointed Deputy Chairman on 26 April 2017. Damian Thompson, Customer Director, resigned from the Board on 24 April 2017. There were no other changes to the Board in the period.

On behalf of the Board

Andrew Haigh
Chief Executive
26th July 2017

Independent review report to Newcastle Building Society

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the Announcement of half-year results of Newcastle Building Society for the six months ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Newcastle Building Society, comprise:

- the Summary Consolidated Balance Sheet as at 30 June 2017;
- the Summary Consolidated Income Statement and Summary Consolidated Statement of Comprehensive Income for the period then ended;
- the Summary Consolidated Cash Flow Statement for the period then ended;
- the Summary Consolidated Statement of Movements in Members' Interests for the period then ended; and
- the explanatory Notes to the condensed consolidated interim financial statements.

As disclosed in Note 2, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the Announcement of half-year results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Announcement of half-year results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the Directors
The Announcement of half-year results, including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Announcement of half-year results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the Announcement of half-year results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
26th July 2017
Newcastle upon Tyne

Notes:

(a) The maintenance and integrity of the Newcastle Building Society website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.