

NEWCASTLE BUILDING SOCIETY ANNOUNCES 2019 FINANCIAL RESULTS

Key Highlights

- Operating profit increased by 11% to £16.3m compared to £14.7m for 2018
- Total operating income of £74.9m compared to £64.5m for 2018
- 12% net growth in customers
- Gross mortgage lending of £931m, a 79% increase over 2018 (£520m)
- Net core residential lending £575m, more than 3.5 times higher than 2018 (£160m)
- Robust liquidity and capital ratios - liquidity ratio of 15.8% (2018: 14.6%), Common Equity Tier 1 ratio of 13.9% (2018: 15.7%) and Leverage ratio of 4.7% (2018:5.4%)
- Net interest margin increased to 0.95% compared to 0.92% in 2018
- Our multi-million pound branch investment programme continued with the addition of four new branch locations in Barnard Castle and Bishop Auckland, including two new community branches in Wooler and Hawes
- Newcastle Building Society Community Fund grew to £2m and awarded over £400,000 in grants to 86 charities across our heartland during the year
- Low levels of arrears maintained with the number of mortgages in 3 months arrears or more at 0.34% (2018: 0.30%)
- Industry awards including for the third year “What Mortgage Awards 2019” Winner for Best Regional Building Society
- Our ongoing commitment has now seen over 2,000 Dementia friends trained by the Society’s Dementia Friends champion
- Continued investment in developing talent across the region through our apprentice and graduate programmes and our Prince’s Trust partnership
- We created over 150 new jobs during the year

Chief Executive's Statement

2019 was a year of hard work and challenge, along with many 'firsts' and real progress, as we have continued in our endeavour to make a genuine, positive difference in our region and beyond.

Financial Performance

Group profit before tax improved, increasing by 11% to £14.7m for the year ended 31 December 2019, compared to £13.3m for 2018. Operating profit before impairments and provisions improved by 11% to £16.3m (£14.7m in 2018).

Total operating income increased by 16% to £74.9m in 2019 (£64.5m in 2018). This was offset by overall management expenses including business administration costs and depreciation expenses, both of which increased to a cumulative £58.6m from £49.8m in 2018, reflecting significant levels of investment in colleagues, the branch network, and information technology resilience and data security.

The Society's net interest margin improved to 0.95% from 0.92% in 2018. Net interest income increased by £4.4m to £38.6m, reflecting an increase in our mortgage lending and the impact of rises in LIBOR alongside reduced funding costs.

The Group's capital ratios remain robust with Common Equity Tier 1 ratio reducing slightly to 13.9% from 15.7% and Tier 1 ratio reducing to 14.3% from 16.3%. Both reductions were primarily as a result of increased lending. The Group complied with Individual Capital Guidance plus capital buffers, as notified by the Prudential Regulation Authority, throughout 2019.

The Society continued its focus on core residential lending while winding down legacy portfolios. The net increase in customer loans and advances was £523m overall in 2019 and included a £575m net increase in core residential, of which £94m was in buy to let.

The percentage of mortgages in arrears by three months or more remain at low levels for 2019. Overall number of loans arrears have seen a slight increase (0.04%) to 0.34%. This remains lower than the industry average.

The Group's liquidity, excluding encumbered assets, ended the year at 15.8% compared to 14.6% in 2018. This is comfortably in excess of the Society's minimum operating level.

Summary 2019

I am very pleased to have welcomed over 40,000 additional customers to our Society. This is an important indicator that our purpose - 'to connect our communities with a better financial future' - which in turn drives our strategy, is delivering impact for the people we aim to serve. Alongside a 12% net growth in customers, I am also pleased to report an increase in profit, strong capital ratios, good liquidity and low credit risk across our mortgage book – all key measures of how we are building a long term, sustainable business.

Some of our key highlights include:

- Completion of 10 more branch launches as part of our multi-million pound branch refurbishment or relocation programme;
- First organisation in the UK to roll out a Slow Shopping environment across a branch network;
- Introduction of two new community branches in Hawes and Wooler – to serve rural populations that the banks have left behind;
- Record mortgage lending supported by strong retail funding through our branches;
- A robust financial performance with Group profit before tax and Group operating profit before impairments and provisions increased by 11%, to £14.7m and £16.3m respectively;
- Maintaining colleague engagement scores considerably higher than the financial services sector average;
- Welcoming 7 graduates and 15 new apprentices to develop their careers in our business and become our future leaders, including two young people from the Prince's Trust programme;
- 27 savings awards won by Newcastle Strategic Solutions' clients;
- The acquisition by our subsidiary, Newcastle Financial Advisers Limited, of a financial advice business;
- Launch of our new LISA Mortgage Booster in response to our customers' feedback to help with a deposit on a new home; and
- Surpassing £2m in the value of our Newcastle Building Society Community Fund at the Community Foundation.

Our regional view

As the North East's largest building society with assets now in excess of £4.4bn, we are committed to supporting and developing the potential of our heartland, which includes the North East, Cumbria, and North Yorkshire.

Our towns are facing many challenges, and like many regions in the UK we've witnessed the withdrawal of banks and financial institutions from our high streets. This creates concern as we witness closed premises, visible decline, and the reduction in the availability of local financial services. But at the same time it creates opportunity for a Building Society committed to the region and whose strategy is to be part of the solution. In our view, something has got to change and it is time for some new and innovative thinking.

Our strategy is expressed through our commitment: to a presence on our region's high streets; to work in partnership to support our communities; to making financial information and advice accessible to all. Work undertaken in 2019 in these areas will we believe, make a tangible difference in 2020 to our ability to support the communities in our region, including those which have been previously abandoned by financial services.

Strategy and purpose

We continue to place our purpose front and centre of our strategy.

Our strategy is powered by four key themes that include being purpose led; building our reputation and brand through the communities we serve; recognising that appropriately growing the scale of the business, while maintaining a sharp focus on efficiency are essential features of our long term sustainability; and that if we do all of these things well, our customers will value and support us, making mutual advocacy a key part of our ongoing success. Put more simply, as a purpose led, Member owned organisation, we recognise that our success will be determined by the reputation we build in, and what we deliver for, the communities we serve across our region.

We occupy a unique and privileged position as a Member owned organisation, based in the North East, with a powerful connection for our colleagues both to their roles, and to the customers they serve. Our colleagues know that they are personally making a real and positive difference to the people and places that are important to them.

Our performance

Our strategy is delivering results. We grew our customer numbers by 40,000 in 2019. We increased our branch savings balances by 23%, a net movement of £400m. Our overall net savings growth grew by 25% to £687m and since launching our Lifetime ISA, in 2018, we now have more than 40,000 Lifetime ISA customers.

Strong retail savings balances provide a solid foundation for our record net residential mortgage lending of £575m, an increase of £415m on 2018. This lending has been achieved within margin forecasts and in the context of a flat mortgage market.

In addition to this positive progress, we continued our ongoing programme of investment into the resources and capabilities of the business, enabled by a continued improvement in our operating profits.

Building authentic, lasting relationships

With our customers

Nowhere is our success better measured than through our customer satisfaction scores. In 2019 we achieved a score of 96 per cent.

Our net promoter score measures the loyalty of our customer relationships and is driven by the quality and value our colleagues deliver to our customers. In 2019 our NPS score was 84 - a high score that puts us near the top of the spectrum, as NPS scores range from -100 to +100.

We have also introduced a new tool, Customer Voice, which measures real time customer satisfaction across all our channels including telephone, digital and face to face.

On our high streets

Our friendly and helpful colleagues are at the centre of excellent scores such as these, but they deliver an impressive level of service and satisfaction. Almost all colleagues across our business and all those in our branches are Dementia Friends. Our active commitment to promoting awareness of dementia has created more than 2,000 Dementia Friends in our region and beyond. This has driven other innovations, including an initial pilot and full roll out of 'Slow Shopping' across our branch network.

The Slow Shopping movement was pioneered by Katherine Vero in Gosforth and enlists shops and businesses on the high street to provide both a sympathetic environment and a deeper level of customer understanding to create a welcoming environment for people living with conditions like dementia and autism. The inclusive nature of Slow Shopping means that more people can feel at home on our high streets, reducing isolation and improving quality of life. We are the first institution in the UK to deliver this across a full network of branches.

We believe in the role of the high street at the heart of our communities. Our multi-million pound branch refurbishment and relocation programme this year delivered ten, new look, modern branches. Combining the best in personal face to face service with a spacious and open environment, our customers have been highly supportive of our changes. Where space allows, we have also introduced community rooms, which are provided free of charge for use by local community groups. Eleven of our branches have community rooms in which groups meet up in for education and reading groups, craft groups or to socialise and share cultures. We expect to add more community rooms to our branch network in 2020.

Our commitment to maintaining our presence on the high street has seen the Society increase its network to 31 branches in 2019, with the addition of four new branches. In Teesdale, we have transformed our Barnard Castle presence from an agency to a full branch. In Bishop Auckland our new branch was welcomed in such numbers by locals that we made the decision to begin trading there ahead of refurbishing the old bank premises we took over.

We're no less thrilled to be adding to our branch network through community partnerships and have introduced two new community branches, to Wooler in Northumberland and Hawes in the Yorkshire Dales. Both towns were abandoned by the banks. It has been inspiring to witness the work of the Glendale Gateway Trust in Wooler and the Upper Dales Community Partnership in Hawes, both highly proactive local community trusts seeking to improve the lives of local people. We're proud to play our part by bringing local financial services back to these towns.

Providing accessible financial advice is another of our commitments and 2019 saw our subsidiary, Newcastle Financial Advisers, deliver approximately 6,500 advice sessions to customers. The team enjoy customer satisfaction levels of 98 per cent, and achieve a 93 per cent net promoter score. With a strategy for growth, in 2019 Newcastle Financial Advisers purchased the advice firm, Fidelis Financial Solutions, based in the bustling market town of Pickering in North Yorkshire. Newcastle Financial Advisers also runs an Academy training programme in association with Openwork to recruit and skill the next generation of professional advisers. Six new trainees joined in 2019. The subsidiary experienced its best ever year for the volume of new investments.

With our communities

Creating a long term, sustainable, charitable funding legacy to support our region is another key priority and 2019 saw us celebrate surpassing £2m value in our Newcastle Building Society Community Fund at the Community Foundation, Tyne & Wear and Northumberland.

Our Society was the first to sign up to the Alternative Scheme operated by Reclaim Fund Limited, which enables smaller building societies and banks to utilise qualifying dormant accounts to support their local charities. This saw a substantial donation to the Community Fund of £943,000.

The Newcastle Building Society Community Fund made £403,000 in community grants across the North East and Cumbria during the year. The Fund doubled the value of Building Improvement Grants to provide up to £100,000 for maintaining or improving community buildings. Organisations that benefited included Barnabas Safe and Sound, which provides support and services for young and vulnerable people; Earsdon & Wellfield Community Association which welcomes around 500 people across all age ranges every week to its building; and East End Youth and Community Centre.

We supported 86 community projects and causes in 2019 including the Sir Bobby Robson Foundation and the Prince's Trust. Six grants were made to foodbanks in our region.

Our colleague fundraising is key to continuing to add momentum to the Fund's value and support and colleague fundraising surpassed a record £28,500 in the year. Meanwhile, 42 per cent of colleagues used their volunteering days to support community ventures.

We have a tradition of partnering with our region's libraries which began with our Yarm Library branch opened in 2016. Understanding that these valued public spaces are under financial pressure, the Society has committed to work with Whickham Library in Gateshead and Stokesley Library as part of a three year programme of financial support which will be used towards any funding gaps, and further enhance the library facility and community activities.

In partnership with the North East England Chamber of Commerce, and following the Chamber's High Street Report in 2018, we are piloting delivery of a programme of free information events for high street retailers in North Shields. Hosted largely by the Society, sessions are delivered by established businesses and share valuable knowhow, experience, and tips to help smaller independents make the most of their businesses. The programme may be extended across the North East if it proves successful.

With our broker partners

The majority of our mortgage lending is done through UK wide networks of brokers and this channel of distribution has been significant in driving our record levels of mortgage lending. We actively listen to our brokers to better understand their needs and during the course of 2019 we increased our broker intermediaries team and introduced a product transfer facility and an online selection tool. We were pleased to maintain our FT Adviser four star rating for service, as voted for by brokers.

With our colleagues

We created and filled over 150 new jobs in the region in 2019 and were thrilled to achieve second place in the North East's 'Best 100 Places to Work' awards.

While we have maintained colleague engagement scores that are considerably higher than the sector average, we recognise we have more to do. Colleague feedback includes a requirement to improve our working environment; creating break out spaces for collaborative working and making our workspaces better and more creative places to be.

We continue to invest in our Early Talent programme and in 2019 we were placed in the top 100 employers with 'Rate My Apprenticeship'. We also saw one of our apprentices winning the 'Rising Star Award' for the North East region at the national apprenticeship awards.

Our Prince's Trust partnership was recognised at the end of its first year in 2019 with 'Highly Commended for the Best New Partnership' for our contribution in helping young people to live, learn and earn. In delivery of our partnership we welcomed five Prince's Trust students to our Society for a two week work experience programme which resulted in two young people being offered permanent roles with us throughout apprentice programme.

As part of our investment in being a great place to work, in 2019 all managers attended our 'Manager as Coach' programme to help build a coaching culture and empower colleagues to take ownership of their performance and development.

All colleagues attended a Forum Theatre immersive learning experience to inform and empower their adoption of a new approach to performance management, incorporating a conversation rich, future focussed, colleague led approach. We also continued our investment in business leaders and launched a talent management framework.

Performance related pay was rolled out across the Group to enable recognition of colleagues for their development within their individual role and their contribution to our Society's success.

We launched a new 'Colleague Voice' platform, which provides-insight driven feedback via a continuous conversation. Our focus on colleague wellbeing included the introduction of wellbeing advocates, mental health first aiders and a number of successful awareness campaigns across the year. This resulted in a Bronze 'Better Health at Work' award.

We kicked off 2020 with all colleague Vision & Strategy events to outline our strategic ambition, progress to date and gain colleague feedback. Our colleague belief and energy is key to driving the organisation on to achieve greater success and our commitment to these two days across our Group was an important investment.

Innovating

Scale and efficiency

We are delighted that the UK's leading provider of third party online savings management services is based in the heart of the North East. A shining example of building society innovation, our subsidiary, Newcastle Strategic Solutions continues to strengthen its reputation as a fintech leader and influencer, and to provide valuable career opportunities in the region for those who want to develop a career in technology, service or related business support areas.

Employing more than 620 talented colleagues, Solutions has added to its growing roster of clients having welcomed B-North and Recognise on board, both developing new challenger banks to the market, focusing on the needs of small to medium sized businesses.

We made changes last year to our business structure to merge two subsidiaries, Newcastle Strategic Solutions Ltd and Newcastle Systems Management Ltd under a single Solutions brand. This has created a more streamlined and efficient approach to planning, operating and reporting for the benefit of both our clients and our Group.

Solutions has an important role to play in delivering our purpose and strategy. It drives technological innovation across our Group, provides great career opportunity for local talent, contributes to Group profitability and enables us to build scale and resulting efficiencies. I'm pleased to see that it is continuing to grow its contribution to the Group and its reputation and opportunities.

Products, services, recognition

Against a backdrop of record mortgage lending and attracting similarly high levels of retail savings through our branches, we have continued to develop and innovate our product range.

We launched Custom Build and Advance Payment Self-build propositions alongside launching Buy to Let in Scotland. When we talked to our Lifetime ISA customers they told us that while they could afford monthly mortgage payments the time it was taking to save a deposit was the big challenge. As a result, we launched an innovative LISA deposit booster mortgage providing a £2,000 boost to a mortgage deposit.

We became the first building society in the UK to introduce a digital debt help service using integrated Open Banking technology for mortgage customers facing financial difficulty or those needing extra support to understand their financial position. This led to the Society winning 'Best Debt and Arrears Management Strategy' at the Mortgage Finance Gazette Awards.

Other accolades during the year included: third time winner in a row of What Mortgage 'Best Regional Building Society'; second time winner of L&G's 'Best Smaller Lender'; and 'Best Self Build Lender' in the Personal Finance Awards.

Summary and Look Ahead

The combination of visible progress against our purpose led strategy; significant growth; substantial investment; and improved financial performance against a challenging and uncertain economic and political backdrop was very encouraging in 2019 and sets a positive tone for 2020 and beyond.

However, we need to be mindful that the outlook for business in a post Brexit world is far from settled, interest rates are likely to remain low and given so many uncertainties, we can expect continued and appropriate caution from regulators with regard to capital requirements for all financial institutions. We also plan to continue our investment programme into infrastructure, technology and resources across the business – with a view to growth, continued strengthening of our business model and improved efficiency and financial performance for the long term.

We have been pleased by the positive response to our activities – in supporting our communities, encouraging people to save, helping them own their own home and plan their finances. We are genuinely committed to supporting our high streets and finding new ways to ensure an authentic, face-to-face service, delivered locally can be part of our core offer to communities for the years ahead, while also investing in what the best of modern technology can offer. We are also proud of the achievements of Newcastle Strategic Solutions and the difference that subsidiary makes: bringing further diversification to the financial services market place; creating jobs in our region and delivering income back to the Group for the benefit of our Members.

I have no doubt that the year ahead will be full of both familiar and entirely new challenges. However, I believe we have a clarity of purpose and strategy that will enable us to continue to be relevant to the needs of our region, to make a genuine positive difference and to flourish. As ever, this is only possible with the support of our wonderful colleagues across the Group, whom I thank for their tireless efforts and the many other partner organisations and advocates who have given us so much positive feedback over the last year. I must also recognise the support of our Board and most of all, our Members, as we look forward to a further year of progress in 2020 in 'Connecting Our Communities with a Better Financial Future'.

Andrew Haigh
Chief Executive
25th February 2020

NEWCASTLE BUILDING SOCIETY
PRELIMINARY ANNOUNCEMENT
for the year ended 31 December 2019

SUMMARY CONSOLIDATED INCOME STATEMENTS

	2019	2018
	£m	£m
Interest receivable and similar income		
Interest income calculated using effective interest rate	106.1	96.4
Other interest income	(18.8)	(21.2)
Total Interest receivable and similar income	87.3	75.2
Interest payable and similar charges	(48.7)	(41.0)
Net interest income	38.6	34.2
Other income and charges	35.8	30.2
Gains less losses on financial instruments and hedge accounting	0.5	0.1
Administrative expenses	(54.4)	(46.9)
Depreciation	(4.2)	(2.9)
Operating profit before impairments and provisions	16.3	14.7
Impairment charges on loans and advances to customers	(1.5)	(1.5)
Provisions for liabilities and charges	(0.1)	0.1
Profit for the year before taxation	14.7	13.3
Taxation expense	(3.3)	(2.5)
Profit after taxation for the financial year	11.4	10.8

SUMMARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2019	2018
	£m	£m
Profit for the financial year	11.4	10.8
Other comprehensive income/(expense):		
<i>Items that may be reclassified to income statement</i>		
Movement on fair value through other comprehensive income	0.9	(1.7)
Income tax on items that may be reclassified to income statement	(0.1)	0.3
Total items that may be reclassified to income statement	0.8	(1.4)
<i>Items that will not be reclassified to income statement</i>		
Actuarial remeasurements on retirement benefit obligations	-	-
Income tax on items that will not be reclassified to income statement	-	-
De-recognition of pensions surplus	(0.8)	(1.1)
Total items that will not be reclassified to income statement	(0.8)	(1.1)
Total comprehensive income for the financial year	11.4	8.3

SUMMARY CONSOLIDATED BALANCE SHEETS

	2019	2018
ASSETS	£m	£m
Liquid assets	862.5	692.4
Derivative financial instruments	0.1	3.5
Loans and advances to customers	3,295.1	2,772.2
Fair value adjustments for hedged risk	186.6	175.9
Property, plant and equipment	48.7	38.8
Other assets	19.1	15.0
TOTAL ASSETS	4,412.1	3,697.8
LIABILITIES		
Shares	3,400.9	2,713.7
Fair value adjustments for hedged risk	-	0.4
Deposits and debt securities	579.4	552.4
Derivative financial instruments	185.9	178.3
Other liabilities	20.1	11.8
Subordinated liabilities	-	25.0
Subscribed capital	20.0	20.0
Reserves	205.8	195.3
TOTAL LIABILITIES	4,412.1	3,697.8

SUMMARY CONSOLIDATED CASH FLOW STATEMENTS

	2019	2018
	£m	£m
Net cash inflows/(outflows) from operating activities	186.8	(50.6)
Payment into defined benefit pension scheme	(0.8)	(1.5)
Cash inflows/(outflows) from operating activities	186.0	(52.1)
Cash (outflows)/inflows from investing activities		
Purchase of property, plant and equipment	(8.6)	(2.9)
Sale of property, plant and equipment	0.4	-
Purchase of investment securities	(213.5)	(72.5)
Sale and maturity of investment securities	127.2	121.2
Net cash (outflows)/inflows from investing activities	(94.5)	45.8
Cash outflows from financing activities		
Interest paid on subordinated liabilities	(0.8)	(0.8)
Interest paid on subscribed capital	(2.3)	(3.5)
Repayment of subordinated liabilities	(25.0)	-
Repayment of subscribed capital	-	(10.0)
Net cash outflows from financing activities	(28.1)	(14.3)
Net increase/(decrease) in cash	63.4	(20.6)
Cash and cash equivalents at start of year	163.0	183.6
Cash and cash equivalents at end of year	226.4	163.0

Summary of key financial ratios

	2019	2018
	%	%
Gross capital as a percentage of shares and borrowings	5.67	7.37
Liquid assets as a percentage of shares and borrowings	21.7	21.2
Profit for the year as a percentage of mean total assets	0.28	0.29
Management expenses for the year as a percentage of mean total assets	1.45	1.33

Notes

1. The financial information set out above, which was approved by the Board of Directors on 25 February 2020, does not constitute accounts within the meaning of the Building Societies Act 1986.
2. The financial information for the years ended 31 December 2019 and 31 December 2018 has been extracted from the Accounts for those years and on which the auditors have given an unqualified opinion.