NEWCASTLE BUILDING SOCIETY ANNOUNCES FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

Key Highlights

- **Profit before tax up to £4.0m** from £1.3m (as restated)
- **Operating profit (before impairment provisions and exceptional items) up to £12.4m** from £10.6m
- **Capital ratios strengthened further** with Solvency ratio at 18.6% (2013:17.8%), Tier 1 ratio of 14.6% (2013:14.1%), Core Equity Tier 1 ratio of 12.7% (2013:11.9%) and Leverage ratio of 5.2% (2013: 5.0%)
- **Strong liquidity position** at 23.6% (2013:26.3%) of shares, deposits and liabilities
- **Credit Quality of mortgage portfolio remains robust** with the percentage of loans in 3 months arrears or more reduced to 0.53% (2013: 0.64%), well below industry averages
- **Reduction in legacy mortgage portfolios** of £181m (2013:£160m) covering higher risk or lower margin loans
- **Gross mortgage lending of £350m maintained in 2014** despite increased competition; Society fully compliant with new Mortgage Market Review regulations ahead of schedule
- **Overall Customer Satisfaction of 92% (2013:91%)**, with satisfaction within our financial advice subsidiary of 97% (2013:92%)
- **Overall staff satisfaction index strengthens further to 90% from 81%**
- **Silver Investor in People** status achieved
- **Over £1m now donated to Sir Bobby Robson Foundation** and successful member and community engagement activities continued

Chief Executive's Statement

I am pleased to report that 2014 has been another year of continued and steady progress during which the Society has achieved the objectives set out for the year as measured by our corporate key performance indicators. We have continued the successful implementation of the strategy that was set at the start of 2010 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. The improvement in our year on year performance is evidence that our strategy is working and after following it for 5 years we can see the significant transformation to the business that has taken place and that we are well positioned to weather the more volatile markets and economic backdrop which have again been evident in 2014.

The UK bank base rate has now been at 0.5% for almost six years and treasury markets and economists are expecting rates to stay at this level for longer than was expected a year ago. This is good news for borrowers who are benefitting from some of the most competitive mortgage rates ever seen in the UK but it is not so good for savers who are seeing reduced returns. Lower levels of unemployment, more modest house price growth, and rising disposable incomes (as wage growth outstrips inflation) suggest that 2015 will continue to be a good year for borrowers looking to buy a home in the UK.

Against the more competitive market backdrop and the changes brought about by the implementation of the Mortgage Market Review, I am pleased we have been able to support lending to our members, exceeding our budgeted gross and net lending targets for 2014. Equally pleasing is our great range of competitive savings products, including the very popular Sir Bobby Robson Foundation account, where cumulative donations to the charity have now reached over £1m.

From a financial perspective, profitability and capital ratios continued to strengthen further in 2014, and the quality and level of our liquidity was robust. Our key non-financial measures, the satisfaction of both our members and employees, continued above target and we were delighted to receive the Silver Investor in People award. We exceeded our targets for wind down of legacy assets and delivered on schedule on key IT infrastructure and regulatory projects.

Financial Performance

Profit before tax improved from £1.3m (restated) to £4.0m reflecting a higher net interest margin that benefitted from mortgage lending activity and reduced funding costs. Our operating profit (before provisions and Financial Services Compensation Scheme levy) increased to £12.4m from £10.6m. Our cost to income ratio improved to 74% from 76% with administrative expenses benefitting from strong cost control and the positive impact of a pension liability management exercise undertaken in 2014.

Profitability of our Solutions business remained stable and was in line with expectations. During the year the Society launched one major new contract, with a further three contracts near completion that are expected to go live in the first half of 2015. In addition, there are a number of other contracts at project stage.

The Society's capital ratios continued to improve year on year with the Solvency Ratio improving from 17.8% to 18.6% and Core Equity Tier 1 ratio improving from 11.9% to 12.7%. Tier 1 ratio improved from 14.1% to 14.6% and the leverage ratio remained over 5%. As announced in August 2014 the Society exceeded the 12% Ceiling Trigger set out in the Capital Agreement that was finalised in May 2010 which meant that with effect from 1st September 2014, the conversion option attaching to the securities ceased to apply and the prevailing coupon was reduced. We were delighted to achieve this trigger, several years ahead of plan, further demonstrating the Society's improved financial strength since 2010.

In 2014 the Society continued to unwind legacy portfolios with higher risk or lower margin that do not fit a traditional building society model. A reduction of £181m (2013: £160m) was achieved including £74m on commercial investment loans and £64m on loans to housing associations. Since the start of 2010 we have reduced legacy portfolios by £770m with the largest element of this reduction relating to commercial investment loans, falling by £344m or 63%. Provisions for impairment charges reduced from £6.7m to £5.9m. The Society also completed the disposal of the remaining properties in the residential investment property portfolio (Kings Manor Properties Limited) in 2014.

The percentage of mortgage loans in arrears of 3 months or more, across the whole mortgage portfolio based on the number of loans, reduced from 0.64% to 0.53%; around half of the industry average and at a record low since we have been tracking 3 months arrears.

Our liquidity at the end of the year was strong at 23.6% compared to over 26% at the start of 2014. This fall was in line with our expectations and holdings continue to be mainly in AAA/AA rated assets.

Members

It has been another challenging year for savers with rates offered in the wider savings market continuing to fall. Against this background the Society opened over 30,000 new savings accounts and has continued to offer a range of good value savings products including easy access, regular savings and fixed rate bonds, providing competitive rates wherever possible, balancing the needs of savers and borrowers with our funding requirements. Our Big Home Saver remained a popular product for those wanting to save regularly in preparation for buying a home and our Big Little Saver was also popular with parents and grandparents alike to help promote the savings habit in young children. Our Sir Bobby Robson Foundation accounts remain a key part of our product offering reaching a key milestone of £1m cumulative donations to the charity in 2014. The Society is very proud of this partnership.

We continued to support first time buyers with a range of competitive 90-95% loan to value products, which were very popular with homebuyers and represented around 20% of 2014 mortgage lending. We have operated in the first time buyer space since 2011 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. Our overall gross lending was maintained at £350m which was slightly ahead of budget as was our net residential lending to homeowners at £135m, this was against a more competitive market backdrop. The implementation of the new regulations arising from the Mortgage Market Review in April 2014 had little impact for the Society as we have completed an affordability assessment for borrowers for several years and all of our mortgage advisors are fully qualified to provide advice. In addition to having a consistent range of good value mortgage products, we are investing significant resource into our online mortgage application system with online decision in principle and broker registration systems going live in 2014 and online mortgage applications set to go live in the first half of 2015. We continue to offer all of our mortgage products to both new and existing customers and this is reflected in our high customer retention rates with over three quarters of borrowers choosing to stay with us on product maturity.

Throughout the year we regularly engaged with our members, who provided feedback to help us develop our business, provide challenge and make what we do relevant. In 2014 we developed video advice for our website to encourage good savings habits and guidance in support of the first time buyer borrowing process. Also, following feedback, we further enhanced our online savings accounts to be available on mobile phones and tablets. We will develop the rest of our website in line with this. Our Customer Panel provided us with feedback on a range of topics such as electronic payments, use of passbooks, as well as helping the Society develop further its unique ISA proposition.

We also hosted a 'Meet the Chief Executive' session for members to receive a business update and ask our Board members about the general marketplace, our products and services. This was in addition to the financial planning seminars we held throughout the year to existing and potential customers that focussed on providing information on a range of financial subjects, such as saving and investments, insurance, mortgages, and wider financial planning. We also arranged local community history walks and branch events. These and other member engagement events will continue throughout 2015 and are an important part of the support we aim to provide to our customers.

We have seen a further fall in complaint volumes in 2014; total complaints fell by 20% with Mortgage Payment Protection Insurance ("MPPI") complaints falling by 33% and non-MPPI complaints falling by 3.5%. We found in favour of our customers in 42% of non-MPPI complaints and 2% of MPPI complaints with only 6% of non-MPPI complaints subsequently referred to the Financial Ombudsman Service ("FOS"). The majority of cases referred to FOS are found in the Society's favour.

Another very pleasing achievement came in the form of our annual customer survey. This showed overall satisfaction of 92% an increase from 91% the previous year. NFSL continued to support our aim of delivering financial advice that's accessible for all and the customer satisfaction results for this part of our business reached 97%, which is a significant increase on the 92% for 2013. This is an achievement that is particularly noteworthy given it was only in 2013 that new regulations were brought into force in the form of the Retail Distribution Review, which resulted in many institutions withdrawing from the advice marketplace.

Employees

We continue to engage with our staff so we understand their views of the Society and what it's like to work here. This has formed part of our Employer Brand development, which focuses on building trust, building our people and building our communities. Ultimately we want to be employer of choice in the North East. In 2014 staff from all levels across the business took part in "Who We Are" workshops and the feedback from this has helped us shape our people agenda and help drive forward developments we want to make to the business. This work ties in perfectly to the Values that we launched in 2013. Developing our Employer Brand alongside the rollout of our Values will continue to have a positive impact on improving service to our customers. By engaging with our staff and understanding their needs, supporting their development and keeping them motivated, we will ensure we continue to deliver excellent customer service.

We have again held our annual staff survey and I'm pleased to say we have achieved an outstanding result. Around three quarters of staff participated in the survey and the satisfaction rate reached a new high of 90% in 2014.

This year, we introduced the Talent Management programme, which is designed to support development of potential future leaders of our business. For this, we work in partnership with the University of Sunderland Business School to progress our staff through a Leadership Programme. The purpose of this is to encourage personal transformation and understanding of leadership styles. This supplements other programmes that the Society already has in place.

Our staff turnover rate across the whole business increased from a record low in 2013 of 10.2% to 12.6% in 2014, reflecting a more competitive employment market and reducing rates of unemployment.

In April we gave an annual pay award that was ahead of UK wage inflation. 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

Our 'Cornerstone of the Community' initiative entered its fifth year. Two activities are at the heart of this and they continued in earnest. Our financial education curriculum-based learning programme has now helped more than 1,400 school pupils learn about being financially independent later in life and is something we are looking to extend even further in 2015.

In addition, we held our biggest ever awards ceremony for local heroes during which a range of local community groups and individuals were rewarded for their hard work within the North East. Our hope is that this will continue to gain momentum and we aim to hold four events during the next 12 months in our heartland area.

We also updated our Charity of the Year programme that has run for six years. Instead of supporting one local charity over 12 months, we will extend our support for a minimum of two years. This means we can deliver even more value to a local good cause, Percy Hedley Foundation, a very well deserving charity that helps children and adults in our region with learning disabilities.

The Society also developed a new Volunteer Policy, which has granted our staff time during their working week to support a range of charities. We hope, through this Policy, to help even more organisations in our area that wouldn't ordinarily be able to receive such support without significant financial investment.

Our fund within the Community Foundation celebrated its 25th birthday and we marked the occasion with more donations to worthy causes in the area for specific projects, such as a local school to help build a sensory room for children with disabilities, a food bank, a family support group and an organisation that pays for days out for disadvantaged children within our region.

Summary

I am pleased with the Society's continued and steady progress in 2014 and that we are in good shape going into 2015 and beyond.

Our success is dependent on the outstanding team of people we have working at the Society. Their exceptional loyalty and commitment has enabled the Society to deliver the year on year improvement in our results and I would like to thank them for their contribution in 2014 and over the last 5 years.

Jim Willens Chief Executive
24 February 2015

NEWCASTLE BUILDING SOCIETY

PRELIMINARY ANNOUNCEMENT
for the year ended 31 December 2014

CONSOLIDATED INCOME STATEMENTS

	2014	2013 Restated
	£m	£m
Interest receivable and similar income	**85.3**	95.0
Interest expense and similar charges	**(60.2)**	(71.6)
Net interest receivable	**25.1**	23.4
Other income and charges	**22.3**	23.6
Gains less losses from financial instruments	**-**	0.5
Administrative expenses	**(33.2)**	(34.6)
Depreciation	**(1.8)**	(2.3)
Operating profit before impairments, provisions and exceptional items	**12.4**	10.6
Impairment credit on loans and advances to banks	**-**	0.8
Impairment losses on loans and advances to customers	**(5.9)**	(6.7)
Provisions for liabilities and charges	**(2.5)**	(4.0)
Gain on disposal of Prepaid Cards Business	**-**	0.6
Profit for the year before taxation	**4.0**	1.3
Taxation expense	**(1.1)**	(1.8)
Profit / (loss) after taxation for the financial year	**2.9**	(0.5)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2014	2013
		Restated
	£m	£m
Profit / (loss) for the financial year	**2.9**	(0.5)
Other comprehensive (expense)/income		
Items that may be reclassified to income statement		
Movement on available for sale reserve	**(1.3)**	(7.0)
Income tax on items that may be reclassified to income statement	**0.3**	1.3
Total items that may be reclassified to income statement	**(1.0)**	(5.7)
Items that will not be reclassified to income statement		
Actuarial remeasurements on retirement benefit obligations	**(6.0)**	2.1
Income tax on items that will not be reclassified to income statement	**1.2**	(0.6)
Total items that will not be reclassified to income statement	**(4.8)**	1.5
Total comprehensive expense for the financial year	**(2.9)**	(4.7)

CONSOLIDATED BALANCE SHEETS

	2014	2013 Restated
ASSETS	**£m**	£m
Liquid assets	**768.1**	887.5
Derivative financial instruments	**16.4**	32.0
Loans and advances to customers	**2,660.1**	2,700.7
Fair value adjustments for hedged risk	**201.8**	120.9
Liquid assets pledged as collateral	**48.5**	-
Property, plant and equipment	**23.0**	21.4
Investment properties held for sale	**-**	4.3
Other assets	**18.3**	20.4
TOTAL ASSETS	**3,736.2**	3,787.2
LIABILITIES		
Shares	**2,973.7**	3,235.2
Fair value adjustments for hedged risk	**8.4**	15.6
Deposits and debt securities	**279.5**	141.6
Derivative financial instruments	**201.6**	120.9
Other liabilities	**17.4**	16.1
Subordinated liabilities	**59.5**	59.0
Subscribed capital	**29.9**	29.7
Reserves	**166.2**	169.1
TOTAL LIABILITIES	**3,736.2**	3,787.2

CONSOLIDATED CASH FLOW STATEMENTS

	2014 £m	2013 £m
Cash flows from operating activities	**(57.7)**	(257.1)
Payment into defined benefit pension scheme	**(2.0)**	(2.2)
Net cash flows from operating activities	**(59.7)**	(259.3)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(3.5)**	(0.6)
Sale of investment properties	**4.3**	8.6
Sale of property, plant and equipment	**-**	0.1
Purchase of investment securities	**(234.4)**	(625.5)
Sale and maturity of investment securities	**405.0**	766.0
Net cash flows from investing activities	**171.4**	148.6
Cash flows from financing activities		
Interest paid on subordinated liabilities	**(3.6)**	(3.4)
Interest paid on subscribed capital	**(3.8)**	(3.6)
Repayments under finance lease agreements	**(0.1)**	(0.1)
Net cash flows from financing activities	**(7.5)**	(7.1)
Net increase/(decrease) in cash	**104.2**	(117.8)
Cash and cash equivalents at start of year	**410.2**	528.0
Cash and cash equivalents at end of year	**514.4**	410.2

Summary of key financial ratios	**2014 %**	2013 %
Gross capital as a percentage of shares and borrowings	**7.9**	7.6
Liquid assets as a percentage of shares and borrowings	**23.6**	26.3
Result for the year as a percentage of mean total assets	**0.08**	-
Management expenses for the year as a percentage of mean total assets	**0.93**	0.96

RESTATEMENTS

The IFRS Interpretations Committee (IFRIC) have issued a new interpretation; IFRIC 21 ‘Levies’ which became effective on 1 January 2014. IFRIC 21 clarifies the trigger point for recognising a provision based on a government imposed levy as being the 'obligating event that triggers payment'.

IFRIC 21 affects the way the Society accounts for its proportion of the FSCS levy, which has a scheme year beginning 1 April, by clarifying that the FSCS levy for the year is to be provided for in full on 1 April based on the obligating trigger event. Under IAS 8, the Group has retrospectively adopted IFRIC 21 and restated its 2013 financial position and result.

Claryifying amendments to IAS 32 have had an impact on the balance sheet figures presented at 31 December 2013. Cash collateral pledged and received against exposures to and with financial derivative counterparties are now presented gross on the balance sheet. The Society’s corresponding derivative financial instrument assets and liabilities have been restated to their gross position for 2013.

Further details on both restatements are shown in note 1 of the 2014 Annual Report and Accounts.