Stock Exchange Announcement

Strictly embargoed until 8.00 a.m. Thursday 1st March 2012

NEWCASTLE BUILDING SOCIETY ANNOUNCES FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

Newcastle Building Society today announces its 2011 results which reflect the success of its revised strategy with an operating profit before impairments, provisions and exceptional items of £9.2m and a profit before tax of £0.1m.

Key highlights:

- Operating profit before impairments, provisions and exceptional items improved to £9.2m compared to an operating loss of £0.3m for 2010;
- Profit before tax of £0.1m compared to a loss before tax of £4.7m for 2010;
- A further reduction in management expenses combined with an increase in operating income of 22% resulted in an improved cost to income ratio of 80% (2010: 101%);
- Liquid assets ratio was strong at 29.2% increased from 25.2% at the end of 2010;
- Capital ratios continued to improve with Solvency ratio at 15.0% (2010: 14.1%);
- Solutions business volumes and profitability improved with a 50% growth in the number of accounts under management;
- £185m reduction in higher risk legacy portfolios ahead of our expectations including a 22% reduction in commercial investment loan portfolio;
- Against a more challenging economic backdrop the Society has recognised a provisions charge of £12.3m (2010: £1.8m), mainly in relation to the commercial portfolio;
- The number of loans in 3 months arrears or more was 0.75% across the whole mortgage portfolio (2010: 0.78%);
- Sale of the Prepaid Card division of the Solutions business in December 2011 with a gain on disposal recognised of £3.9m;
- Customer satisfaction improved to 90%; and
- Staff satisfaction indicator improved to 84%.

Chief Executive's Review

"The Society made steady progress during 2011 towards our long-term objectives, set against a protracted period of economic downturn. Our focus on ensuring long-term delivery to our **members**, **employees,** support for **local communities** and Solutions business **customers** has meant the Society has continued to build on the successes of 2010, as well as deliver results ahead of our strategic plan.

Steady Financial Progress

The Society's profitability showed significant improvement in 2011. This was supported by a fall in management expenses and an increase in operating income (by 22%), which gave an improved cost to income ratio of 80% (compared to 101% in 2010). Additionally, our capital ratios continued to improve year-on-year. At the end of 2011 solvency ratio was 15.0% up from 14.1% in 2010, and Tier 1 capital was up from 10.7% to 11.7%. Liquidity also continues to be very strong at 29.2%.

Given the continuing challenges within the economy, we have performed an in-depth review of the potential risk attached to legacy assets held by the Society. As a result, we have recognised a substantial provisions charge of £12.3m to protect the business in the years ahead. We have also recognised a charge of £1.4m in 2011 in relation to the levy imposed by the Financial Services Compensation Scheme, which reflects a higher funding cost that is expected to arise.

Traditional Building Society model supported through diversification

Our strategy recognises the challenges still facing the economy, financial services generally and individuals. We have and will continue to focus on our key strengths and our long-term strategic focus remains to be a traditional building society supported by diversification through our Solutions business and supported by prudent cost management. This has served us well in 2011 and I am confident will continue to do so in the years ahead.

As part of our ongoing business simplification objectives, we sold the Prepaid Cards division of the Solutions business in December 2011 with a gain on disposal recognised of £3.9m. As part of the sale, it was important to us to secure all the jobs and keep them within the North East; we are delighted that the Buyer, Wirecard AG, has established a subsidiary within the North East and will continue to invest in this business.

We continued to simplify the group structure in 2011; repaying the commercial securitisation programme at the first call option in February and unwinding the £500m Covered Bond programme in July 2011 following repayment of the notes. This was also supported by a reduction in our legacy mortgage portfolios with £185m of repayments; including a 22% fall in commercial investment exposures and 17% decrease in buy to let loans.

Our Solutions division had a very successful year with 50% growth in the number of accounts under management and new contracts launched. We enter 2012 with a healthy pipeline of new business from existing and new clients and both present the opportunity for further growth in this part of our operations. We will continue to pursue a controlled and balanced approach to this strategy thus allowing us to concentrate our efforts further on our key stakeholders.

Supporting and showing commitment to our Members

We have again enjoyed excellent support from our membership. In excess of 25,000 new customers were welcomed to the Society, which reflects a year when we had excellent products available.

To support our members who save, we added a range of competitive products to our portfolio, many of which were Best Buy. This includes our five year Fixed Rate Bond, Online Easy Saver and Bonus ISA. We also introduced a range of competitive mortgage products; I was particularly pleased that our first time buyer products were so well received in a market place that needs to encourage more activity amongst those seeking their first home.

Our Penrith branch was reopened during 2011 having spent eight months operating from temporary premises following a flood as a result of the extreme cold weather spell in December 2010. Local needs and involvement of local members helped to develop plans for the re-launch. Combine this with the experience gained when we launched our flagship branch in Newcastle city centre and we have created a blueprint for future branch development.

Customer satisfaction improved from 85% to 90% during 2011, which is itself a pleasing result. However, we will always welcome feedback and seek to develop ways where both delivery of quality products and service levels are improved on a continual basis.

Staff Engagement

Our staff engagement programme, led by a group of staff representatives from across the business aims to evaluate, develop and build on key areas of the organisation as we seek to make the Society one of the most rewarding places to work in the region.

We carried out our first annual employee satisfaction survey in December 2010 followed by a second in December 2011. Our staff responded magnificently in offering support and participation to all areas of our employee strategies. That support has in turn produced a significant improvement in our staff satisfaction indicator to 84%.

In February 2011 the Society was re-accredited as an 'Investor in People' for the sixteenth year; the Society being the first building society to be accredited with this award. Additionally, the Society awarded a pay increase to its staff on 1st April 2011, after a gap of two years, which was very much focussed on lower paid staff.

Supporting and celebrating the communities in which we operate

We continue to support the communities that we serve through our branch network's engagement with local good causes, the corporate sponsorships we are part of and the Society's charity of the year. In addition, we have a fund with the Community Foundation, which celebrated its 21st year and this enabled us to give Christmas presents in December to 17 good causes. Our branches also launched a Christmas art competition in local schools;

with more than 100 winners rewarded with a trip to the theatre. A number of other successful fund raising events have taken place throughout the year too.

We launched a financial education programme for schools in our region in 2011; this was kick-started with primary schools in Middlesbrough and Whitley Bay, with positive feedback from all involved, including the 200 11-year-old pupils we presented to. The wider programme is in the process of being rolled out to other regional schools.

Summary

The Society made steady progress during the year against our long-term objectives. Our approach continues to position the Society based on our cautious view of the outlook most likely to prevail in the years ahead, a stance which has supported us well so far. Our unrelenting focus will remain entirely fixed on ensuring we deliver the best value and service possible to our members, Solutions customers and employees, while supporting the communities we serve."

Jim Willens
Chief Executive
29th February 2012

NEWCASTLE BUILDING SOCIETY
PRELIMINARY ANNOUNCEMENT for the year ended 31 December 2011

CONSOLIDATED INCOME STATEMENTS

	2011 £m	2010 £m
Interest receivable and similar income	**103.2**	101.0
Interest expense and similar charges	**(85.7)**	(83.2)
Net interest receivable	**17.5**	17.8
Other income and charges	**26.6**	18.8
Gains less losses from financial instruments	**0.6**	-
Administrative expenses	**(32.6)**	(33.7)
Depreciation	**(2.9)**	(3.2)
Operating profit before impairments, provisions and exceptional items	**9.2**	(0.3)
Impairment losses on loans and advances to banks	**(0.2)**	2.1
Impairment losses on debt securities	**0.9**	0.3
Impairment losses on loans and advances to customers	**(12.3)**	(1.8)
FSCS levy	**(1.4)**	-
Repositioning Programme	**-**	(4.0)
Other provisions for liabilities and charges	**-**	(1.0)
Gain on disposal of Prepaid Cards Business	**3.9**	-
Profit/(loss) for the year before taxation	**0.1**	(4.7)
Taxation (expense)/credit	**(0.8)**	1.0
Loss for the financial year	**(0.7)**	(3.7)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2011	2010
	£m	£m
Loss for the financial year	**(0.7)**	(3.7)
Other comprehensive (expense)/income:		
Movement on available for sale reserve	**(0.5)**	1.0
Actuarial loss on retirement benefit obligations	**(3.9)**	(0.5)
Taxation on items taken directly through reserves	**1.1**	(0.1)
Other comprehensive (expense)/income for the financial year, net of tax	**(3.3)**	0.4
Total comprehensive expense for the financial year	**(4.0)**	(3.3)

CONSOLIDATED BALANCE SHEETS

ASSETS	**2011 £m**	2010 £m
Liquid assets	**1,180.9**	823.9
Derivative financial instruments	**44.3**	34.2
Loans and advances to customers	**2,976.6**	3,325.1
Fair value adjustments for hedged risk	**57.9**	50.8
Assets pledged as collateral	**85.1**	105.4
Property, plant and equipment	**23.9**	26.1
Investment properties	**15.9**	14.3
Other assets	**33.9**	39.0
TOTAL ASSETS	**4,418.5**	4,418.8

LIABILITIES	**2011 £m**	2010 £m
Shares	**3,761.4**	3,593.0
Fair value adjustments for hedged risk	**28.7**	20.8
Deposits and debt securities	**280.8**	457.4
Derivative financial instruments	**57.4**	54.2
Other liabilities	**29.8**	29.1
Subordinated liabilities	**58.7**	58.6
Subscribed capital	**29.6**	29.6
Reserves	**172.1**	176.1
TOTAL LIABILITIES	**4,418.5**	4,418.8

CONSOLIDATED CASH FLOW STATEMENTS

	2011 £m	2010 £m
Cash flows from operating activities	**314.7**	(92.3)
Payment into defined benefit pension scheme	**(2.4)**	(0.4)
Net cash flows from operating activities	**312.3**	(92.7)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(1.0)**	(1.4)
Purchase of investment properties	**(1.7)**	(0.2)
Sale of property, plant and equipment	**0.4**	1.6
Purchase of investment securities	**(939.6)**	(832.0)
Sale and maturity of investment securities	**645.2**	612.2
Cash received on sale of Prepaid Cards business	**7.5**	-
Net cash flows from investing activities	**(289.2)**	(218.9)
Cash flows from financing activities		
Interest paid on subordinated liabilities	**(2.2)**	(1.1)
Interest paid on subscribed capital	**(3.6)**	(3.6)
Repayments under finance lease agreements	**(0.2)**	(0.2)
Net cash flows from financing activities	**(6.0)**	(4.9)
Net increase/(decrease) in cash	**17.1**	(317.1)
Cash and cash equivalents at start of year	**360.9**	678.0
Cash and cash equivalents at end of year	**378.0**	360.9

SUMMARY OF KEY FINANCIAL RATIOS

	2011	2010
	%	%
Gross capital as a percentage of shares and borrowings	**6.44**	6.65
Liquid assets as a percentage of shares and borrowings	**29.2**	25.2
Loss for the year as a percentage of mean total assets	**(0.02)**	(0.08)
Management expenses for the year as a percentage of mean total assets	**0.80**	0.82