**NEWCASTLE BUILDING SOCIETY**
**Announcement of half-year results for the six months ended 30 June 2014**

Newcastle Building Society today announces continuing improvement in profitability and further progress on delivering its strategy.

## Key Highlights

- Profit before tax of £0.8m for the six months ended 30 June 2014 compared to a restated loss before tax of £0.8m for the six months ended 30 June 2013. Profitability has been affected in the first half due to the change in accounting for the Financial Services Compensation Scheme levy with the annual charge of £2.4m (2013: £2.7m) being recognised in full on 1 April.
- Operating profit before impairments, provisions and exceptional items improved to £5.9m from £5.8m.
- Residential mortgage lending continued the positive trend seen in 2013 and it was business as usual for the Society following implementation of the Mortgage Market Review on 26th April 2014.
- Reduction in legacy mortgage portfolios was on plan at £50m with a greater reduction expected in the second half.
- The number of mortgages in arrears by 3 months or more continued at a low level of 0.59%; well below industry averages.
- Profitability from the Society’s third party servicing Solutions business was in line with expectations with a new contract successfully launched in the first half, three others being implemented and a strong pipeline.
- Capital ratios remain strong with Solvency Ratio at 17.8%, Tier 1 Ratio at 14.0%, Core Equity Tier 1 Ratio at 12.3% and Leverage Ratio at 5.0%.
- Strong liquidity position at 26.9% of shares, deposits and liabilities, which is expected to reduce by the year-end.
- The quality of our people and culture was reaffirmed with the Investor in People (“IIP”) award, our 18th year of holding IIP, and we achieved Silver status for the first time this year.
- Support for members continued through 95% LTV first time buyer mortgages, charity linked savings accounts and competitive savings products.
- Excellent customer service levels achieved and complaints at low levels.

**Chief Executive’s Review**

The recovery in the UK economy appears to be more firmly established and there are encouraging signs that this is set to continue with higher economic growth supported by rising business and consumer confidence.

The Housing Market continues to show signs of vacillation; just as the market looks to be recovering there are concerns raised that it may be overheating whilst some commentators have suggested that the Mortgage Market Review (“MMR”) has started to have a dampening effect based on recent mortgage lending data. From the Society’s perspective we continue to provide our customers with a consistent range of good value mortgage products with an emphasis on helping first time buyers get on to the housing ladder. For us the advent of MMR in April 2014 had little impact as we have completed an affordability assessment for borrowers for several years and all of our mortgage advisors are fully qualified to provide advice. It is pleasing that we have seen our volumes of activity increase post MMR and we have continued to maintain high levels of service.

Interest rates have remained at a record low for over 5 years now and whilst this has been good news for borrowers, savers will appreciate the signals that are starting to emanate from the Bank of England that there is likely to be a rise in interest rates, albeit very gradual. The Society’s balance sheet is well positioned to benefit from a rising interest rate environment.

In the first half of 2014 we performed well against our corporate key performance indicators including; improving profitability, maintaining higher levels of residential lending activity, successful implementation of MMR, continuing wind down of legacy portfolios, investment in infrastructure, reducing arrears rates, reducing complaints, full disposal of Kings Manor properties, and maintaining excellent service standards for customers.

I am very pleased with our performance and the steady progress the Society continues to make.

**Profitability**
Profit before tax was £0.8m for the six months ended 30 June 2014 compared to a restated loss of £0.8m for the first half of 2013. Following a change in accounting policy for recognition of the Financial Services Compensation Scheme ("FSCS") Levy the Society now recognises the full year charge on 1 April each year based on the criteria set out in IFRIC 21 "Levies", which is effective for accounting periods commencing 1 January 2014. Without this change in accounting policy the Society would have reported a profit before tax of £2.0m for 30 June 2014 compared to a profit of £0.8m for the first half 2013.

Operating profit before impairments, provisions and exceptional items improved from £5.8m to £5.9m. Interest margin for the first half improved from 59bp to 70bp reflecting the positive impact of new lending and lower funding costs. Other income reduced from £11.8m to £11.1m reflecting the success of the Society's "fees free" mortgage products and slightly lower income from the Solutions business, which was expected in the short term. Management expenses reduced by £0.2m from £17.9m to £17.7m, despite increased expenditure on risk and compliance reflecting an ever increasing regulatory backdrop. Cost to income ratio improved from 76% to 75%.

The Solutions business successfully launched a new savings contract for a major UK lender in May 2014 which is set to build over the next 12 months. Three other savings management contracts are at implementation stage and the pipeline of referrals continues to grow. The Solutions business provides a diversified income stream for the Society based on core competencies and enhances profitability.

Complaints reduced in the first half of 2014 by 31% and pleasingly complaints in relation to the sale of Mortgage Payment Protection Insurance ("MPPI") fell by 40%. Only 1% of MPPI complaints in the first half were upheld in favour of the customer. The Society has never sold single premium MPPI and we have not seen any evidence of MPPI systemic mis-selling issues. The Society's complaints for the first half of 2014 fell to less than 500 and are now below the level at which they are required to be published on the Society's website. Whilst we have made great progress in reducing the level of our complaints we are not complacent and we continue to analyse customer feedback to improve our systems and processes and make sure we are doing our best for the customer.

Mortgage impairment charges reduced to £2.7m compared to £3.9m for the same period last year, with the majority of provisions continuing to relate to mortgages secured on commercial property.

**Capital**
The Society's capital ratios continue to improve as higher risk assets, with higher capital requirements, redeem from the Society's balance sheet. The overall Solvency ratio increased to 17.8% from 16.9% at the same time last year and Tier 1 ratio improved from 13.1% to 14.0% over the same period. Core Equity Tier 1 capital ratio improved from 11.1% to 12.3%. The Society's Basel III leverage ratio, on a transitional basis, was 5.0% (2013: 5.0%)

**Liquidity**
Liquid assets as a percentage of Shares, Deposits and Liabilities at 30 June 2014 was 26.9% compared to 25.8% at the same point last year. Liquidity is running at above normal operating levels in anticipation of projected funding outflows following a major maturity in August. Liquidity is expected to be more in line with other top 10 building societies following this maturity.

**Credit Risk**
The number of mortgages in arrears by 3 months or more continued at a level lower than the UK average, at 0.59% compared to 0.64% at the end of 2013. Within this figure the number of residential borrowers in arrears of 3 months or more was 0.58% at 30 June 2014 compared to 0.63% at the end of 2013. Possession cases continued at low levels with 5 prime residential possessions and 5 Buy to Let ("BTL") possessions at 30 June 2014 compared to 11 and 14, respectively, at the same time last year.

The Society's prime residential mortgage book increased by £50m during the first half of 2014 (£45m first half 2013) with legacy mortgage books reducing by £50m (£37m first half 2013).

The number of commercial loans where a Law of Property Act 1925 (LPA) receiver had been appointed reduced to 1 at 30 June 2014 compared to 5 at the same point in 2013. There were 3 BTL corporate exposures where an LPA receiver was appointed, unchanged from the same period last year.

**Supporting our Members**

The Society has consistently offered a good range of mortgage products for borrowers and in particular for first time buyers looking to get on the housing ladder where only a 5% deposit is required. Whilst there has been much press coverage about increased interview times for mortgages and a greater level of intrusion following the advent of MMR, for the Society it was business as usual. We saw minimal change in our processes and customer experience in April 2014 as we have adopted MMR requirements as they have been announced over recent years rather than wait for them to become compulsory.

Our charity-linked savings products, in support of the North-East charity the Sir Bobby Robson Foundation is set to reach a fantastic milestone in 2014 with cumulative payments to the charity approaching £1m. This money will be used to support essential investment in cancer research. Our Big Home Saver and Big Little Saver accounts remain very popular and provide great encouragement for members to be regular savers.

Our financial advisory service has gone from strength to strength with a 29% increase in balances invested in the six months to 30 June 2014 compared to the first half of 2013. Newcastle Financial Services Limited will give customers financial advice regardless of how much they have to invest, and against the backdrop of banks focusing their efforts on high net worth customers, we believe this is a service customers really value with very high ongoing levels of satisfaction.

We continue to put the customer at the heart of our business as we believe this is what being a Mutual building society is all about. This means we focus on customer satisfaction and service and ensuring we do all we can to act on customer feedback and reduce the level of complaints.

**Supporting our Staff**

In the first half of 2014, we continued to focus on working with staff to encourage positive change and to reward and support them where we can. In April, we gave staff an above inflation pay rise in recognition of their ongoing hard work which was in addition to the annual corporate bonus. Within the Society there is only one corporate bonus scheme which is discretionary and pays out the same rate of bonus to all staff regardless of their grade. The Corporate bonus is linked to achievement of the Corporate KPI’s which are as much about customer service as financial performance and delivery of key projects.

In 2014 we have also introduced the Society’s first Talent Management Development Programme, which is designed to enhance and develop the future leaders of our business. By working in partnership with the University of Sunderland Business School, we aim to encourage personal transformation and development and deepen the understanding of leadership styles. Various pre-defined work projects are integrated throughout the programme and these will focus on identifying, implementing and evaluating improvements within business areas.

In April, the Society was granted its first Investors in People (IIP) ‘Silver’ award. Having held the IIP accreditation since 1996, we were delighted to make the next step up with the Silver recognition. IIP assessors completed interviews with 70 staff from across the business, covering all grades and areas. To receive this award is a great endorsement of the recognition and importance the Society places on investing in the learning and development of our staff.

Our Staff To Achieve Recognition (S.T.A.R) awards have entered their third year with staff being rewarded for special achievements in the workplace. We have had some great examples of our staff going above and beyond the call of duty in order to help customers or get a job done.

**Supporting our Communities**

We have been busy in our communities in the first half of 2014 with a number of key projects taking place. We entered the fourth year of our financial education programme; this is a six-week long curriculum-based numeracy and literacy programme that aims to teach children aged nine and 10 key skills that will promote financial independence later in life. This culminates in a series of business presentations by the schools to a panel of NBS ‘dragons’ in a bid to win £1,000 for their school. This year’s winner was Brighton Avenue Primary School who will use the prize money to create a community vegetable garden in the school’s grounds, where the funds raised through the sale of vegetables will be given to charity. We have also launched this year’s Cornerstone of the Community awards programme, which aims to celebrate the unsung heroes within the communities in which our business operates. We’ve also held a range of fundraising events, such as cricket and music auctions as well as a talent night, which have helped to raise thousands for our new corporate charity, which is currently being voted on by staff. We also donated more than £14,000 to the Alzheimer’s Society at our AGM, which will help to fund projects within our heartland area. Our branches have been undertaking their own version of the Tour de France which started off in the North of England in July; the “Tour de Branch” involved our branches cycling the 3656km between them to raise money for their local charities –

the encouragement and generosity of our customers and staff in supporting this fund raising challenge has been first rate.

It has been another six months of continued and steady progress and against the backdrop of an improving economy I am confident that the second half will show further improvement with our focus remaining on our customers, staff and the communities within which we operate.

**Jim Willens**
**Chief Executive**
**29th July 2014**

**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.

NEWCASTLE BUILDING SOCIETY GROUP
HALF-YEARLY FINANCIAL INFORMATION

**Summary Consolidated Income Statement**

| | Unaudited 6 months 30 Jun 14 £m | Restated Unaudited 6 months 30 Jun 13 £m | Restated Audited 12 months 31 Dec 13 £m |
|---|---|---|---|
| Interest and similar income | 44.3 | 50.3 | 95.0 |
| Interest expense and similar charges | (31.8) | (38.4) | (71.6) |
| **Net interest receivable** | **12.5** | **11.9** | **23.4** |
| Other income and charges | 11.1 | 11.8 | 24.1 |
| **Total operating income** | **23.6** | **23.7** | **47.5** |
| Administrative expenses | (16.8) | (16.7) | (34.6) |
| Depreciation | (0.9) | (1.2) | (2.3) |
| **Operating profit before impairments, provisions and exceptional items** | **5.9** | **5.8** | **10.6** |
| Impairment charge on loans and advances to customers | (2.7) | (3.9) | (6.7) |
| FSCS levy | (2.4) | (2.7) | (2.7) |
| Other provisions for liabilities and charges | - | - | (1.3) |
| Impairment credit on loans and advances to banks | - | - | 0.8 |
| Gain on disposal of Prepaid Cards Business | - | - | 0.6 |
| **Profit/(loss) before taxation** | **0.8** | **(0.8)** | **1.3** |
| Taxation expense | (0.2) | (0.1) | (1.8) |
| **Profit/(loss) after taxation for the financial period** | **0.6** | **(0.9)** | **(0.5)** |

The notes on pages 10 to 13 form an integral part of this condensed consolidated half-yearly financial information.

**Summary Consolidated Statement of Comprehensive Income**

| | Unaudited 6 months 30 Jun 14 £m | Restated Unaudited 6 months 30 Jun 13 £m | Restated Audited 12 months 31 Dec 13 £m |
|---|---|---|---|
| **Result for the period** | 0.6 | (0.9) | (0.5) |
| **Other comprehensive income/(expense)** | | | |
| *Items that may be reclassified to income statement* | | | |
| Movement on available for sale reserve | 0.9 | (5.0) | (7.0) |
| Income tax on items that may be reclassified to income statement | (0.1) | 1.2 | 1.3 |
| Total items that may be reclassified to income statement | 0.8 | (3.8) | (5.7) |
| *Items that will not be reclassified to income statement* | | | |
| Actuarial loss on retirement benefit obligations | - | - | 2.1 |
| Income tax on items that will not be reclassified to income statement | - | - | (0.6) |
| Total items that will not be reclassified to income statement | - | - | 1.5 |
| **Total comprehensive income/(expense) for the period** | 1.4 | (4.7) | (4.7) |

The notes on pages 10 to 13 form an integral part of this condensed consolidated half-yearly financial information.

**Summary Consolidated Balance Sheet**

| | Unaudited 30 Jun 14 £m | Restated Unaudited 30 Jun 13 £m | Restated Audited 31 Dec 13 £m |
|---|---|---|---|
| **ASSETS** | | | |
| Liquid assets | 908.1 | 906.8 | 887.5 |
| Derivative financial instruments | 9.2 | 24.6 | 21.4 |
| Loans and advances to customers | 2,702.7 | 2,735.7 | 2,700.7 |
| Fair value adjustments for hedged risk | 3.3 | 31.0 | 13.6 |
| Assets pledged as collateral | - | 66.2 | - |
| Property, plant and equipment | 22.4 | 22.1 | 21.4 |
| Investment properties held for sale | - | 10.7 | 4.3 |
| Other assets | 23.4 | 35.7 | 20.4 |
| **TOTAL ASSETS** | **3,669.1** | **3,832.8** | **3,669.3** |

| | Unaudited 30 Jun 14 £m | Restated Unaudited 30 Jun 13 £m | Restated Audited 31 Dec 13 £m |
|---|---|---|---|
| **LIABILITIES** | | | |
| Shares | 3,235.0 | 3,298.4 | 3,236.1 |
| Fair value adjustments for hedged risk | 6.8 | 4.5 | 4.5 |
| Deposits and debt securities | 145.6 | 218.7 | 141.6 |
| Derivative financial instruments | 3.4 | 30.2 | 13.1 |
| Other liabilities | 18.9 | 23.2 | 16.2 |
| Subordinated liabilities | 59.1 | 59.0 | 59.0 |
| Subscribed capital | 29.8 | 29.7 | 29.7 |
| Reserves | 170.5 | 169.1 | 169.1 |
| **TOTAL LIABILITIES** | **3,669.1** | **3,832.8** | **3,669.3** |

The notes on pages 10 to 13 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 2014 (unaudited)**

| | General reserve | Available for sale reserve | Total |
|---|---|---|---|
| | £m | £m | £m |
| At 1 January 2014 | 168.5 | 0.6 | 169.1 |
| Movement in the period | 0.6 | 0.8 | 1.4 |
| **At 30 June 2014** | 169.1 | 1.4 | 170.5 |

**For the 6 months ended 30 June 2013 (unaudited)**

| | Restated General reserve | Available for sale reserve | Restated Total |
|---|---|---|---|
| | £m | £m | £m |
| At 1 January 2013 | 167.5 | 6.3 | 173.8 |
| Movement in the period | (0.9) | (3.8) | (4.7) |
| **At 30 June 2013** | 166.6 | 2.5 | 169.1 |

**For the year ended 31 December 2013 (audited)**

| | Restated General reserve | Available for sale reserve | Restated Total |
|---|---|---|---|
| | £m | £m | £m |
| At 1 January 2013 | 167.5 | 6.3 | 173.8 |
| Movement in the year | 1.0 | (5.7) | (4.7) |
| **At 31 December 2013** | 168.5 | 0.6 | 169.1 |

The notes on pages 10 to 13 form an integral part of this condensed consolidated half-yearly financial information.

**Summary Consolidated Cash Flow Statement**

| | Unaudited 6 months to 30 Jun 14 £m | Unaudited 6 months to 30 Jun 13 £m | Audited 12 months 31 Dec 13 £m |
|---|---|---|---|
| Net cash flows from operating activities | 22.5 | (168.5) | (257.1) |
| Payment into defined benefit pension scheme | - | - | (2.2) |
| Net cash flows from investing activities | 71.1 | 92.3 | 148.6 |
| Net cash flows from financing activities | (3.5) | (3.5) | (7.1) |
| **Net increase/(decrease) in cash and cash equivalents** | **90.1** | **(79.7)** | **(117.8)** |
| Cash and cash equivalents at the start of period | 410.2 | 528.0 | 528.0 |
| **Cash and cash equivalents at the end of the period** | **500.3** | **448.3** | **410.2** |

**Other percentages**

| | Unaudited 6 months 30 Jun 14 % | Restated Unaudited 6 months 30 Jun 13 % | Restated Audited 12 months 31 Dec 13 % |
|---|---|---|---|
| Gross capital as a percentage of shares and borrowings | 7.7 | 7.3 | 7.6 |
| Liquid assets as a percentage of shares and borrowings | 26.9 | 25.8 | 26.3 |
| Wholesale deposits as a % of shares and borrowings | 4.3 | 6.2 | 4.2 |
| Net interest receivable as a % of mean total assets | 0.69 | 0.59 | 0.61 |
| Cost to income ratio | 75.2 | 75.6 | 77.6 |
| Profit after tax as a % of mean total assets | 0.03 | 0.01 | - |
| Management expenses as a % of mean total assets* | 0.98 | 0.92 | 0.96 |
| Core Equity Tier 1 | 12.3 | 11.1 | 12.0 |
| Tier 1 | 14.0 | 13.1 | 14.2 |
| Solvency | 17.8 | 16.9 | 17.9 |
| Leverage Ratio (Basel III - end point) | 4.4% | 4.4% | 4.4% |
| Leverage Ratio (Basel III - transitional) | 5.0% | 5.0% | 5.0% |

** Expressed on an annualised basis*

The notes on pages 10 to 13 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 28th July 2014, 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 2013 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, except for the restatement referred to in note 3 below.

1.3. The half-yearly financial information for the 6 months to 30 June 2014 and the 6 months to 30 June 2013 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 2014 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 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

The Group meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources and is required to maintain a sufficient buffer over regulatory capital and liquidity requirements. The Group's risk appetite as well as its management and control processes for managing exposure to credit, market, liquidity and operational risk are described in the Risk Management Report in the Annual Report and Accounts for 2013. The Group's forecasts and projections, including multiple-scenario stress testing and sensitivity analysis, show that the Group will be able to operate at adequate levels of liquidity and capital for the foreseeable future. After making enquiries, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis in preparing the interim financial information.

## 3. Accounting policies and restatement

The half-yearly financial information has been prepared on the basis of the accounting policies adopted for the year ended 31 December 2013, as described in those financial statements.

The IFRS Interpretations Committee (IFRIC) have issued a new interpretation; IFRIC 21 'Levies' which became effective on 1 January 2014 and has been adopted retrospectively by the Group in the period.

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. Previously the Group recognised the levy throughout the financial year. The Society has therefore borne a full year's interest and capital charge for the FSCS of £2.4m on 1 April 2014, with an expected second half charge of £nil.

Under IAS 8, the Group has retrospectively adopted IFRIC 21 and restated its 2013 financial position and result. The restatement has resulted in an increase in the Group's net assets, as the FSCS provision is being booked in a later reporting period.

The restatement has had an impact on the profit figures for the period to 30 June 2013. The full year charge for 2013 has increased from £2.0m to £2.7m, recognised in full on 1 April 2013, with the tax charge restated accordingly. The restatement has also impacted the opening 2013 half-year and closing 2013 general reserves. Opening 2013 general reserves have been restated to remove excess historic provisions made in expectation of future FSCS levy charges. This has increased the opening 2013 position by £1.7m.

Figures have been restated on all affected 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 2013.

There have been no major changes in the risk management departments since year end or in any risk management policies or procedures.

## 5. Taxation

The effective tax charge is 25% (first half 2013 – 46%). 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

There have been no changes to the nature of the related party transactions entered into since the last annual report. There were no material related party transactions in the period.

## 7. Segment information

The chief operating decision maker has been identified as the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors. The operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The 'Member business' provides mortgage, savings, investment and insurance products to members and customers. The 'Solutions business' provides business to business services through people, processes and technology. The Board assesses performance based on operating profit and profit before tax, after the allocation of all central costs. Income and directly attributable costs are allocated to each segment and support costs are apportioned, based on direct salary costs.

No segment information is presented on geographical lines, because substantially all of the Group's activities are in the United Kingdom.

| **6 months to 30 June 2014** | **Member Business £m** | **Solutions Business £m** | **Total £m** |
|---|---|---|---|
| Net interest receivable | 12.5 | - | 12.5 |
| Other income and charges | 3.6 | 7.5 | 11.1 |
| Administrative expenses | (12.7) | (4.1) | (16.8) |
| Depreciation | (0.7) | (0.2) | (0.9) |
| **Operating profit before impairments and provisions** | **2.7** | **3.2** | **5.9** |
| Impairment charges and provisions for liabilities and charges | (2.7) | - | (2.7) |
| FSCS levy | (2.4) | - | (2.4) |
| **(Loss)/profit for the period before taxation** | **(2.4)** | **3.2** | **0.8** |
| Taxation expense | | | (0.2) |
| **Profit after taxation for the financial period** | | | **0.6** |

| **6 months to 30 June 2013** | **Restated Member Business £m** | **Solutions Business £m** | **Restated Total £m** |
|---|---|---|---|
| Net interest receivable | 11.9 | - | 11.9 |
| Other income and charges | 4.0 | 7.8 | 11.8 |
| Administrative expenses | (12.6) | (4.1) | (16.7) |
| Depreciation | (0.9) | (0.3) | (1.2) |
| **Operating profit before impairments and provisions** | **2.4** | **3.4** | **5.8** |
| Impairment charges and provisions for liabilities and charges | (4.1) | 0.2 | (3.9) |
| FSCS levy | (2.7) | - | (2.7) |
| **(Loss)/profit for the period before taxation** | **(4.4)** | **3.6** | **(0.8)** |
| Taxation expense | | | (0.1) |
| **Loss after taxation for the financial period** | | | **(0.9)** |

| Year to 31 December 2013 | Restated Member Business £m | Solutions Business £m | Restated Total £m |
|---|---|---|---|
| Net interest receivable | 23.9 | - | 23.9 |
| Other income and charges | 7.7 | 15.9 | 23.6 |
| Administrative expenses | (26.2) | (8.4) | (34.6) |
| Depreciation | (1.7) | (0.6) | (2.3) |
| **Operating profit before impairments and provisions** | **3.7** | **6.9** | **10.6** |
| Impairment charges and provisions for liabilities and charges | (7.4) | 0.2 | (7.2) |
| FSCS levy | (2.7) | - | (2.7) |
| Exceptional items | - | 0.6 | 0.6 |
| **(Loss)/profit for the period before taxation** | **(6.4)** | **7.7** | **1.3** |
| Taxation expense | | | (1.8) |
| **Loss after taxation for the financial period** | | | **(0.5)** |

## 8. 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 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Debt securities - available for sale | 407.7 | - | - | 407.7 |
| Derivative financial instruments | - | 9.2 | - | 9.2 |
| Investment properties held for sale | - | - | - | - |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | 3.4 | - | 3.4 |

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 7 'Improving Disclosures about 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 2013. During the period the only changes to the Board were the appointments of Andrew Haigh on 27 January 2014 and Patrick Ferguson on 19 February 2014.

On behalf of the Board

**Jim Willens**
**Chief Executive**
**29th July 2014**

## 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 2014. 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 2014;
- the Summary Consolidated Income Statement and Summary Consolidated Statement of Comprehensive Income for the period then ended;
- the Summary Consolidated Cash Flows 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**
**29 July 2014**
**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.