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NEWCASTLE BUILDING SOCIETY ANNOUNCES FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

Newcastle Building Society today announces its financial results for the year ended 31 December 2008 which are in line with expectations.

Despite the backdrop of a rapidly deteriorating economy, there were many achievements in 2008. During the year the Society;

- Increased retail share balances by 13% to £3.3bn (2007: £2.9bn), as savers sought the traditional safety of a building society
- Attracted over 43,000 new customers
- Reduced its wholesale funding ratio to 27.90% (2007: 32.56%), meaning some 86% of the Society's loans are funded by retail deposits
- Increased other income, net of related charges, by 31% to £24.2m (2007: £18.5m)
- Opened new administration premises to enhance the Society's business continuity capabilities for its Member and Solutions businesses
- Issued £10m of new tier 1 capital in the form of Permanent Interest Bearing Shares (PIBS), reflecting the confidence of investors in the Society's future

Since the year end, the Society has issued its inaugural covered bond programme to strengthen further its funding options and, due to its healthy capital position, the Society has also been successful in its application to access the Government's Credit Guarantee Scheme, being listed as eligible by the Debt Management Office (www.dmo.gov.uk), should such funding be considered desirable.

The Society's solvency ratio improved to 11.9% (2007: 11.2%) following the adoption of Basel II and the liquidity ratio increased to 23.28% (2007: 21.05%).

Operating profit, excluding impairment charges and the costs of the Financial Services Compensation Scheme (FSCS), for the year of £15.8m (2007: £18.1m) was achieved. In the final quarter of 2008, the Society announced that it had exposures of some £43m to the failed Icelandic banks, primarily their UK authorised subsidiaries.

Exceptional provisions made in respect of these exposures accounted for the significant majority of total impairment charges for the year of £44.7m and, together with the costs of the FSCS, meant the Society recorded an overall loss of £25.8m.

The quality of the Society's loan book remains very high. At the end of the year only 0.96% of residential borrowers were in arrears of greater than three months compared with the industry average of 1.88%, with only 39 repossessions instigated in the year by the Society. The average loan to value across the Society's residential mortgages was just 50.6%.

Chief Executive, Colin Seccombe, says: "Results this year have been impacted in a major way by the exceptional market events of 2008. However, our underlying results are solid; we have decreased our wholesale funding ratio and have seen retail balances and other income increase, as well as strengthening our business continuity capability through the opening of new premises.

"The recent PIBS issue demonstrates the confidence that investors have in Newcastle Building Society, and our capital position is very strong.

"The year has presented extremely tough challenges and we expect that trading conditions will continue to be very difficult in 2009. However, we are in a strong, fit position for the future and we are committed to remaining an independent, mutual building society for the benefit of all our members."

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NEWCASTLE BUILDING SOCIETY**PRELIMINARY ACCOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008****CONSOLIDATED INCOME STATEMENTS**

	2008	2007
	£m	£m
Interest receivable and similar income	287.9	264.8
Interest expense and similar charges	(249.3)	(221.1)
Net interest receivable	38.6	43.7
Other income and charges	24.2	18.5
Gains less losses from financial instruments	0.5	(2.9)
Administrative expenses	(47.5)	(41.2)
Operating profit before impairments and FSCS levy	15.8	18.1
Impairment losses	(44.7)	(0.5)
FSCS levy	(6.8)	-
(Loss) / profit for the year before taxation	(35.7)	17.6
Taxation credit / (expense)	9.9	(5.5)
(Loss) / profit for the financial year	(25.8)	12.1

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE

	2008	2007
	£m	£m
Available for sale investments:		
Valuation gains taken to equity	6.6	-
Cash flow hedges:		
Losses taken to equity	(1.2)	-
Actuarial (loss) / gain on retirement benefit obligations	(5.0)	4.8
Taxation on items taken directly through reserves	3.4	(1.5)
Net expense recognised directly in reserves	3.8	3.3
(Loss) / profit for the financial year	(25.8)	12.1
Total recognised income and expense since last annual accounts	(22.0)	15.4

CONSOLIDATED BALANCE SHEETS

	2008	2007
	£m	£m
ASSETS		
Liquid assets	1,069.2	922.8
Loans and advances to customers	3,838.8	3,772.5
Derivative financial instruments	18.7	14.5
Fair value adjustments for hedged risk	68.6	34.1
Property, plant and equipment	32.1	30.0
Investment properties	13.9	8.9
Other assets	51.6	32.9
TOTAL ASSETS	5,092.9	4,815.7
LIABILITIES		
Shares	3,302.3	2,921.7
Deposits and debt securities	1,389.3	1,525.9
Derivative financial instruments	70.2	37.3
Fair value adjustments for hedged risk	8.6	3.0
Other liabilities	43.1	36.4
Subordinated liabilities	60.8	60.8
Subscribed capital	29.9	19.9
Reserves	188.7	210.7
TOTAL LIABILITIES	5,092.9	4,815.7

CONSOLIDATED CASH FLOW STATEMENTS

	2008	2007
	£m	£m
Cash flows from operating activities	170.1	188.6
Taxation paid	(1.5)	(0.9)
Payment into defined benefit pension scheme	(0.4)	(0.4)
Payments made to qualifying members and borrowers in respect of merger	-	(14.5)
Net cash flows from operating activities	168.2	172.8
Cash flows from investing activities		
Purchase of property, plant and equipment	(5.4)	(5.7)
Purchase of investment properties	(5.0)	(6.8)
Sale of property, plant and equipment	0.6	1.0
Purchase of investment securities	(1,615.8)	(1,353.7)
Sale and maturity of investment securities	1,830.9	1,209.2
Net cash flows from investing activities	205.3	(156.0)
Cash flows from financing activities		
Issue of Permanent Interest Bearing Shares	10.0	-
Interest paid on subordinated liabilities	(4.9)	(4.9)
Interest paid on subscribed capital	(2.4)	(2.3)
Repayments under finance lease agreements	(0.4)	(0.3)
Net cash flows from financing activities	2.3	(7.5)
Net increase / (decrease) in cash	375.8	9.3
Cash and cash equivalents at start of year	230.3	221.0
Cash and cash equivalents at end of year	606.1	230.3
Summary of key financial ratios	2008	2007
	%	%
Gross capital as a percentage of shares and borrowings	6.10	6.72
Liquid assets as a percentage of shares and borrowings	23.28	21.05
(Loss) / profit for the year as a percentage of mean total assets	(0.52)	0.26
Management expenses for the year as a percentage of mean total assets	0.96	0.90

NOTES

1. The financial information set out above, which was approved by the Board of Directors on 5 March 2009, does not constitute accounts within the meaning of the Building Societies Act 1986.
2. The financial information for the years ended 31 December 2008 and 31 December 2007 has been extracted from the Accounts for those years and on which the auditors have given an unqualified opinion.
3. 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, New Bridge Street, Newcastle upon Tyne NE1 8AL.

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