

07:00 Thursday 11<sup>th</sup> March 2010

**NEWCASTLE BUILDING SOCIETY ANNOUNCES FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009**

Newcastle Building Society today announces its financial results for the year ended 31 December 2009 which show a break even position after tax.

In a challenging economic environment where the effects of the credit crunch and recession were still felt, the Society was able to achieve notable progress. This includes:

- record net retail inflows of £490m following the launch of several popular products, most notably our ISAs in conjunction with our the award winning MaximISA service. This contrasts with the overall net outflow of £2bn from the building society sector;
- taking on a record numbers of customers with more than 50,000 new members swelling the total base to almost 500,000 customers
- improving the funding profile such that lending is now fully funded by retail deposits (2008 86%)
- in consequence reducing the wholesale funding ratio from 28% to 9%
- commenced development of the new flagship branch in a prime area in Newcastle City Centre
- following a planned reduction in balance sheet size, an improvement in solvency ratio from 11.9% to 13.4% with Tier 1 capital increasing from 9.2% to 10.2%. At year end Core Tier 1 capital amounted to 8.7%, up from 7.8%
- strengthening liquidity from 23% to 28%; and
- maintained lending quality with 3 month residential arrears at around a third of the CML average.

Chief Executive, Colin Seccombe, said: "It is pleasing to restore the Society to a more stable position but we must recognise the continuing pressure on us especially as the high cost of securing funding, combined with the low interest rate environment, impacts the margin.

"Over the next few years we see the Solutions part of our business as key to the Group performance. I am therefore particularly pleased we have a strong pipeline of new savings management contracts, which will commence over the next few months. Whilst the initial effect on profitability is negative as we build up resource levels ahead of the launches, the longer-term view is most encouraging.

"For the traditional building society activity, we await the opening in a few week's time of our new flagship branch in Newcastle City Centre, which reinforces our commitment to deliver exceptional service and products to those who use our branch network in our heartland.

"In 2008, our results were adversely affected by the Financial Services Compensation Scheme levy, which led us to accrue £6.8m in anticipation of the first three years charges. During the year further information on costs became available so we have written back to profit £1.3m this year. Nevertheless, the levy remains a significant burden on the Society - costing more than £5m to date - and we hope when the review of its future structure is complete, a more suitable allocation of the levy away from building societies emerges.

"Another major impact in 2008 was the need for provisions in respect of exposure to various Icelandic banks and their UK subsidiaries. During 2009 the administrators of the UK based Icelandic banks paid £6.7m to us and based on the current best estimates we anticipate future recoveries such that we have reduced our overall level of provision by

£9.1m. However, we have felt it prudent to make further provisions against some of our commercial loan exposures, reflecting the current challenging market conditions.

“In December, the Society announced the appointment of Jim Willens as Deputy Chief Executive to succeed me upon my planned retirement which is tomorrow. Jim has been in situ since the beginning of January affording him the scope to understand the business and its opportunities. His extensive experience of the sector will allow the Society to build value for the future.

“There will remain many challenges in 2010, some will be testing, but I am very confident the Society will prosper under his leadership and thereby allow it to remain a strong independent mutual.”

-ENDS-

**NEWCASTLE BUILDING SOCIETY  
PRELIMINARY ACCOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009**

**CONSOLIDATED INCOME STATEMENTS**

	2009 £m	2008 £m
Interest receivable and similar income	139.7	287.9
Interest expense and similar charges	(119.3)	(249.3)
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<b>Net interest receivable</b>	<b>20.4</b>	<b>38.6</b>
Other income and charges	19.5	24.2
Gains less losses from financial instruments	0.2	0.3
Hedge ineffectiveness	(0.3)	0.2
Administrative expenses	(38.3)	(43.6)
Depreciation	(3.3)	(3.2)
Impairment credit/(charge) on loans and advances to banks	7.3	(29.6)
Impairment credit/(charge) on debt securities	1.8	(3.0)
Impairment losses on loans and advances to customers	(8.0)	(12.1)
FSCS levy	1.3	(6.8)
Other provisions for liabilities and charges	(0.5)	(0.7)
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<b>Profit / (loss) for the year before taxation</b>	<b>0.1</b>	<b>(35.7)</b>
Taxation (expense) / credit	(0.1)	9.9
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<b>Profit / (loss) for the financial year</b>	<b>0.0</b>	<b>(25.8)</b>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2009	2008
	£m	£m
Profit / (loss) for the financial year	0.0	(25.8)
<b>Other comprehensive income:</b>		
Movement on available for sale reserve	(5.5)	6.6
Movement on cash flow hedge reserve	1.2	(1.2)
Actuarial loss on retirement benefit obligations	(6.6)	(5.0)
Taxation on items taken directly through reserves	1.6	3.4
<b>Other comprehensive income for the financial year, net of tax</b>	<b>(9.3)</b>	<b>3.8</b>
<b>Total comprehensive income for the financial year</b>	<b>(9.3)</b>	<b>(22.0)</b>

CONSOLIDATED BALANCE SHEETS

	2009	2008
ASSETS	£m	£m
Liquid assets	1,002.5	1,069.2
Derivative financial instruments	17.9	18.7
Loans and advances to customers	3,459.8	3,838.8
Fair value adjustments for hedged risk	43.2	68.6
Assets pledged as collateral	10.0	-
Property, plant and equipment	28.2	32.1
Investment properties	14.6	13.9
Other assets	43.9	51.6
<b>TOTAL ASSETS</b>	<b>4,620.1</b>	<b>5,092.9</b>
<b>LIABILITIES</b>		
Shares	3,787.2	3,302.3
Fair value adjustments for hedged risk	8.1	8.6
Deposits and debt securities	472.7	1,389.3
Derivative financial instruments	44.4	70.2
Other liabilities	37.6	43.1
Subordinated liabilities	60.8	60.8
Subscribed capital	29.9	29.9

Reserves	179.4	188.7
<b>TOTAL LIABILITIES</b>	<b>4,620.1</b>	<b>5,092.9</b>

#### CONSOLIDATED CASH FLOW STATEMENTS

	2009	2008
	£m	£m
<b>Cash flows from operating activities</b>	<b>(44.9)</b>	<b>170.1</b>
Taxation re-paid/(paid)	5.7	(1.5)
Payment into defined benefit pension scheme	(9.2)	(0.4)
<b>Net cash flows from operating activities</b>	<b>(48.4)</b>	<b>168.2</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(1.4)	(5.4)
Purchase of investment properties	(0.7)	(5.0)
Sale of property, plant and equipment	0.7	0.6
Purchase of investment securities	(1,133.7)	(1,615.8)
Sale and maturity of investment securities	1,261.1	1,830.9
<b>Net cash flows from investing activities</b>	<b>126.0</b>	<b>205.3</b>
<b>Cash flows from financing activities</b>		
Issue of Permanent Interest Bearing Shares	-	10.0
Interest paid on subordinated liabilities	(1.9)	(4.9)
Interest paid on subscribed capital	(3.5)	(2.4)
Repayments under finance lease agreements	(0.3)	(0.4)
<b>Net cash flows from financing activities</b>	<b>(5.7)</b>	<b>2.3</b>
<b>Net increase in cash</b>	<b>71.9</b>	<b>375.8</b>
Cash and cash equivalents at start of year	606.1	230.3
<b>Cash and cash equivalents at end of year</b>	<b>678.0</b>	<b>606.1</b>

<b>Summary of key financial ratios</b>	<b>2009</b>	<b>2008</b>
	%	%

Gross capital as a percentage of shares and borrowings	6.50	6.10
Liquid assets as a percentage of shares and borrowings	28.20	23.28
Profit /(loss) for the year as a percentage of mean total assets	0.00	(0.52)
Management expenses for the year as a percentage of mean total assets	0.86	0.96

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