

14:00pm Thursday 3rd March 2011

NEWCASTLE BUILDING SOCIETY ANNOUNCES FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

Newcastle Building Society today announces its results for the year ended 31 December 2010, which includes a second half profit of £0.2m.

Key highlights:

- The Society reports good progress against the objectives established as part of the Repositioning Programme announced in May 2010;
- The Group reports a loss before tax of £0.7m before one-off Repositioning costs this is split as a loss of £0.9m as already reported in the first half and a profit of £0.2m in the second half; this improving trend is expected to continue;
- Including repositioning costs the loss for the year before tax was £4.7m, representing a loss before tax of £4.9m in the first half and a profit of £0.2m in the second half;
- The Repositioning Programme has generated £8m of recurring cost savings on an annual basis but involved an up-front, one-off cost of £4m as reported at the half year;
- Liquid assets ratio remains strong at 25%, with over three quarters of liquidity held with AAA rated institutions;
- Solvency Ratio improved to 14.1% at 31 December 2010 from 13.4% at the end of 2009;
- The number of the Society's homeowners in arrears of 3 months or more has fallen to 0.75% from 0.86% at the end of 2009, this is significantly better than the CML average;
- Commercial lending wind down strategy is proceeding to plan with the portfolio reducing by 11% in 2010. There are currently no commercial 3 month plus arrears cases compared to 0.3% of the portfolio at the end of 2009;
- Our Solutions business continued to perform well and a series of new contracts were rolled out throughout 2010, this has also led to the creation of 80 jobs. More confirmed contracts are in the pipeline; and
- The launch of several popular products, most notably our 90% LTV mortgage products, with a focus on helping first time buyers on to the housing ladder.

Chief Executive's Business Review:

Jim Willens, Chief Executive, said: "It is nearly a year since I took over as Chief Executive of the Society and I'm extremely pleased with both progress made to date and results delivered. This has been a year where the economy generally continued to present a demanding backdrop, not only for the financial services sector but many organisations and individuals too.

"While there are signs of a more positive outlook beginning to emerge, the economic growth figures published for the fourth quarter of 2010 demonstrate the fragility of the UK economy. I'm very much of the view that recovery will be steady, comparatively slow and not without further challenge compared to that experienced in the past, post recession. Our efforts have therefore been focussed on making sure the Society is well placed for the future and able to benefit from improved economic circumstances as they emerge.

"Everything we have done during the past 12 months has been focussed on ensuring long term delivery to our members, employees, support for the communities in which we operate, and indeed our Solutions business customers. Our strategy going forward continues to be centred solely on these key stakeholders.

"In common with many other organisations, the Society entered 2010 knowing the year would present significant challenge. Our programme of "Repositioning" the business was therefore developed to guide the Society through a demanding agenda. Excellent progress has been made as a result of this in 2010, which now provides a robust base for the organisation as we move into 2011 and beyond.

"Throughout the year we have enjoyed excellent support from our membership. In excess of 25,000 new members joined the Society during 2010 and the average number of products held by members also increased. Feedback is critical to any organisation and we have engaged with our membership regularly throughout the year looking for ways to further improve both the services offered and products delivered.

“We acknowledge that 2010 was a particularly challenging year for our employees but I can say without any doubt our staff have responded magnificently throughout this period. Communication and negotiation were both key throughout the summer months as 170 jobs were lost and I’m very grateful to all parties involved for the guidance and input offered throughout this period. The high quality of work put in by all involved resulted in less than 40 jobs being lost through compulsory redundancy.

“We ended the year by undertaking an employee attitude survey, which has been built and overseen by employees themselves. Participation was excellent and an engagement plan is subsequently in the process of being built, which will be implemented during 2011 and beyond.

“Our objective in 2010 was to find £8 million of cost savings, representing 23% of our cost base, without negatively impacting our long-term strategy. As with all other elements of “Repositioning” this was delivered through and by Society employees. The results achieved allow us to start 2011 with a cost base aligned to our business strategy, as well as economic and market conditions.

“Our Solutions division continues to be a key part of future strategy offering non-interest income via diversification, which is built on core Building Society sector skills. I’m delighted to report we have launched contracts with a value ahead of our plans for 2010. Not only will this create additional value for the Society and ultimately our members, but it has also meant 80 new jobs were created. We enter 2011 with a healthy pipeline of new contracts at various stages of negotiation and I am optimistic this part of our business will grow and add more value over the coming years.

“We have also strengthened our Board with significant appointments throughout the year to both Executive and Non-Executive roles; which further enhances the expertise our Board has in the building society and financial sectors.

“Our strategy is very clear and will return the Society to a traditional model focussed on our key stakeholders. This means we will pursue a controlled and balanced withdrawal from commercial lending, reduce our presence in the social housing lending market, rationalise subsidiaries within the Group and concentrate our efforts on delivering value to our members and customers. Again excellent progress has been made in 2010. Commercial lending balances have fallen by more than 11% and we are well advanced in our subsidiary rationalisation programme.

“In April we announced the Society had reached an agreement with holders of certain classes of the Society’s existing subordinated debt and permanent interest bearing shares, leading to a material strengthening of the Society’s capital position. As a result of the Capital Agreement, the Society now also has £45 million of contingent Core Tier 1 capital which is equivalent to 2.3% of the Society’s risk weighted assets. At 31 December 2010 the Society had a Core Tier 1 ratio of 9.1% (up from 8.7% at the end of 2009) which including the contingent Core Tier 1 capital increases to 11.4%.

“2010 has been a very challenging year but also one during which the Society has made real progress. Our long-term aim continues to be focussed on traditional building society objectives supported by diversification through our Solutions operation, which combined allow us to provide meaningful reward to our members.”

Jim Willens
Chief Executive
March 3rd 2011

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NEWCASTLE BUILDING SOCIETY
PRELIMINARY ACCOUNCEMENT
for the year ended 31 December 2010

CONSOLIDATED INCOME STATEMENTS	2010	2009
	£m	£m
Interest receivable and similar income	101.0	139.7
Interest expense and similar charges	(83.2)	(119.3)
Net interest receivable	17.8	20.4
Other income and charges	18.8	19.5
Gains less losses on financial instruments and hedge accounting	0.0	(0.1)
Administrative expenses	(33.7)	(38.3)
Depreciation	(3.2)	(3.3)
Impairment losses on loans and advances to banks	2.1	7.3
Impairment losses on debt securities	0.3	1.8
Impairment losses on loans and advances to customers	(1.8)	(8.0)
FSCS levy	0.0	1.3
Repositioning Programme	(4.0)	0.0
Other provisions for liabilities and charges	(1.0)	(0.5)
(Loss)/profit for the year before taxation	(4.7)	0.1
Taxation credit/ (expense)	1.0	(0.1)
(Loss)/ profit for the financial year	(3.7)	0.0

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2010	2009
	£m	£m
(Loss)/ profit for the financial year	(3.7)	0.0
Other comprehensive income:		
Movement on available for sale reserve	1.0	(5.5)
Movement on cash flow hedge reserve	0.0	1.2
Actuarial loss on retirement benefit obligations	(0.5)	(6.6)
Taxation on items taken directly through reserves	(0.1)	1.6
Other comprehensive income/ (loss) for the financial year, net of tax	0.4	(9.3)
Total comprehensive loss for the financial year	(3.3)	(9.3)

CONSOLIDATED BALANCE SHEETS

	2010	2009
ASSETS	£m	£m
Liquid assets	823.9	1,002.5
Derivative financial instruments	34.2	17.9
Loans and advances to customers	3,325.1	3,459.8
Fair value adjustments for hedged risk	50.8	43.2
Assets pledged as collateral	105.4	10.0
Property, plant and equipment	26.1	28.2
Investment properties	14.3	14.6
Other assets	39.0	43.9
TOTAL ASSETS	4,418.8	4,620.1
LIABILITIES		
Shares	3,593.0	3,787.2
Fair value adjustments for hedged risk	20.8	8.1
Deposits and debt securities	457.4	472.7
Derivative financial instruments	54.2	44.4
Other liabilities	29.1	37.6
Subordinated liabilities	58.6	60.8
Subscribed capital	29.6	29.9
Reserves	176.1	179.4
TOTAL LIABILITIES	4,418.8	4,620.1

CONSOLIDATED CASH FLOW STATEMENTS

	2010	2009
	£m	£m
Cash flows from operating activities	(92.3)	(44.9)
Taxation repaid	0.0	5.7
Payment into defined benefit pension scheme	(0.4)	(9.2)
Net cash flows from operating activities	(92.7)	(48.4)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1.4)	(1.4)
Purchase of investment properties	(0.2)	(0.7)
Sale of property, plant and equipment	1.6	0.7
Purchase of investment securities	(832.0)	(1,133.7)
Sale and maturity of investment securities	612.2	1,261.1
Net cash flows from investing activities	(219.8)	126.0
Cash flows from financing activities		
Interest paid on subordinated liabilities	(0.8)	(1.9)
Interest paid on subscribed capital	(3.6)	(3.5)
Repayments under finance lease agreements	(0.2)	(0.3)
Net cash flows from financing activities	(4.6)	(5.7)
Net (decrease) / increase in cash	(317.1)	71.9
Cash and cash equivalents at start of year	678.0	606.1
Cash and cash equivalents at end of year	360.9	678.0

Summary of key financial ratios	2010	2009
	%	%
Gross capital as a percentage of shares and borrowings	6.65	6.50
Liquid assets as a percentage of shares and borrowings	25.21	28.20
(Loss)/profit for the year as a percentage of mean total assets	(0.08)	0.00
Management expenses for the year as a percentage of mean total assets (excluding Repositioning costs)	0.82	0.86
Management expenses for the year as a percentage of mean total assets (including Repositioning costs)	0.91	0.86