

Strictly embargoed until 7:00am Friday 9 March 2007

Newcastle Building Society today announces its results for the year ended 31 December 2006

Key highlights:

- Merger with Universal Building Society successfully completed on 31 December with all systems fully integrated on that date and additional branches open for business as usual on 2 January 2007.
- Significant new contracts secured with leading financial institutions.
- Group profit after tax amounted to **£8.1 million**, an increase of **15.7%** when compared to the previous year.
- Retail funding inflows increased by more than **£200 million** during the year and our 50+ Account continues to prove a popular choice for many of our customers.
- Following the merger, assets now stand at **£4.42 billion**, up **14.5%** when compared to 2005.
- Despite industry concerns of rising debts, the credit quality of our lending book remains very good with only **0.34%** of our portfolio with arrears of more than 2.5% of the balance.

Commenting on the results, Chief Executive Colin Seccombe said:

'The most significant development during the year crystallised on 31 December 2006 when the Newcastle merged with our close neighbour, the Universal Building Society. I am delighted to announce the success of this merger, which was endorsed by an overwhelmingly positive response from Universal members with 98% of them voting to accept it, and which has enhanced the Society's position as the largest building society in the North East. Expanding our branch network to 37 branches and increasing its financial strength, the merger provides the combined Society's membership and its staff with greater opportunities in the future.

Throughout 2006, the Society continued to promote its IT capabilities and core business processing services to a range of new business partners and with considerable success. A number of major new contracts to provide fully managed internet savings accounts to other financial institutions, including the Icelandic Bank, Landsbanki (under the 'Icesave' banner), were tendered for and concluded during the

year. These fully complement our existing and very successful arrangements with Bradford & Bingley and others.

This has resulted in a healthy increase in income during the year and prompted a significant recruitment drive to attract 70 new permanent staff across all business activities. We now employ over 1,000 people in the North East and continue to expand.

Our prepaid cards division celebrated its first anniversary in 2006 with the production of the millionth card. The Society now has the most Mastercard approved card schemes in the UK. This is a very young market and has a great deal of potential within a number of different sectors, from parents who wish to track children's spending, unbanked adults to migrant workers and employers.

2006 was an exciting year for the Society with a great many developments which drive the business forward. In 2007 we shall be building on these areas and exploiting other opportunities that arise. We continue to look for every opportunity to provide the products and services needed by our members and business partners.'

NEWCASTLE BUILDING SOCIETY GROUP
GROUP INCOME STATEMENTS

	2006	2005
	£m	£m
Interest and similar income	194.1	188.4
Interest expense and similar charges	-161.2	-155.3
Net interest receivable	32.9	33.1
Other income and charges	12.5	9.6
Total operating income	45.4	42.7
Administrative expenses	-33.5	-28.0
Impairment losses	-0.3	0.1
Profit before taxation	11.6	14.8
Taxation	-3.5	-4.4
Profit for the financial year from continuing operations	8.1	10.4
Discontinued operations	-	-3.4
Profit for the financial year	8.1	7.0

STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2006	2005
	£m	£m
Change in accounting policy on adoption of IAS 32 and IAS 39	-	-5.6
Actuarial loss on retirement benefit obligations	0.4	-4.0
Merger bonus payable to qualifying members and borrowers	-8.3	-
Transferred from investment property revaluation reserve on reclassification of property	-	0.4
Taxation	2.3	1.8
Net income recognised directly in reserves	-5.6	-7.4
Profit for the year	8.1	7.0
Total recognised income and expense since last annual accounts	2.5	-0.4

NEWCASTLE BUILDING SOCIETY GROUP
GROUP BALANCE SHEETS

	2006	2005
	£m	£m
ASSETS		
Liquid assets	773.3	653.3
Derivative financial instruments	12.4	29.0
Fair value adjustments for hedged risk	28.4	29.8
Loans and advances to customers	3,542.2	3,076.6
Investment securities	0.1	10.3
Property, plant and equipment	27.0	23.7
Investment property	2.1	0.1
Other assets	35.5	38.4
Non-current assets available for sale	0.5	2.2
TOTAL ASSETS	4,421.5	3,863.4
	2005	2005
	£m	£m
LIABILITIES		
Shares	2,671.5	2,060.3
Deposits and debt securities	1,391.8	1,488.9
Derivative financial instruments	14.6	33.1
Fair value adjustments for hedged risk	12.4	3.8
Other liabilities	46.5	23.4
Retirement benefit obligations	8.8	15.6
Subordinated liabilities	60.7	49.7
Subscribed capital	19.9	19.9
Reserves	195.3	168.7
TOTAL LIABILITIES	4,421.5	3,863.4

NEWCASTLE BUILDING SOCIETY GROUP
CONSOLIDATED CASH FLOW STATEMENTS

	2006	2005
	£m	£m
Cash flows from operating activities	96.3	109.9
Taxation paid	-1.1	-3.9
Payment into defined benefit pension scheme	-9.0	-4.5
Cash flows from investing activities	-87.6	-15.9
Cash flows from financing activities	-5.8	-5.9
Net (decrease) / increase in cash	-7.2	79.7
Net (decrease) / increase in cash	-7.2	79.7
Cash and cash equivalents at start of year	228.2	148.5
Cash and cash equivalents at end of year	221.0	228.2

NOTES

1. The financial information set out above, which was approved by the Board of Directors on 8 March 2007, does not constitute accounts within the meaning of the Building Societies Act 1986.
2. The financial information for the years ended 31 December 2006 and 31 December 2005 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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For more information please contact Charlotte McGregor, The Wriglesworth Consultancy on 020 7845 7900 or email: www.wriglesworth.com