



PRESS RELEASE

15 April 2010

Newcastle Building Society Announces Capital Strengthening

Summary

Newcastle Building Society (the "Society") today announces that it has reached an agreement with holders of certain classes of the Society's existing subordinated debt and permanent interest bearing shares ("PIBS") which will lead to a material strengthening of the Society's capital position (the "Capital Agreement").

The Capital Agreement reflects a proactive initiative by the Society to underpin its financial strength and further enhance its standing as a market-counterparty. Under the Capital Agreement, the Society has agreed with holders of certain classes of its subordinated debt and PIBS to add, in return for an uplift in coupon, a conversion feature such that those instruments would convert into profit participating deferred shares ("PPDS"), a core tier 1 capital instrument, should the Society's core tier 1 capital ratio fall below 5%. The Capital Agreement applies to £46 million in total of the Society's subordinated debt and PIBS.

As a result of the Capital Agreement therefore, in addition to the £179 million of core tier 1 capital held by the Society as at 31 December 2009, the Society will also have £46 million of contingent core tier 1 capital (such contingent core tier 1 capital being equivalent to 2.2% of the Society's risk weighted assets). As at 31 December 2009, the Society had a core tier 1 capital ratio of 8.7% (up from 7.8% at the prior year end). The Capital Agreement will therefore further strengthen the Society's capital position, providing 2.2% of contingent core tier 1 capital in addition to the existing 8.7% core tier 1 capital ratio as at 31 December 2009.

Additionally, the Society has introduced an innovative feature which means that the relevant instruments would cease to be convertible and the coupon uplift would fall away if the Society's core tier 1 capital ratio exceeds 12%. This feature has helped minimise the level of coupon uplift necessary to secure the agreement of the investors who are a party to the Capital Agreement.

Jim Willens, Chief Executive of Newcastle, said: "This initiative represents a significant enhancement to the quality of our capital base and provides further underpinning to our financial strength. It puts us on a very solid footing and will support our strategy of providing long-term member value as a strong, traditional and independent building society."

Terms

The details of the proposed Capital Agreement are summarised below:

- The instruments subject to the Capital Agreement are:
 - the £11 million 6.375% fixed rate subordinated notes due 2015 (ISIN: XS0227704037) (“2015 Notes”);
 - the £25 million 6.19% fixed rate subordinated loan due 2017 (“2017 Loan”); and
 - the £10 million 12% permanent interest bearing shares (“2008 PIBS”)(together the “Relevant Securities”).
- The investor parties to the Capital Agreement are the lender under the 2017 Loan, each of the holders of the 2008 PIBS and, with respect to the 2015 Notes, holders or parties acting as investment manager for holders together representing 75% by value of the 2015 Notes.
- The Society’s other subordinated notes (the £25 million 6.625% fixed rate subordinated notes due 2019, ISIN XS0178286901) and PIBS (the £10 million 12.625% PIBS, ISIN GB0006361371; and the £10 million 10.75% PIBS, ISIN GB0006371529) are not subject to the Capital Agreement.
- All the different classes of the Relevant Securities would convert in full and on the same terms into PPDS if the Society’s core tier 1 capital ratio falls below 5% (this would require a reduction in the core tier 1 capital ratio of over 40% or aggregate pre-tax losses of in excess of £105 million).
- In the event of conversion, the PPDS would (under current rules) qualify as core tier 1 capital of the Society and be eligible for a dividend payment based on a percentage of the Society’s annual post-tax profits. This percentage, which would be determined at the time of conversion, would be equivalent to that proportion of the Society’s core tier 1 capital which the PPDS represent immediately after conversion. Any such dividend would be at the sole discretion of the Society’s board of directors.
- In consideration of agreeing to the insertion of a conversion feature to the terms of the Relevant Securities, the coupon on the Relevant Securities will be amended as follows:
 - 2015 Notes: increased by 1% to 7.375% and held at this rate for the duration of the Notes;
 - 2017 Loan: increased by 1% to 7.19% with the rate from October 2012 also being increased by 1% (to 8.19%); and
 - 2008 PIBS: increased by 0.25% to 12.25% with the rate from December 2018 also being increased by 0.25% (to 3 month LIBOR + 11.25%).
- In the event that the Society’s core tier 1 ratio is equal to or greater than 12%, the Relevant Securities would cease to be convertible into PPDS

and the then prevailing coupon on the Relevant Securities would be reduced by 1% for the 2015 Notes and 2017 Loan and 0.25% for the 2008 PIBS.

- Prior to any conversion into PPDS, the 2015 Notes and 2017 Loan will continue to be classified as lower tier 2 capital and the 2008 PIBS will continue to be classified as tier 1 capital.
- The FSA has reviewed the amended terms of the Relevant Securities and has granted to the Society a direction to modify certain rules in the FSA's General Prudential sourcebook to allow for the coupon increase with respect to the Relevant Securities.
- Completion of the Capital Agreement in respect of all the Relevant Securities is subject to the passing, at a meeting of the holders of the 2015 Notes to be held as soon as practicable after the date of this announcement, of a resolution to approve the necessary changes to the terms of the 2015 Notes. The Society has received irrevocable undertakings, from persons representing 75% by value of the 2015 Notes, to vote in favour, or recommend that the beneficial holder votes in favour, of a resolution to approve such changes.
- The Capital Agreement is expected to complete in early May.

Lexicon Partners acted as financial adviser to the Society.

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Notes:

A summary of the terms of the PPDS, if issued, is set out below:

- The PPDS would be deferred shares for the purposes of Section 119 of the Building Societies Act 1986, as amended;
- The PPDS would be perpetual instruments with no maturity date or right to repayment other than on a winding-up;
- In the event of a winding-up, the PPDS would rank *pari passu* with the claims in respect of the Society's other classes of PIBS;
- Save as described below, the holders of the PPDS would be eligible to receive a dividend, any such dividend to be at the discretion of the Board of the Society, based upon the annual consolidated post-tax profits of the Society (calculated prior to payment of the PPDS dividend and subject to certain other adjustments);
- The maximum participation percentage of profits for which the PPDS holders would be eligible would be equivalent to that proportion of the Society's core tier 1 capital which the PPDS represent immediately after conversion (the "Participation Percentage");
- The PPDS would also absorb the Participation Percentage of any consolidated post-tax losses recorded by the Society, any such amount being debited to a reserve account maintained by the Society for the purpose of the PPDS (the "PPDS Reserve Account"). Any net profits which are eligible to be paid to holders of PPDS as dividends but which are not so paid would be credited to the PPDS Reserve Account;
- No dividends may be paid on the PPDS in years where the Society incurs consolidated post-tax losses or where the PPDS Reserve Account is in deficit as a result of previous years' losses;
- Dividends on the PPDS are non-cumulative; and
- The PPDS would not be protected deposits for the purposes of the Financial Services Compensation Scheme.

This announcement, including information included or incorporated by reference in this announcement, may contain "forward-looking statements" concerning the Society. Generally, the words "will", "may", "should", "could", "would", "can", "continue", "opportunity", "believes", "expects", "intends", "anticipates", "estimates" or similar expressions identify forward-looking statements. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the Society's ability to control or estimate precisely, such as future market conditions and the behaviours of other market participants, and therefore undue reliance should not be placed on such statements. The Society assumes no obligation and does not intend to update these forward-looking statements, except as required pursuant to applicable law.

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Society and no-one else in connection with the Capital Agreement and will not be responsible to anyone other than Newcastle Building Society for providing the protections afforded to customers of Lexicon Partners or for providing advice in relation to the Capital Agreement or in relation to the contents of this announcement or any transaction or arrangement referred to herein.

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