



Direction

To: Newcastle Building Society (the “firm”)

Ref: 1159775

Of: Chief Office, Portland House, New Bridge Street, Newcastle upon Tyne NE1 8AL

Date: 14 April 2010

Handbook Version as in force at the date of this Direction

Power

1. This direction is given by the *FSA* under section 148 of the *Act*.

Duration

2. This direction takes effect on the date of completion of the Capital Restructuring of the following capital instruments issued by Newcastle Building Society:
 - (a) £11m 6.375% fixed rate notes due 2015 constituted by a Deed of Trust dated 23rd August 2005 (the “Notes”); and
 - (b) £25m 6.19% fixed rate step-up loan due 2017 (the “Loan”); and
 - (c) the £10m 12% Permanent Interest Bearing Shares issued in 2008 (the “PIBS”);in accordance with the Terms and Conditions of the Capital Restructuring of Newcastle Building Society.
3. This direction ends on the earlier of:
 - (a) the date of conversion of the capital instruments referred to in 2 into profit participating deferred shares (“PPDS”) in accordance with the Terms and Conditions of the Capital Restructuring; or
 - (b) the date the Ceiling Trigger, as defined in the Terms and Conditions of the Capital Restructuring, has occurred and the capital instruments referred to in 2 cease to be convertible into PPDS; or
 - (c) in the case of the Notes and the Loan, the date of their respective maturity; or
 - (d) in the case of the PIBS, the last date on which the last of the PIBS is redeemed by Newcastle Building Society.



Rules modified

4. The FSA directs that the *rules* listed below apply to the firm with the modifications shown.

Rule	Modification
GENPRU 2.2.147R	The <i>rule</i> is replaced by: “(1) A firm may not include in its tier one capital resources a tier one instrument (other than the instrument issued by Newcastle Building Society specified in (4)) that is or may be subject to a step-up that does not meet the definition of moderate in the press release of the Basle Committee on Banking Supervision of 27th October 1998 called “Instruments eligible for inclusion in Tier 1 capital”. (2) For the purpose of (1) the words in that press release “than, at national supervisory discretion, either” are replaced by “than the higher of the following two amounts”. (3) The calculations required by this rule and GENPRU 2.2.151 R must be carried out as at the date of issue of the relevant instrument. (4) The tier one instrument referred to in (1) is the £10m 12% Permanent Interest Bearing Shares issued in 2008 by the Newcastle Building Society, which include the step-up created in relation to that item of capital by the Terms and Conditions of the Capital Restructuring of Newcastle Building Society dated 14 April 2010 and provided that such step-up shall meet the condition in GENPRU 2.2.151 (4) as though it applied to a tier one instrument.”
GENPRU 2.2.151R	The <i>rule</i> is replaced by: “(1) Subject to (2), if a tier two instrument (other than the tier two instruments issued by Newcastle Building Society specified in (3) which meet the requirement in (4)) is or may be subject to a step-up that does not meet the definition of moderate in the press release of the Basle

Rule	Modification
	Committee on Banking Supervision referred to in GENPRU 2.2.147 R (1) as adjusted under GENPRU 2.2.147 R (2), the first date that a step-up can take effect is deemed to be its final maturity date if that date is before its actual maturity date. (2) If a tier two instrument (other than the tier two instruments issued by Newcastle Building Society specified in (3) which meet the requirement in (4)): (a) is or may be subject to a step-up during the period beginning on the fifth anniversary of the date of issue of that item and ending immediately before the tenth anniversary of the date of issue; and (b) the step-up or possible step-up is one which may result in an increase over the initial rate that is greater than 50 basis points, less the swap spread between the initial index basis and the stepped-up index basis (all these terms must be interpreted in accordance with GENPRU 2.2.147 R); the first date that a step-up can take effect is deemed to be its final maturity date if that date is before its actual maturity date. (3) The tier two instruments issued by Newcastle Building Society referred to in (1) and (2) are as follows: (a) £11m 6.375% fixed rate notes due 2015 constituted by a Deed of Trust dated 23rd August 2005; and (b) £25m 6.19% fixed rate step-up loan due 2017; and (4) The requirement referred to in (1) and (2) is that the tier two instruments issued by Newcastle Building Society referred to in (3) must not be subject to a step-up which exceeds the aggregate of (i) all step-ups included in those items of capital on the date of their issue and (ii) the step-

Rule	Modification
<i>GENPRU 2.2.153R</i>	up created in relation to those items of capital by the Terms and Conditions of the Capital Restructuring of Newcastle Building Society dated 14 April 2010.” The rule is replaced by: “(1) A firm must not include in its tier one capital resources a potential tier one instrument (other than the instrument issued by Newcastle Building Society specified in (3)) that is or may become subject to a step-up if that step-up can arise earlier than the tenth anniversary of the date of issue of that item of capital. (2) A firm must not include in its tier two capital resources a capital instrument (other than those instruments issued by Newcastle Building Society specified in (4)) that is or may become subject to a step-up if that step-up can arise earlier than the fifth anniversary of the date of issue of that item of capital. (3) The potential tier one instrument referred to in (1) is the £10m 12% Permanent Interest Bearing Shares issued in 2008 by the Newcastle Building Society, which include the step-up created in relation to that item of capital by the Terms and Conditions of the Capital Restructuring of Newcastle Building Society dated 14 April 2010 and provided that such step-up shall meet the condition in GENPRU 2.2.151 (4) as though it applied to a tier one instrument. (4) The tier two instruments referred to in (2) are as follows: (a) £11m 6.375% fixed rate notes due 2015 constituted by a Deed of Trust dated 23rd August 2005; and

Rule	Modification
	(b) £25m 6.19% fixed rate step-up loan due 2017; which include the step-up created in relation to those items of capital by the Terms and Conditions of the Capital Restructuring of Newcastle Building Society dated 14 April 2010.”

Interpretation

5. Interpretative provisions (including definitions) of the *Handbook* apply to this direction in the same way they apply to the *Handbook*.
6. “Terms and Conditions of the Capital Restructuring” means (1) the provisions set out in a noteholder undertaking agreement dated 14 April 2010 including, without limitation, an irrevocable undertaking from noteholders and/or investment managers representing noteholders holding in aggregate 75% of the Notes to vote in favour of an extraordinary resolution to amend the conditions of the Notes; (2) the provisions set out in a supplemental agreement in respect of the PIBS dated 14 April 2010 to amend the PIBS; and (3) the provisions of an amendment and restatement agreement in respect of the Loan dated 14 April 2010 to amend the terms of the Loan.

Colin Cairns
 Waivers Team
 Regulatory Decisions Department
 Financial Services Authority

