

# Newbury Building Society

## Annual Report and Accounts

Year ended 31 October 2011



“Proud to be a traditional building society owned by our members”



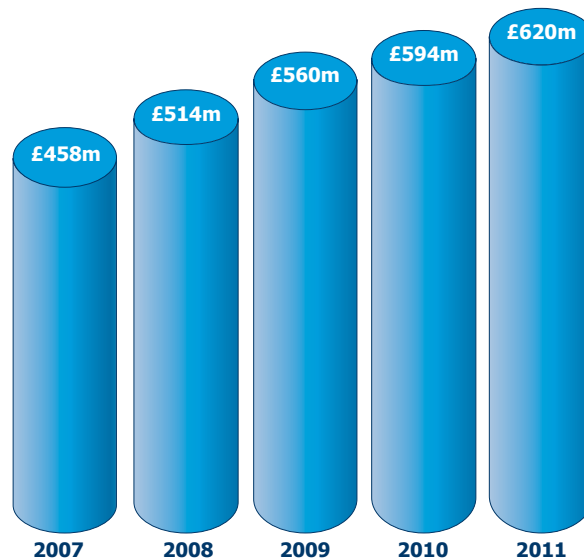
[www.newbury.co.uk](http://www.newbury.co.uk)

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## We receive **Retail Shares and Deposits** from our customers

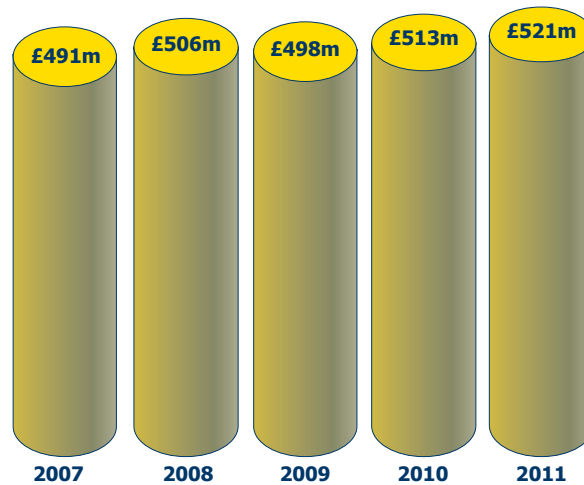
Our members and depositors invest in our branch savings accounts. The Society is now also offering online savings accounts.



In 2011 our balances increased by £26m. The performance of our new Basingstoke branch and our company deposit account were significant factors.

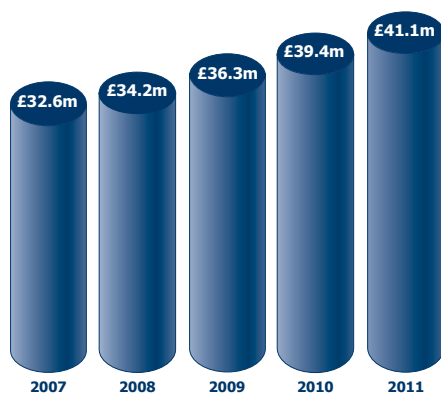
## And make **Loans** to Housebuyers

We use the retail shares and deposits received to provide mortgages, mainly for housebuyers in Central Southern England.

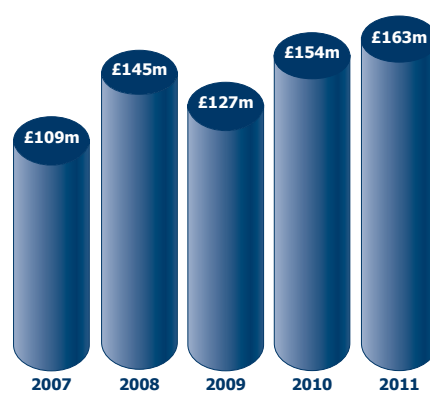


The Society lent £85m in the year, which after redemptions led to an increase of £8m in outstanding loans. Our increased lending to first time buyers helped drive this growth.

## Whilst ensuring strong **Capital and Liquidity** positions are maintained



Capital



Liquid Assets

## Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Annual Accounts and Business Statement of the Society and its subsidiaries (the Group) for the year ended 31 October 2011.

Key Performance Indicators	2011	2010
<b>Retail Shares and Deposits</b>	£620m	£594m
<b>Loans to Customers</b>	£521m	£513m
<b>Total Assets</b>	£691m	£675m
<b>Capital</b>	£41.1m	£39.4m
<b>Management Expenses</b> as a % of Mean Total Assets	0.84	0.83
<b>Interest Margin</b> as a % of Mean Total Assets	1.22	1.20
<b>Group Profit Before Tax</b> , FSCS levy provision and exceptional item	£2.4m	£2.6m
<b>Liquid Assets</b> as a % of Shares and Borrowings	25.1%	24.3%
<b>Mortgage Arrears</b> - on accounts two months or more in arrears	£0.13m	£0.14m

### Business Review

The Board is pleased to report that the Group has delivered another positive financial performance in 2011. Total assets and retail shares and deposits have each grown over 2%, while loans to customers increased above market share by over 1.5%. Profit before tax, FSCS levy provision and exceptional item has remained strong at £2.4m with the interest margin the Group receives improving to 1.22%. With improved capital levels and ratios, increased levels of liquidity and a reduced reliance on market-sourced wholesale funding, the performance of the Group has been both productive and successful. More importantly, it means we have been able to invest in our branches, in technology and in our staff. While this has meant our management expense ratio has increased marginally to 0.84% the Board believes this is a worthwhile investment, sowing the seeds for further growth and improved products and services in the future.

“ Your Board is pleased to be able to present both a solid financial performance and continuing improvements to the products and services offered to members. ”

The Group's performance needs to be understood in the context of the Building Society sector as a whole and also in the context of the current economic climate. In the last year, most of the larger Societies reduced in size and a significant number of Societies experienced lower profitability, as the continuing effects of global economic problems influenced the performance of the British economy. The low interest

rate environment and inflation have adversely affected demand in the retail savings market, and lack of confidence and low economic growth have depressed the UK housing market. Set in this context, the Group has performed most creditably in 2011 and your Board is pleased to be able to present both a solid financial performance and continuing improvements to the products and services offered to members.

### Retail Shares and Deposits

The retail savings market has become increasingly competitive as the banks reshape their business models and seek to refinance and strengthen their liquidity positions. Your Board is therefore pleased to report that the Group's retail share and deposit balances increased by £26m during the year, thus allowing a further repayment of wholesale market borrowings, which now stand at only £17.2m and represent less than 3% of the Group's total funding. The restructuring of our balance sheet has been a key achievement for the Society in recent years and puts us in a much stronger position to grow the business moving forward.



Basingstoke branch, Festival Place - a successful first year

There have been several savings highlights during the year, the most notable being the business generated at our new branch in Basingstoke and the success of our company deposit account, which both attracted over £10m in net balance increases. We were also delighted to welcome nearly a thousand new Young Savers to the Society, testimony to the success of our award-winning Junior Newbury Building Society programme. This programme offers primary schoolchildren the opportunity to operate accounts for fellow pupils whilst learning to save and understand basic personal finance matters.



Junior Newbury Building Society cashiers from St Nicholas' School

Fixed rate bonds continued to be a popular savings vehicle for our members and resulted in several issues being fully subscribed. The Society will continue to offer these popular investments during 2012. Fairness and simplicity in the design of our savings accounts will also continue to be a key component of our proposition to customers and one on which the membership can rely with confidence. For example, the Society does not offer accounts with rates that automatically reduce after a set period. None of the interest rates on our variable accounts have decreased since 2009 and therefore members who have retained their balances with us through this time continue to receive a the same rate as new members. The Board is also keenly aware of the detrimental effect of inflation in maintaining the real value of savings. As it seems likely that the Bank of England Base Rate will remain low for a protracted period, the Board continue to review rates on all savings accounts regularly in order to ensure they retain their fair and competitive market position.

Another key achievement for the Society's future is the launch of our online savings service, which went live at the beginning of November 2011. The new service offers members the opportunity to view their balances and recent transactions online as well as the ability to open and operate savings accounts from the comfort of their home. The Society will

continue to develop its online service in 2012 whilst simultaneously maintaining its total commitment to the branch network. The Board is firmly of the belief that members should be able to take advantage of the dual benefits of both branch and online services, and it is the provision of both in tandem which will provide the platform for the Society's future service provision.

### Loans to Customers

For the second year in a row our borrowers have been the beneficiaries of no change in the Society's Standard Variable Rate, as the Bank of England has kept its Base Rate at the unprecedented low level of 0.5%. With our fixed and discounted mortgage rates both topping best buy tables during the year, the Group has offered a competitive range of products to new and existing borrowers across the full range of the property market. Lending for the year at £85m was marginally down on 2010 with average house prices in our core operating area of Central Southern England reducing since the middle of the year. Redemptions and capital repayments were slightly up on 2010, as some borrowers took advantage of the low interest rate environment to accelerate their repayment plans.

“ Your Society has again been particularly active in the Affordable Housing market ”

Your Society has again been particularly active in the Affordable Housing market, the generic term for partially Government funded schemes such as Shared Ownership. This type of mortgage is often the only way onto the housing ladder for younger individuals and families, and the Society has focused its attention on creating affordable products for such purchasers. The Society entered into an arrangement with Sovereign Housing Association to provide shared ownership mortgages to their clients, and also developed a shared equity scheme with West Berkshire Council for purchasers in their operating area. Both schemes have been well used, thus showing the benefit of partnerships between local Building Societies and those responsible for local housing provision. The Society has also forged close links with several local house builders to offer shared equity mortgages to their purchasers.

The Society's commitment to developing mortgage solutions for first time buyers has been recognised on a national basis in the Mortgage Finance Gazette annual awards, where the Society was presented with the 'Innovator of the Year' trophy. The creative range

of initiatives is perhaps best epitomised by the First Time Buyer Offset mortgage, which we launched in July, and which allows high loan to value mortgages at low loan to value prices by offsetting family savings against the mortgage loan. This product has been featured in several national newspapers as a good example of the type of innovation in the industry to support younger people trying to buy their first home. The Society will continue its commitment to helping aspiring homeowners onto the property ladder by further product and service innovation in the mortgage market and welcomes the potential opportunities presented by the recent Government initiative called Laying the Foundations: A Housing Strategy for England.

The Group's mortgage book remains of the highest quality with an average loan to value under 40%. Our loans are all individually underwritten by an experienced team based in Head Office, who have the authority to exercise some flexibility with our lending criteria in appropriate cases. Responsible lending and decision-making is the key to our loan quality, and our desire to reduce the risk of future default has been paramount in our lending strategy.

“ The Group's mortgage book remains of the highest quality with an average loan to value under 40%. ”

The Group's arrears and possession statistics remain exceptionally low both for the sector and for the industry as a whole. There were four cases in serious arrears of 12 months or more at our year-end (2010: six cases). The total amount of arrears outstanding on these accounts was £22,000 (2010: £44,000) and the aggregate capital balance was £221,000 (2010: £455,000). In addition, as at 31 October 2011 the Group had four properties in possession (2010: two). For the first time since the Banking crisis began, the Group incurred a loss on a fully owned residential mortgage, although the total losses realised on all property over four years are under £50,000. This represents less than 0.01% of current balances. However, a specific provision of £0.5m has been made in the year against a loan that the Society entered into in 2007. The Board has decided to make a full provision against the outstanding loan as a risk now exists that it will not be repaid. This is one of three loans with the same borrower on which the Society earned an additional one-off interest payment of £1.49m in 2010. Therefore, after allowing for the provision, these transactions have been significantly profitable for the Society. The Board expects the

other two loans to be fully repaid.



Lending Manager, Roger Knight with our MFG Innovator Award

We do of course recognise that the personal and financial circumstances of our borrowers can change. When this happens, our clients benefit from our policy to exercise as much forbearance as reasonably possible and to ensure their fair treatment at all times.

### Capital and Liquidity

The Board is very aware that our members require the Group to be financially secure. This protects the Group against its principal risks and uncertainties (see below) and safeguards that members' funds are secure. We therefore set a strategy to ensure that both capital and liquidity are maintained at appropriate levels. This strategy has resulted in the following position as at 31 October 2011:-

- Capital: The Group's capital increased 4.3% to £41.1m (2010: £39.4m). The Group's Gross Capital and Free Capital ratios were 6.34% (2010: 6.22%) and 5.55% (2010: 5.42%) respectively.
- Liquidity: Liquid assets (which comprise cash and investments as shown on the balance sheet on page 21) increased to £163m (2010: £154m). Liquid assets as a percentage of Shares and Borrowings also increased to 25.1% (2010: 24.3%)

The Group is required to set out its capital position, risk exposures and risk assessment processes in its Pillar 3 disclosures document. This can be obtained by writing to the Secretary at our head office.

### Financial Services Compensation Scheme (FSCS)

When Bradford & Bingley plc and three Icelandic banks failed in 2008, their depositors were refunded through a loan made to the FSCS from HM Treasury. This loan was initially scheduled on an interest only

basis for three years whereby the loan interest is the responsibility of all licensed deposit takers, who are compulsorily members of the FSCS. During this three years, we anticipated that the authorities would review and amend the scheme rules, specifically those relating to the level of contribution, because the existing rules essentially disproportionately penalise deposit-takers such as Building Societies who have less risky business models than those of banks. Regrettably the rules have not yet been amended and it seems likely that this will not happen for a while, as HM Treasury awaits the outcome of the European Deposit Guarantee Scheme Directive debate, which seems certain to include a requirement that all licensed deposit takers pre-fund a scheme to bail out future failures. Equally regrettable is the fact that HM Treasury is now seeking a more commercial interest rate on renewal of the loan to the FSCS in March 2012, when the current three-year arrangement comes to an end. In your Board's view, an increase in the interest rate is an unfair burden for the Society and its members, who ultimately pay for the levies to the FSCS through lower savings and higher mortgage rates than would otherwise be the case. The Society and its trade body, the Building Societies Association, continue to lobby for a fairer deal for members. The Group has a provision of £333,000 in this year's Accounts with the prospect of having to increase this next year when the new terms are in place. Further detail relating to the FSCS is contained within note 20 of the Accounts.

## Governance

After restructuring of the Board's committees and changes of personnel amongst the Group's Non-Executive directors in 2009 and 2010, the last year has been a year of stability with no changes to the Board, to senior management or to the Society's committee structure. The Regulatory environment continues to evolve in reaction to the Banking crisis, and at the time of writing we await the final rules of Basel III regarding capital requirements (Capital Requirements Directive 4) and the final rules of the Mortgage Market Review. Both of these regulatory initiatives could have significant impact on the Society although it is your Board's belief that the Society is well placed financially and operationally to absorb the effects of the anticipated changes. The creation of the Prudential Regulatory Authority and the Financial Conduct Authority as successor regulators to the Financial Services Authority will bring further change to the Society and how it is supervised. The Board will engage with the new authorities to ensure that the benefits of the new regime translate into improvements for members in products and service, whilst maintaining the highest standards of governance and operational prudence.

The Board of Directors is committed to best practice in Corporate Governance. The report on pages 14 to 16 explains how the Society applies the principles contained in the UK Corporate Governance Code.

## The Communities We Serve

The Group continues to contribute to the sustainability and enhancement of the communities we serve through the commitment of time and resource. All staff have the opportunity to take two days paid leave to support community projects. Our Executive Directors continue to support local organisations through their service and presence on the governing bodies of Newbury College, Education Business Partnership West Berkshire, Farnborough Aerospace Consortium and Newbury & Thatcham Hospital Building Trust.



Staff volunteers at the centre for Andover Young Carers

In addition during the year the Group made donations totalling £20,893 in support of 35 local charities and community organisations. No contributions were made for political purposes. Our total support to the communities we serve represents 1.5% of our Profit before tax.

## The Future

The Group is in a strong position, financially, operationally and geographically and is not exposed to any Eurozone sovereign states or to any of their banks. The Group continues to maintain an appropriately prudent lending policy which is regularly reviewed to ensure alignment to best practice and the evolving nature of the mortgage industry. Despite the difficult markets in which the Group operates and despite the challenging and uncertain economic conditions, the Board firmly believes a successful future lies ahead as an independent and vibrant mutually owned business. The Board's strategy for the future will be to place more emphasis on growing the balance sheet in order to achieve the economies

of scale and ensuing cost effectiveness to enable the quality of products and service demanded by members today.

“ The Group is in a strong position, financially, operationally and geographically. ”

Our vision is to be our members' preferred provider of mortgages and savings by delivering exceptional service and value. The Society needs a fair wind to help it achieve this, through proportionate regulation and an even-handed outcome over the FSCS refinancing of legacy loans. But, given such treatment, the Board is confident for the future and looks forward to continuing to develop the business by further extending our reach into the communities we serve whilst maintaining the financial strength and cost controls to deliver it.

### Financial Risk Management Objectives and Policies

The Group operates in a business environment that contains financial risks. To mitigate these risks, the Board has implemented a clearly defined risk management framework that contains the following features:

- a risk focused governance structure;
- risk policy statements and risk limits;
- risk identification, monitoring and reporting processes; and
- an effective internal control framework.

The financial instruments used by the Group to mitigate certain risks, particularly interest rate risk, are set out in Note 23 of the accounts.

The key policies that the Group has implemented to manage the risks that it faces include a Lending Policy and a Liquidity & Financial Risk Management Policy. These are reviewed, amended and approved by the Board on a regular basis.

### Principal Risks and Uncertainties

The principal risks to which the Group is exposed, along with the risk management objectives and policies are set out below:

#### Credit Risk

The Group is exposed to credit risk in respect of either loan customers or treasury counterparties being

unable to meet their obligations as they become due:

- The Lending Policy is regularly reviewed and approved by the Credit Committee. Lending mandates are strictly controlled and applications are approved by a central unit. Regular quality control reports are considered by the Credit Committee.
- The Liquidity Policy includes limits on credit exposures to individual and groups of counterparties.

#### Liquidity Risk

Liquidity risk is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties. The Group's Liquidity Policy seeks to maintain sufficient funds in liquid form at all times to ensure that the Group can meet its liabilities as they fall due. Stress tests are carried out regularly to confirm that the Group can withstand normal and abnormal cash outflows. The Liquidity Policy is regularly reviewed and approved by the Assets & Liabilities Committee.

#### Interest Rate Risk

This is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Group's assets and liabilities. This risk, which includes basis risk, is managed utilising financial instruments where appropriate in accordance with the Liquidity & Financial Risk Management Policy. This is regularly reviewed and approved by the Assets & Liabilities Committee. A detailed analysis of the Group's interest rate sensitivity at 31 October 2011 can be found in note 23 on pages 34-36.

#### Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Group has controls in place which are designed to mitigate these risks. The Audit Committee is responsible for assessing the effectiveness of the system of inspection and control.

#### Financial Services Compensation Scheme (FSCS) Risk

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable claims to be met. The possibility therefore exists that the Society may be required to pay a higher level of levies if claims increase. A full explanation of the Society's current position in relation to this risk can be found in note 20 on page 33.

## Regulatory Risk

This is the risk that the volume, prescription and complexity of regulatory issues may impact the Group's ability to compete.

## Employees

“ The Society is fully committed to providing access to learning and development, career progression and promotion opportunities to all staff. ”

The Society continues to hold the Investors in People accreditation. The Society's Executives consult with the Staff Association, and regular team briefings and communications on the Society's intranet ensure employees are aware of the Society's performance and objectives, and understand their part in achieving these. The Society is fully committed to providing access to learning and development, career progression and promotion opportunities to all staff.

As an equal opportunities employer, the Society values the differences that a diverse workforce can bring, and is committed to ensuring within the framework of the law that its workplaces are free from unlawful or unfair discrimination because of colour, race, nationality, ethnic or national origin, gender (including gender reassignment), sexual orientation, age, religion, marital status or disability.

## Directors

The following served as Directors of the Society during the year:

- Mr A C D Rann
- Mr J H Parker
- Mr L F Bambridge
- Mr P J Brickley
- Mr B P Eighteen
- Mr R M W Gardner
- Mr G M Knappett
- Mr R F Simms
- Mrs H M E Wright

Biographies of the Directors appear on pages 12 and 13. None of the Directors has any beneficial interest in any connected undertaking of the Society as at the year end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986.

Mr Rann, Mr Brickley and Mr Knappett will retire at the Annual General Meeting on 27 February 2012. Being eligible for re-election Mr Rann, Mr Brickley and Mr Knappett will seek re-election to the Board.

## Other Matters

### Creditor Payment Policy

It is Group policy to pay suppliers within agreed terms providing the supplier performs according to the terms of the contract. The number of creditor days at 31 October 2011 was six (2010 - fifteen).

### Going Concern

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason the accounts are prepared on a going concern basis.

### Events since the Year End

The Directors do not consider that any event since the year end has had a material effect on the position of the Society, or any of its subsidiary undertakings.

### Auditor

The Auditor KPMG Audit Plc has expressed its willingness to continue in office and in accordance with Section 77 of the Building Societies Act 1986, a resolution for the re-appointment of KPMG Audit Plc as Auditor is to be proposed at the Annual General Meeting on 27 February 2012.



A C D Rann  
Chairman  
21 December 2011

## Purpose, Vision and Culture

“ To be our members’ preferred provider of mortgages and savings, by delivering exceptional service and value ”

- 1 Champion the merits of Newbury Building Society as an independent mutual, putting members’ interests first
- 2 Develop an increasingly strong presence in the communities we serve in Central Southern England
- 3 Offer an attractive range of competitive products and services appropriate to our members’ needs
- 4 Manage members’ financial requirements with confidence, demonstrating high quality of service and value
- 5 Maintain sufficient financial strength and the cost effectiveness to support, sustain and develop the Society’s operations

Our Business

- 1 Treat our members fairly because we want to
- 2 Offer our members products that match their needs
- 3 Communicate clearly, openly and honestly
- 4 Give suitable advice
- 5 Meet our members’ expectations of service and product performance
- 6 Not make it difficult for members to change their minds or complain

Our Members

- 1 Encourage our staff to take responsibility and focus on outcomes
- 2 Create opportunities to learn and develop with progression gained on merit
- 3 Celebrate success and support colleagues
- 4 Communicate openly sharing our views in a positive way and respecting the views of others
- 5 Reward people who do their best at all times

Our Staff

## The Year in Pictures



1 Roland Gardner, with District Councillor Alan Law launching First Step, Next Step - a scheme to help people in West Berkshire buy a home on the open market. 2 Karen Smith, Area Manager and Ros Comins, Business Manager at the Keeping Business Local exhibition at Newbury College. 3 Our first Mortgage Help Centre opened in Basingstoke branch on the 4th July.



4 Matt Long, Office Manager of Basingstoke branch running a colouring competition for our Young Savers in Festival Place. 5 Alton Young Saver competition winner Francesca being presented with her prize by Becky Mountfield. 6 Wokingham branch team prepare for our Great British Summer initiative. Members and new customers were invited to enjoy strawberries and cream.



7 Roland Gardner thanks Charlie Mayfield, Chairman of John Lewis Partnership, for his presentation to Society management. 8 Staff take part in the Hope Challenge, where they had to build and sleep in a shelter for two nights in the Peak District raising money for Habitat for Humanity. 9 Newbury branch assistant Janet Hassell retires after 23 years with the society, pictured here with Roland Gardner.

## Directors



**1 Adrian Rann**

Chairman

Adrian was appointed to the Board of Directors in March 1996 and elected Chairman in February 2009. He is a Chartered Accountant and a partner in a local firm of Chartered Accountants. He is Chairman of the Strategic Risk and Remuneration & Nomination Committees. Adrian lives in Winchester.



**2 John Parker**

Vice Chairman

John was appointed to the Board of Directors in April 2007. He is a Chartered Accountant and a member of the Chartered Institute of Bankers. He was Chief Executive of a regional Building Society and is a past Chairman of the Building Societies Association. He is Chairman of the Assets & Liabilities Committee and a member of the Strategic Risk and Remuneration & Nomination Committees. John lives near Stroud.



**3 Lee Bambridge**

Finance Director

Lee joined the Society and the Board of Directors in July 2007. He is a Chartered Accountant and a Corporate Treasurer and previously worked in the Aerospace industry. He is a member of the Assets & Liabilities Committee. Lee lives in Fleet.



**4 Peter Brickley**

Non-Executive Director

Peter was appointed to the Board of Directors in July 2008. He is Global Chief Information Officer for a global brewer. Peter is Chairman of the Audit Committee and a member of the Assets & Liabilities and Strategic Risk Committees. Peter lives in Lechlade.



### 5 **Brian Eighteen**

#### Non-Executive Director

Brian was appointed to the Board of Directors in October 2009. He is a Chartered Accountant with over 25 years' experience of property development in the Newbury area. He is currently Managing Director of a property investment company. He is a member of the Strategic Risk, Audit and Credit Committees. Brian lives in Newbury.



### 6 **Roland Gardner**

#### Chief Executive

Roland joined the Society in 1987. He joined the senior executive team in 2000 and was appointed to the Board of Directors in September 2006. He was appointed Chief Executive on 1 February 2007. Roland is a member of the Assets & Liabilities and Credit Committees. Roland lives in Highclere, near Newbury.



### 7 **Geoff Knappett**

#### Development Director

Geoff joined the Society in 1992. He was appointed to the Board of Directors in November 2002. He is a Chartered Mathematician and holds a Masters degree in Management Learning. He is a member of the Credit Committee. Geoff lives in Whitchurch.



### 8 **Ron Simms**

#### Non-Executive Director

Ron was appointed to the Board of Directors in June 2010. He is a Solicitor and is Director of Corporate Services for one of the UK's largest personal lines insurance intermediaries. Ron is a member of the Assets & Liabilities, Audit and Strategic Risk Committees. Ron lives in Olney.



### 9 **Helen Wright**

#### Non-Executive Director

Helen was appointed to the Board of Directors in October 2009. She has an honours degree in Business Studies and is a Chartered Surveyor. With over 20 years' experience in the property industry, she is currently Operations Director of a property fund manager. She is Chairman of the Credit Committee and a member of the Strategic Risk and Remuneration & Nomination Committees. Helen lives in Hermitage, near Newbury.

## Corporate Governance Report

The Financial Reporting Council launched the UK Corporate Governance Code in June 2010. Although the Code does not directly apply to mutual organisations, the Group is committed to its principles as demonstrated below.

### The Role of the Board

#### Code Principle:

*A.1. Every company should be headed by an effective Board, which is collectively responsible for the long-term success of the company.*

#### Board Comment:

The Group's performance over recent years demonstrates the effectiveness of the Board in difficult economic circumstances. The Board is effective because of its focus on strategy and risk management in an environment where constructive challenge is encouraged. There is a schedule of matters reserved for Board decision and the Board meets as often as necessary to discharge these duties effectively. There are usually eleven meetings a year together with a day focused on strategy. The Non-Executive Directors meet without the Executive Directors present at least once a year. The internal auditors carry out a Board effectiveness review as part of a rolling audit plan and the Board acts on any recommendations. There are five Committees to which the Board delegates the following responsibilities:

#### Assets & Liabilities Committee

The Committee is responsible for monitoring the structure of the Society's assets and liabilities, controlling financial risk and reviewing control procedures including limits, reporting lines and mandates. The Committee therefore focuses on treasury activities, including liquidity, interest rate risk, basis risk and refinancing risk.

The Committee comprises three Non-Executive Directors who are currently Mr Parker, Mr Brickley and Mr Simms, as well as the Chief Executive and the Finance Director. The Assistant General Managers for Finance and Treasury & Risk attend by invitation.

#### Audit Committee

The Committee considers all aspects of operational and reputational risk management. It is responsible for assessing the effectiveness of audit and compliance systems of inspection and control; assessing accuracy and completeness of financial information; reviewing accounting policies; and establishing effective whistle-blowing controls. It recommends acceptance of the annual accounts to the Board and monitors the performance, independence, objectivity, competence and effectiveness of the internal and external auditors. It is responsible for recommending appointment, re-appointment or removal of external auditors. The Committee is also responsible for approving any non-audit fees paid to the auditors.

The Committee comprises three Non-Executive Directors who are currently Mr Brickley, Mr Eighteen and Mr Simms. The Executive Directors, the Society Secretary and representatives from the internal and external auditors attend by invitation.

#### Credit Committee

The Committee is responsible for credit risk oversight, ensuring the quality and profile of the mortgage portfolio continues to meet the Group's credit risk appetite. The Committee reviews lending policy and lending mandates;

monitors lending quality, volume and arrears performance; and undertakes individual reviews of all commercial and larger loans.

The Committee comprises two Non-Executive Directors who are currently Mrs Wright and Mr Eighteen as well as the Chief Executive and the Development Director. The Assistant General Manager Customer Services attends by invitation.

#### Remuneration & Nomination Committee

The Committee is responsible for succession planning for both Executive and Non-Executive Director positions. It leads the process for Board appointments and makes recommendations to the Board. It considers the balance and diversity of skills, knowledge and experience of the Board, the requirements of the business and recommends change where appropriate. It is responsible for the appraisal of the Non-Executive Directors and for the review of Board performance collectively. Under advice it determines the terms and conditions of employment of the Executive Directors and also recommends Non-Executive Director remuneration to the full Board.

The Committee comprises three Non-Executive Directors who are currently Mr Rann, Mr Parker and Mrs Wright. The Chief Executive attends by invitation.

#### Strategic Risk Committee

The Committee is responsible for setting the Group's risk appetite, for risk monitoring, and for its capital management framework. The Committee comprises all the Non-Executive Directors, with the Executive Directors and the Chief Risk Officer attending by invitation.

The terms of reference for the Committees can be obtained from the Society Secretary at the AGM or by writing to the Secretary at the Society's head office. Proceedings of all Committees are formally minuted and minutes are subsequently considered by the full Board. The Society maintains liability insurance cover for Directors and Officers. Attendance at Board and Committee meetings for the year to 31 October 2011 is set out on page 18.

#### Division of Responsibilities

##### Code Principle:

*A.2. There should be a clear division of responsibilities at the head of the company between the running of the Board and the Executive Responsibility for the running of the company's business. No one individual should have unfettered powers of decision.*

##### Board Comment:

The offices of Chief Executive and Chairman are distinct and held by different Directors. The Chief Executive is responsible for managing the Group's business within the parameters set by the Board. The Chairman's responsibilities are outlined in the Board comment to A.3 below.

#### The Chairman

##### Code Principle:

*A.3. The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.*

##### Board Comment:

The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining

constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. The Chairman was appointed in February 2009, because of his experience, commitment and capability demonstrated during his previous 13 years' service to the Society.

### Non-Executive Directors

#### Code Principle:

*A.4. As part of their role as members of a unitary Board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.*

#### Board Comment:

The Non-Executive role at the Society requires understanding of the risks in the business; commercial leadership within a framework of prudent and effective risk management controls; providing an independent perspective, monitoring performance and resources; and developing, scrutinising, and constructively challenging strategic proposals, whilst supporting the Executive management.

The Vice Chairman is the Senior Independent Director, providing support for the Chairman and an alternative route for communication from members and staff. His main responsibilities are to carry out the appraisal of the Chairman and to chair meetings when the Chairman is unavailable.

### The Composition of the Board

#### Code Principle:

*B.1. The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.*

#### Board Comment:

The Board comprises six Non-Executives and three Executive Directors providing a balance of skills and experience appropriate for the requirements of the business. Committee membership was refreshed last year to ensure there is appropriate expertise in each Committee to discharge its terms of reference. All Non-Executive Directors are considered by the Board to be independent in character and judgement.

### Appointments to the Board

#### Code Principle:

*B.2. There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.*

#### Board Comment:

The Society values diversity and makes Non-Executive Director appointments on merit, based on the specific skills and experience required under the succession plan. Vacancies are widely advertised. All Directors must meet the tests of fitness and propriety designed by the Financial Services Authority (FSA). Each Director must be approved by the FSA in order to fulfil their controlled function as a Director. The Remuneration & Nomination Committee lead the process, although the Board as a whole makes the final decision.

### Commitment

#### Code Principle:

*B.3. All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.*

#### Board Comment:

The Remuneration & Nomination Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 18.

### Development

#### Code Principle:

*B.4. All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.*

#### Board Comment:

The Society provides a formal induction for Non-Executive Directors tailored to their needs. This includes the nature of building societies; Director's responsibilities and duties; the management information they will be provided with and how to interpret this; information on the Group and the local market; an overview of the regulatory requirements; and details of significant current issues for the industry. The Chairman ensures that Non-Executive Directors continually update their skills and knowledge to fulfil their role on the Board and any Committees. Training and development needs are identified as part of the annual appraisal of the Board and individual Director performance and effectiveness. These needs are usually met by internal briefings and via attendance at industry seminars and conferences.

### Information and Support

#### Code Principle:

*B.5. The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.*

#### Board Comment:

The Chairman ensures that the Board receives information sufficient to enable it to discharge its responsibilities. The Group continuously improves management information to assist the Committees in discharging their terms of reference. The Secretary provides support on corporate governance matters and the Board has access to independent advice if required.

### Evaluation

#### Code Principle:

*B.6. The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.*

#### Board Comment:

At least annually the Remuneration & Nomination Committee appraises the Chief Executive's performance and reviews the other Executive Director appraisals. The Non-Executive Directors are evaluated by the Chairman using questions based on those recommended in the FRC guidance on Board Effectiveness issued in March 2011 and taking into account the views of the other Directors. The Chairman is evaluated by the Non-Executive Directors facilitated by the Vice-Chairman and taking into account the views of the Executive Directors. The Board evaluates its overall performance and that of each Committee. This process is used to improve the effectiveness of Directors and the Board collectively. It also informs the decision whether to submit a Director for re-election.

## Re-election

### Code Principle:

*B.7. All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.*

### Board Comment:

The Society's Rules require that all Directors be submitted for election at the Annual General Meeting (AGM) following their appointment to the Board. Directors are appointed for a three-year term, subject to satisfactory performance. The Board does not believe it is appropriate for a building society to subject all Directors to annual re-election because of the continuity and succession needs of an effective Board. The Board's policy is that Non-Executive Directors (apart from the Chairman) will not usually serve more than three terms. The Remuneration & Nomination Committee considers whether members are independent in character and judgement, are able to commit sufficient time and demonstrate capability and knowledge. The Remuneration & Nomination Committee recommends to the Board whether a Non-Executive Director should be submitted for re-election.

## Financial and Business Reporting

### Code Principle:

*C.1. The Board should present a balanced and understandable assessment of the company's position and prospects.*

### Board Comment:

The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained in the Directors' Responsibilities on page 18.

## Risk Management and Internal Control

### Code Principle:

*C.2. The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.*

### Board Comment:

The Board is collectively responsible for determining strategies for risk management and control as described in the Group's risk management policy. Senior management is responsible for designing, operating and monitoring risk management systems and controls. Each Board Committee has oversight responsibility for the risks and controls within its remit. The Strategic Risk Committee assesses the adequacy of the risk related output of this process. The Society's internal auditors, Deloitte LLP, provide independent and objective assurance that the systems are appropriate and controls effectively applied. The Board has reviewed effectiveness of risk management systems and controls and concluded that the Society has a strong compliance culture and that systems are effective and appropriate to the scale and complexity of the business.

## Audit Committee and Auditors

### Code Principle:

*C.3. The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.*

### Board Comment:

The Board has an Audit Committee comprising three Non-Executive Directors. These Directors have specialist expertise including current and relevant financial, legal and risk management experience. The responsibilities of the Committee are set out on page 14.

The Audit Committee meets four times a year where the Society's external and internal auditors and the Executive Directors attend by invitation. At least annually, the Audit Committee meets with the external and internal auditors without the Executive Directors present.

Minutes of the Committee's meetings are distributed to all Board members and the Chairman of the Committee reports to the Board at the Board meeting following a Committee meeting.

## Remuneration

The Directors' Remuneration Report on page 17 explains how the Society complies with the Code Principles relating to remuneration.

## Dialogue with Shareholders

### Code Principle:

*E.1. There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.*

### Board Comment:

As a mutual organisation the Society's membership consists of individuals who are also the Society's customers. The Society is committed to dialogue with members through regular newsletters, social media and events attended by Executive and Non-Executive Directors. The purpose of this dialogue is to understand our members and better serve their needs.

## Constructive use of the Annual General Meeting (AGM)

### Code Principle:

*E.2. The Board should use the AGM to communicate with investors and to encourage their participation.*

### Board Comment:

Each year the Society sends details of the AGM to members who are eligible to vote. The resolutions include the election of Directors and a separate advisory vote on the Directors' Remuneration Report. Members are encouraged to exercise their right to vote and a donation to charity is made for each vote cast. Members are provided with forms and access to a secure website, which enable them to vote utilising a proxy if they are unable to attend the AGM. The distribution of AGM notices (with at least 21 clear days' notice) and the receipt and counting of proxy votes is carried out by independent scrutineers. At the AGM a poll is called in relation to each resolution and the proxy votes cast are included in the result. The results are published on the Society's website.

All members of the Board are present at the AGM each year unless their absence is unavoidable. The Chairmen of the Committees are therefore available to answer questions raised by the Society's members.



A C D Rann  
Chairman  
21 December 2011

## Directors' Remuneration Report

The purpose of this report is to explain how the Society complies with the principles in the UK Corporate Governance Code 2010 relating to remuneration. The Society has adopted a Remuneration Policy, which describes how the Society complies with the FSA's Remuneration Code. The remuneration of the individual Directors is detailed in note 7 on page 26.

### The Level and Components of Remuneration

#### Code Principle:

*D.1. Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.*

#### Board Comment:

The Society's remuneration policy is to reward Directors according to their expertise, experience and overall contribution to the successful performance of the business. The Executive Directors' benefit package is designed to motivate decision making in the interest of members as a whole. A performance related pay scheme operated during the year for Executive Directors, which was carefully designed to encourage achievement of targets that maintain security and financial strength of the Society; and to recognise corporate and individual performance in accordance with good risk management.

#### Executive Directors' Emoluments

The remuneration for Executive Directors reflects responsibilities and time commitment. This year it comprised basic salary, annual performance related pay scheme and various benefits detailed below. Performance related payments are not pensionable. The Society has no share option scheme and none of the Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of any connected undertaking of the Society.

#### Basic Salaries

Basic salaries are reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations and in the light of market conditions generally. Those Executive Directors who hold outside Directorships do not receive remuneration from those organisations.

#### Annual Performance Related Pay Scheme

The annual scheme is based on the Society's key financial measures of profitability, control of costs and growth in mortgages and retail and deposit balances. A maximum of 20% of salary (prior to any salary sacrifice) can be earned for achievement of all targets. The Remuneration & Nomination Committee sets targets and assesses whether any payment should be made. Fundamental prerequisites for any performance related payments include compliance, ethical standards and appropriate risk management. Also a proportion of the performance related payment is deferred in accordance with evolving good practice in remuneration policy.

#### Benefits

The Society makes a contribution of 20.25% of salary (prior to any salary sacrifice) to Executive Directors' private pension arrangements. Executive Directors receive other taxable benefits comprising a car allowance and private healthcare scheme, which covers the Directors and their families. The Society does not provide concessionary home loans to Directors.

#### Executive Directors' Contractual Terms

Mr Gardner, Mr Bambridge and Mr Knappett each have a service contract with the Society, terminable by either party giving twelve months notice.

#### Non-Executive Directors

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations.

Remuneration comprises a basic fee with supplementary payments for the Chairman, Vice Chairman and Chairmen of the five Committees to reflect the additional responsibilities of these positions.

Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any incentive schemes or receive any other benefits. Non-Executive Directors have letters of appointment instead of service contracts.

### The Procedure for Determining Remuneration

#### Code Principle:

*D.2. There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.*

#### Board Comment:

The Remuneration & Nomination Committee reviews the Society's Remuneration Policy annually. The Committee consists of three Non-Executive Directors under the Chairmanship of the Society's Chairman. The Chief Executive attends by invitation but takes no part in the discussion of his own salary. The Committee reviews Directors' and senior management remuneration annually using data from comparable organisations, and takes advice from external consultants when appropriate. Minutes of the Committee's meetings are distributed to all Board members, and the Chairman of the Committee reports at the Board meeting following a Committee meeting.



A C D Rann  
Chairman  
21 December 2011

## Directors' Responsibilities

### Directors' Responsibilities for Preparing the Annual Accounts

The following statement, which should be read in conjunction with the Independent Auditor's Report on page 19, is made by the Directors to explain their responsibilities in relation to the preparation of the annual accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 (the Act) to prepare annual accounts for each financial year, which give a true and fair view:

- of the state of affairs of the Society and the Group as at the end of the financial year, and
- of the income and expenditure of the Society and the Group for the financial year.

In preparing those accounts, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

In addition to the accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and its subsidiary undertakings.

### Directors' Responsibilities for Accounting Records and Internal Control

The Directors are responsible for ensuring that, in accordance with the Act, the Society and its subsidiary undertakings:

- keep adequate accounting records, and
- take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors also have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

## Directors' Attendance Record

( ) = number of meetings required to attend

Director	Board	Assets & Liabilities	Audit	Credit	Remuneration & Nomination	Strategic Risk
<b>A C D Rann</b> Chairman	11 (11)				4 (4)	4 (4)
<b>J H Parker</b> Vice Chairman	9 (11)	11 (11)			4 (4)	4 (4)
<b>L F Bambridge</b> Finance Director	11 (11)	11 (11)				
<b>P J Brickley</b>	11 (11)	11 (11)	4 (4)			4 (4)
<b>B P Eighteen</b>	11 (11)		4 (4)	11 (11)		4 (4)
<b>R M W Gardner</b> Chief Executive	11 (11)	10 (11)		10 (11)		
<b>G M Knappett</b> Development Director	11 (11)			11 (11)		
<b>R F Simms</b>	10 (11)	9 (11)	4 (4)			3 (4)
<b>H M E Wright</b>	10 (11)			9 (11)	4 (4)	4 (4)

# Independent Auditor's Report to the Members of Newbury Building Society

We have audited the group and society annual accounts of Newbury Building Society for the year ended 31 October 2011 set out on pages 20 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and of the society as at 31 October 2011 and of the income and expenditure of the group and of the society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

## Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

## Simon Clark (Senior Statutory Auditor) for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants  
One Snowhill, Snow Hill Queensway, Birmingham B4 6GH  
21 December 2011

## Income and Expenditure Accounts for the year ended 31 October 2011

	Notes	Group 2011 £000s	Society 2011 £000s	Group 2010 £000s	Society 2010 £000s
Interest receivable and similar income	1	19,647	19,566	20,067	19,971
Interest payable and similar charges	2	(11,313)	(11,313)	(10,757)	(10,757)
Net interest receivable		8,334	8,253	9,310	9,214
Fees and commissions receivable		186	186	200	200
Fees and commissions payable		(240)	(239)	(216)	(199)
Other operating income		573	565	545	493
<b>Total Income</b>		<b>8,853</b>	<b>8,765</b>	<b>9,839</b>	<b>9,708</b>
Administrative expenses	4	(5,470)	(5,465)	(5,176)	(5,169)
Depreciation and amortisation	13	(273)	(273)	(218)	(218)
Other operating charges	3	(177)	(177)	(200)	(196)
		2,933	2,850	4,245	4,125
Provisions for bad and doubtful debts	11	(494)	(507)	(114)	(120)
<b>Operating profit before FSCS levy</b>		<b>2,439</b>	<b>2,343</b>	<b>4,131</b>	<b>4,005</b>
Provision for FSCS levy	20	(175)	(175)	200	200
<b>Profit on Ordinary Activities before Tax</b>		<b>2,264</b>	<b>2,168</b>	<b>4,331</b>	<b>4,205</b>
Tax on profit on ordinary activities	5	(611)	(594)	(1,232)	(1,205)
<b>Profit for the Financial Year</b>	21	<b>1,653</b>	<b>1,574</b>	<b>3,099</b>	<b>3,000</b>

## Statement of total recognised gains and losses

Profit for the financial year	1,653	1,574	3,099	3,000
<b>Total Recognised Gains and Losses Relating to the Year</b>	<b>1,653</b>	<b>1,574</b>	<b>3,099</b>	<b>3,000</b>

The **notes** on pages 24 to 36 form part of these accounts. The above results are all derived from continuing operations. Profits on a historical cost basis would not be significantly different to those stated above.

## Balance Sheets at 31 October 2011

	Notes	Group 2011 £000s	Society 2011 £000s	Group 2010 £000s	Society 2010 £000s
<b>Assets</b>					
Liquid assets					
Cash in hand and balances with the Bank of England		17,293	17,293	271	271
Treasury bills		-	-	30,970	30,970
Loans and advances to credit institutions	8	106,231	106,172	102,812	102,703
Debt securities	9	39,140	39,140	19,968	19,968
		162,664	162,605	154,021	153,912
Loans and advances to customers					
Loans fully secured on residential property	10	504,520	451,770	491,957	434,166
Other loans	10	16,924	5,899	21,274	8,422
		521,444	457,669	513,231	442,588
Investments in subsidiary undertakings	12	-	62,521	-	69,510
Tangible fixed assets	13	5,967	5,967	5,911	5,911
Other assets	14	213	180	234	195
Prepayments and accrued income	15	213	213	1,687	1,687
<b>Total Assets</b>		690,501	689,155	675,084	673,803
<b>Liabilities</b>					
Shares	16	572,244	572,244	560,667	560,667
Amounts owed to credit institutions	17	4,160	4,160	20,198	20,198
Amounts owed to other customers	18	70,791	70,791	52,386	52,386
Other liabilities	19	1,175	1,164	1,498	1,473
Accruals and deferred income		739	733	586	580
Provisions for liabilities	20	333	333	343	343
Revaluation reserve	21	2,179	2,179	2,179	2,179
Reserves - general reserves	21	38,880	37,551	37,227	35,977
<b>Total Liabilities</b>		690,501	689,155	675,084	673,803

The **notes** on pages 24 to 36 form part of these accounts.

These accounts were approved by the Board of Directors on 21 December 2011

**A C D Rann** - Chairman

**J H Parker** - Vice Chairman

**R M W Gardner** - Chief Executive

**L F Bambridge** - Finance Director

## Group Cash Flow Statement

	<b>2011</b> <b>£000s</b>	<b>2010</b> <b>£000s</b>
<b>Net Cash Inflow from Operating Activities</b>	16,350	12,884
<b>Taxation</b>	(945)	(838)
<b>Capital expenditure and financial investment:</b>		
Purchase of tangible fixed assets	(330)	(266)
Proceeds from disposals tangible fixed assets	-	1
Purchased debt securities	(45,075)	(43,572)
Proceeds from sale of debt securities	26,167	49,352
(Decrease) / increase in cash	<b>(3,833)</b>	<b>17,561</b>
<b>Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities</b>		
Operating profit	2,264	4,331
Decrease / (increase) in prepayments and accrued income	1,136	(1,538)
(Decrease) / increase in accruals and deferred income	(311)	272
Provisions for bad and doubtful debts	473	111
Provision for FSCS levy	(10)	(400)
Depreciation and amortisation	273	218
Loss / (profit) on sale of fixed assets	1	(1)
<b>Net Cash Inflow from Trading Activities</b>	<b>3,826</b>	<b>2,993</b>
Movement in:		
Loans and advances to customers	(8,686)	(15,770)
Shares	11,952	19,521
Amounts owed to credit institutions and other customers	2,456	21,846
Loans and advances to credit institutions	(24,200)	15,450
Decrease / (increase) in other liquid assets	30,970	(30,970)
Other assets	-	-
Other liabilities	32	(186)
<b>Net Cash Inflow from Operating Activities</b>	<b>16,350</b>	<b>12,884</b>

<b>Reconciliation of Cash Balances</b>	<b>2010</b> <b>£000s</b>	<b>Cash Flow</b> <b>£000s</b>	<b>2011</b> <b>£000s</b>
Cash in hand and balances with the Bank of England	271	17,022	17,293
Loans and advances to credit institutions - repayable on demand	78,431	(20,855)	57,576
	<b>78,702</b>	<b>(3,833)</b>	<b>74,869</b>

	<b>2009</b> <b>£000s</b>	<b>Cash Flow</b> <b>£000s</b>	<b>2010</b> <b>£000s</b>
Cash in hand	211	60	271
Loans and advances to credit institutions - repayable on demand	60,930	17,501	78,431
	<b>61,141</b>	<b>17,561</b>	<b>78,702</b>

## Accounting Policies

### Basis of Preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of land and buildings in accordance with applicable accounting standards, the Building Societies Act 1986, and in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998.

### Basis of Consolidation

The Group accounts consolidate the accounts of the Society and its subsidiary undertakings, all of which have accounting periods ending 31 October.

### Income Recognition

All the Society's material sources of income including interest receivable, fees and commissions are accounted for as earned on an accruals basis.

### Taxation

The charge for taxation is based on the profit for the year and takes into account taxation which is deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided using the full provision method in accordance with Financial Reporting Standard 19.

### Mortgage Incentives

Mortgage incentive payments are written off to other operating charges in the year of commitment to the advance. Interest discounts are recognised over the period of the discount as part of interest receivable.

### Fixed Assets and Depreciation

Freehold buildings are depreciated on a straight-line basis over 50 years. Freehold land is not depreciated. Depreciation of leasehold premises is provided on a straight-line basis over the period of the lease, or over 50 years, whichever is the shorter. Equipment, fixtures, fittings and motor vehicles are capitalised when acquired and depreciated on a straight-line basis over their estimated useful lives of between three and eight years.

Freehold properties are revalued every three years by a qualified internal valuer and every five years by independent external valuers, on a vacant possession basis. The surplus or deficit on revaluation is taken to the revaluation reserve.

### Liquid Assets

Debt securities are intended for use on a continuing basis, are classified as financial fixed assets and are stated at cost, adjusted for accrued interest at the date of purchase, where applicable. A similar adjustment is made on realisation. Any premium or discount on purchase is amortised over the period to maturity. Other liquid assets are stated at the lower of cost and net realisable value.

### Provision for Bad and Doubtful Debts

Specific provisions are made for loans and advances on a case by case basis to cover anticipated losses in respect of all accounts that are more than three months in arrears or that have been identified as impaired. Anticipated losses on such accounts are calculated as the difference between the estimated current achievable market value of the security and the outstanding loan balance, after making appropriate allowance for costs.

In addition, a general provision is made against other advances which have not been specifically identified as impaired, but where experience would indicate that losses may ultimately be incurred. Such provisions are calculated according to risk profiles including loan to value and taking into consideration the general economic climate.

It is the Group's policy not to suspend interest on non-performing loans in arrear, irrespective of whether the interest is subsequently recoverable. Interest is charged up to the date of sale of properties in possession and accordingly the loss provision is increased by the non-recoverable interest.

### Pensions

Pension costs in respect of the Society's defined contribution scheme are charged to the income and expenditure account on an accruals basis.

### Leases

Rental charges under operating leases are charged to the income and expenditure account on a straight line basis over the life of the lease. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

### Off-Balance Sheet Instruments

All interest rate related contracts are classified at the balance sheet date as hedging contracts and the income and expense arising are recognised on an equivalent basis to the assets, liabilities or positions that are being hedged. If the hedging contract is terminated early, the realised gain or loss is charged immediately to the income and expenditure account. Amounts accrued on hedging contracts and instruments are included within prepayments and accrued income or accruals and deferred income.

## Notes to the Accounts

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
<b>1. Interest Receivable and Similar Income</b>				
On loans fully secured on residential property	19,043	16,338	17,911	15,112
On other loans:				
• Connected undertakings	-	3,216	-	3,359
• Other	889	297	2,508	1,852
On debt securities (all fixed income):				
• Interest and other income	232	232	186	186
On other liquid assets:				
• Interest and other income	1,044	1,044	969	969
Net expense on financial instruments	(1,561)	(1,561)	(1,507)	(1,507)
	<b>19,647</b>	<b>19,566</b>	<b>20,067</b>	<b>19,971</b>

### 2. Interest Payable and Similar Charges

On shares held by individuals	9,865	9,865	9,492	9,492
On other shares	73	73	68	68
On deposits and other borrowings	1,375	1,375	1,197	1,197
	<b>11,313</b>	<b>11,313</b>	<b>10,757</b>	<b>10,757</b>

### 3. Other Operating Charges

Other operating charges include mortgage incentives provided to customers with residential mortgage loans.

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
<b>4. Administrative Expenses</b>				
Employee costs				
• Wages and salaries	2,388	2,388	2,341	2,341
• Social security costs	252	252	249	249
• Other pension costs	381	381	348	348
	<b>3,021</b>	<b>3,021</b>	<b>2,938</b>	<b>2,938</b>
Other administrative expenses	2,449	2,444	2,238	2,231
	<b>5,470</b>	<b>5,465</b>	<b>5,176</b>	<b>5,169</b>
Other administrative expenses include:				
• Remuneration of auditor and its associates				
- audit of annual accounts	32	32	32	32
- audit of subsidiary's financial statements	5	-	5	-
- other services relating to taxation	5	5	5	5
- other services	2	2	2	2
• Operating lease costs	91	91	43	42

## 5. Taxation

The taxation charge for the year comprises:

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
UK corporation tax on profits in the year	610	593	1,224	1,219
Adjustment in respect of previous year	1	1	5	5
<b>Total current tax</b>	<b>611</b>	<b>594</b>	<b>1,249</b>	<b>1,224</b>
Deferred taxation:				
Origination and reversal of timing differences	-	-	2	-
Adjustment in respect of previous year	21	15	(19)	(19)
<b>Total deferred tax</b>	<b>21</b>	<b>15</b>	<b>(17)</b>	<b>(19)</b>
<b>Tax on profit on ordinary activities</b>	<b>632</b>	<b>609</b>	<b>1,232</b>	<b>1,205</b>
Factors affecting the tax charge for the year are:				
Profit on ordinary activities before tax	2,264	2,168	4,331	4,205
Profit on ordinary activities multiplied by 26.83% (2010: 28%)	607	582	1,213	1,177
Effects of:				
Difference between capital allowances and depreciation	(15)	(15)	(3)	(3)
Movement on non-taxable provisions	2	5	21	24
Depreciation on non-qualifying assets	18	18	19	19
Adjustment in respect of previous period	1	1	5	5
Small company relief	(5)	-	(8)	-
Disallowable expenses	3	3	2	2
<b>Current tax charge for the year</b>	<b>611</b>	<b>594</b>	<b>1,249</b>	<b>1,224</b>

Total future tax charges are expected to be marginally higher than the standard rate.

## 6. Employees

The average number of persons employed by the Society and Group (including Executive Directors) during the year was as follows:

	<b>Full time 2011</b>	<b>Part time 2011</b>	<b>Full time 2010</b>	<b>Part time 2010</b>
Head Office and Administration Centre	40	11	40	10
Branch Offices	32	28	28	27
	<b>72</b>	<b>39</b>	<b>68</b>	<b>37</b>

## 7. Directors' Remuneration and Transactions

The emoluments for both Executive and Non-Executive Directors totalled £627,220 for the year (2010: £637,251).

### Executive Directors' Emoluments £'s

2011	Salary	Performance Related Pay:		Taxable Benefits	Pension Contribution	TOTAL
		Annual	Three Year			
R M W Gardner	145,810	21,616	-	1,520	34,999	203,945
L F Bambridge	80,032	15,440	-	975	49,324	145,771
G M Knappett	87,858	12,163	-	1,216	25,737	126,974
<b>TOTAL</b>	<b>313,700</b>	<b>49,219</b>	<b>-</b>	<b>3,711</b>	<b>110,060</b>	<b>476,690</b>

2010	Salary	Annual	Three Year	Taxable Benefits	Pension Contribution	TOTAL
R M W Gardner	143,615	10,625	17,550	1,026	33,890	206,706
L F Bambridge	73,667	10,302	12,724	981	52,076	149,750
G M Knappett	86,501	5,250	10,556	1,223	25,545	129,075
<b>TOTAL</b>	<b>303,783</b>	<b>26,177</b>	<b>40,830</b>	<b>3,230</b>	<b>111,511</b>	<b>485,531</b>

In 2010 the Executive Directors received payment under a three-year performance related pay scheme that matured in that year. No three-year scheme operated in 2011. Further details on the components of Directors' emoluments can be found in the Directors' Remuneration Report on page 17.

The Executive Directors have the option to sacrifice part of their salary in exchange for the Society making additional pension contributions on their behalf. During the year all three Executive Directors took advantage of this option.

### Non-Executive Directors' Emoluments £'s (comprising fees only)

	2011 £	2010 £
A C D Rann (Chairman)	36,447	35,195
J H Parker (Vice Chairman)	25,000	22,667
P J Brickley	27,771	21,979
B P Eighteen	20,000	19,500
H M E Wright	21,312	19,500
R F Simms (Appointed 28/06/10)	20,000	6,833
M T Bull (Retired 26/02/10)	-	8,233
A J Jeans (Resigned 31/03/10)	-	7,917
C D Skinner (Resigned 31/03/10)	-	9,896
<b>TOTAL</b>	<b>150,530</b>	<b>151,720</b>

The amount shown in respect of Mr A C D Rann is a contribution made to a third party for making his services available.

Loans to Directors and connected parties:

The aggregate outstanding balance at the end of the financial year in respect of loans from the Group to Directors and connected persons was £1,279,109 (2010: £1,382,858) representing loans to four (2010: six) persons. A register of loans to and transactions with Directors and connected persons is maintained. It is available for inspection by members at the Society's Head Office for the period of fifteen days prior to the Annual General Meeting and at the Annual General Meeting.

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
<b>8. Loans and Advances to Credit Institutions</b>				
Accrued interest	155	155	81	81
Repayable on demand	57,576	57,517	78,431	78,322
Other loans and advances by residual maturity repayable:				
In not more than three months	42,000	42,000	24,300	24,300
In more than three months but not more than one year	6,500	6,500	-	-
	<b>106,231</b>	<b>106,172</b>	<b>102,812</b>	<b>102,703</b>

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
<b>9. Debt Securities</b>				
Issued by public bodies	39,140	39,140	19,968	19,968
	<b>39,140</b>	<b>39,140</b>	<b>19,968</b>	<b>19,968</b>
Debt securities have remaining maturities as follows:				
Accrued interest	511	511	247	247
In not more than one year	38,629	38,629	17,167	17,167
In more than one year	-	-	2,554	2,554
	<b>39,140</b>	<b>39,140</b>	<b>19,968</b>	<b>19,968</b>

All the above are unlisted transferable debt securities.

The Directors of the Society consider that the primary purpose of holding such securities is prudential. The securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are therefore classified as financial fixed assets rather than current assets.

Movement during the year of debt securities held as financial fixed assets are analysed as follows (excluding accrued interest):

	<b>Group &amp; Society £000s</b>
At 1 November 2010	19,721
Additions	45,075
Maturities	(26,167)
At 31 October 2011	<b>38,629</b>

In accordance with FSA requirements the Group has invested a proportion of its liquid assets in UK Government issued Gilts (shown as Issued by public bodies above) and in a Bank of England reserve account.

## 10. Loans and Advances to Customers

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
Loans and advances to customers net of provisions are analysed as follows:				
Loans fully secured on residential property	504,520	451,770	491,957	434,166
Other Loans				
- Loans fully secured on land	16,645	5,620	20,494	7,642
- Other loans	279	279	780	780
	<b>521,444</b>	<b>457,669</b>	<b>513,231</b>	<b>442,588</b>

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:				
On call and at short notice	464	464	150	150
Repayable with remaining maturity:				
In not more than three months	5,642	5,372	3,877	3,569
In more than three months but not more than one year	14,755	12,861	14,330	12,922
In more than one year but not more than five years	86,719	78,945	83,866	75,527
In more than five years	415,165	361,202	411,836	351,109
	<b>522,745</b>	<b>458,844</b>	<b>514,059</b>	<b>443,277</b>
Less provisions (note 11)	(1,301)	(1,175)	(828)	(689)
	<b>521,444</b>	<b>457,669</b>	<b>513,231</b>	<b>442,588</b>

The maturity analysis is produced on the basis that where a loan is repayable by instalment, each such instalment is treated as a separate repayment.

	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Group £000s	Society £000s	Group £000s	Society £000s	Group £000s	Society £000s	Group £000s	Society £000s
<b>11. Provisions for Bad and Doubtful Debts</b>								
At 1 November 2010								
General provision	456	447	207	77	163	163	826	687
Specific provision	2	2	-	-	-	-	2	2
	458	449	207	77	163	163	828	689
Income and expenditure account								
Written off in year	21	21	-	-	-	-	21	21
General provision	10	4	(39)	(20)	-	-	(29)	(16)
Specific provision	(1)	(1)	-	-	503	503	502	502
	30	24	(39)	(20)	503	503	494	507
At 31 October 2011								
General provision	466	451	168	57	163	163	797	671
Specific provision	1	1	-	-	503	503	504	504
	467	452	168	57	666	666	1,301	1,175

The specific provision made in the year against Other loans relates to a loan that the Society entered into in 2007. The Board has decided to make a full provision against the outstanding loan as a risk now exists that it will not be repaid. This loan is one of three with the same borrower on which the Society earned an additional one-off interest payment of £1.49m in 2010. Therefore after allowing for the provision these transactions have been significantly profitable for the Society. The Board expects the other loans in this category to be fully repaid.

	Shares £000s	Loans £000s	Total £000s
At 1 November 2010	-	69,510	69,510
Repayment	-	(6,989)	(6,989)
At 31 October 2011	-	62,521	62,521

The Society holds directly 100% of the issued voting ordinary share capital of £1 in Newbury Mortgage Services Ltd (NMS), whose principal business activity is the provision of mortgage related finance. The repayment made in the year reflects the reduction in the outstanding loan in NMS. The Society also holds directly 100% of the ordinary share capital of two dormant companies; Newbury Financial Services Ltd and Newbury Insurance Services Ltd. All subsidiaries have been consolidated.

All subsidiary undertakings are registered in England and Wales and operate within the United Kingdom.

	Group and Society		
	Land and Buildings £000s	Equipment, fixtures, fittings & vehicles £000s	Total £000s
<b>13. Tangible Fixed Assets</b>			
Cost / valuation			
At 1 November 2010	5,501	2,476	7,977
Additions	-	330	330
Disposals	-	(63)	(63)
At 31 October 2011	<b>5,501</b>	<b>2,743</b>	<b>8,244</b>
Depreciation			
At 1 November 2010	202	1,864	2,066
Charge for the year	70	203	273
Elimination in respect of disposal	-	(62)	(62)
At 31 October 2011	<b>272</b>	<b>2,005</b>	<b>2,277</b>
Net book value			
At 31 October 2010	5,299	612	5,911
At 31 October 2011	<b>5,229</b>	<b>738</b>	<b>5,967</b>

The freehold properties were revalued on 2 March 2009 on a vacant possession basis by Quintons, chartered surveyors. The revaluation produced a £751,000 increase in value which was credited to the revaluation reserve. The valuation of the freehold properties has been reviewed as at October 2011 and approved by the Society's Board.

Included in the land and buildings above is £1,892,000 (2010: £1,892,000) of non-depreciable land.

The net book value of land and buildings for both the Group and Society is represented by:

	<b>2011</b> <b>£000s</b>	<b>2010</b> <b>£000s</b>
Freehold	5,174	5,242
Long leasehold	55	57
	<b>5,229</b>	<b>5,299</b>

Net book value of Land and Buildings occupied by the Group and Society for its own activities:

	<b>2011</b> <b>£000s</b>	<b>2010</b> <b>£000s</b>
Freehold	4,759	5,040
Leasehold	55	57

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
<b>14. Other Assets</b>				
Deferred tax assets	213	180	234	195
Deferred tax assets comprise:				
Accelerated capital allowances	(6)	(6)	9	9
General provisions	225	192	231	192
Prepaid pension costs	(6)	(6)	(6)	(6)
	<b>213</b>	<b>180</b>	<b>234</b>	<b>195</b>

	<b>Group £000s</b>	<b>Society £000s</b>
Movement on deferred tax asset:		
At 1 November 2010	234	195
Deferred tax charge (note 5)	(21)	(15)
At 31 October 2011	<b>213</b>	<b>180</b>

During the year the Government substantively enacted a reduction in UK corporation tax rate to 26% with effect from 1 April 2011, and to 25% with effect from 1 April 2012. This will reduce the Group's future current tax charge accordingly. Deferred tax has been calculated at the corporation tax rates applicable to the financial years in which it is expected that the assets will be realised. The effect of the reduction in the UK corporation tax rate is a £27,500 decrease in the tax charge.

Furthermore, on 23 March 2011 the Government announced its intention to further reduce the UK corporation tax rate to 23% by April 2014. It has not yet been possible to quantify the full anticipated effect of the announced 2% reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax assets accordingly.

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
<b>15. Prepayments and Accrued Income</b>				
Pension contributions	23	23	22	22
Other	190	190	1,665	1,665
	<b>213</b>	<b>213</b>	<b>1,687</b>	<b>1,687</b>

**16. Shares**

Held by individuals  
Other shares

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
Held by individuals	572,235	572,235	560,660	560,660
Other shares	9	9	7	7
	<b>572,244</b>	<b>572,244</b>	<b>560,667</b>	<b>560,667</b>

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	1,430	1,430	1,805	1,805
Repayable on demand	390,778	390,778	392,885	392,885
In not more than three months	84,390	84,390	88,522	88,522
In more than three months but not more than one year	93,770	93,770	72,657	72,657
In more than one year but not more than five years	1,876	1,876	4,798	4,798
	<b>572,244</b>	<b>572,244</b>	<b>560,667</b>	<b>560,667</b>

**17. Amounts Owed to Credit Institutions**

Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	160	160	198	198
On demand	-	-	-	-
In not more than three months	2,000	2,000	14,000	14,000
In more than three months but not more than one year	2,000	2,000	6,000	6,000
	<b>4,160</b>	<b>4,160</b>	<b>20,198</b>	<b>20,198</b>

**18. Amounts Owed to Other Customers**

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	154	154	205	205
On demand	44,618	44,618	30,730	30,730
In not more than three months	13,688	13,688	10,008	10,008
In more than three months but not more than one year	12,153	12,153	8,842	8,842
In more than one year but not more than five years	178	178	2,601	2,601
	<b>70,791</b>	<b>70,791</b>	<b>52,386</b>	<b>52,386</b>

<b>19. Other Liabilities</b>	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
Amounts falling due within one year:				
Corporation tax	303	293	658	633
Income tax	789	789	769	769
Other creditors	83	82	71	71
	<b>1,175</b>	<b>1,164</b>	<b>1,498</b>	<b>1,473</b>

	<b>Group £000s</b>	<b>Society £000s</b>
<b>20. Provisions for liabilities</b>		
<b>Financial Services Compensation Scheme</b>		
At 1 November 2010	343	343
Paid in year	(185)	(185)
Income and Expenditure account:		
Increase in Provision	175	175
At 31 October 2011	<b>333</b>	<b>333</b>

#### Financial Services Compensation Scheme

Based on its share of protected deposits, the Society, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts - a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. In 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley Plc's retail deposit business to Abbey National Plc and similar issues with various Icelandic Banks, London Scottish Bank Plc and the transfer of core parts of Dunfermline Building Society to Nationwide Building Society in the first half of 2009.

The FSCS has met the claims by way of loans received from the HM Treasury on which it is liable to pay interest. The FSCS has, in turn, acquired the rights to the realisation of the assets of these institutions. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the institutions to fully repay the respective loans from HM Treasury. To the extent that the loans have not been fully repaid by 31 March 2012, the FSCS will agree a schedule of repayments with HM Treasury and levy the industry, including the Society, accordingly.

The Society recognised, in last year's results, a provision for FSCS management expense levies of £343,000, covering the scheme year 2010/11 based on its market participation to that date. A payment of £185,000 has been made in the year which, together with the charge in respect of scheme year 2011/12, has resulted in a provision of £333,000 at 31 October 2011. The provision does not include any estimate for management expense levies for future scheme years or for compensation levies which are expected to arise from the ultimate payout on the claims but the amounts of which are still uncertain.

	<b>Group £000s</b>	<b>Society £000s</b>
<b>21. Reserves</b>		
<b>General Reserves</b>		
At 1 November 2010	37,227	35,977
Profit for the financial year	1,653	1,574
At 31 October 2011	<b>38,880</b>	<b>37,551</b>
<b>Revaluation Reserve</b>		
At 1 November 2010 and 31 October 2011	<b>2,179</b>	<b>2,179</b>

The potential tax liability on the surplus on revaluation is £554,000 (2010: £588,000). This liability would crystallise if the revalued assets were sold; no deferred tax has been provided for this amount.

	<b>Group 2011 £000s</b>	<b>Society 2011 £000s</b>	<b>Group 2010 £000s</b>	<b>Society 2010 £000s</b>
<b>22. Capital and Other Financial Commitments</b>				
a. Capital commitments contracted for but for which no provision has been made in the accounts	-	-	-	-
b. Annual commitments under non-cancellable operating leases are as follows:-				
Land and buildings				
• Leases which expire within two to five years inclusive	19	19	16	16
• Leases which expire after more than five years	50	50	45	45

## 23. Financial Instruments

### a. Off-Balance Sheet Hedging Instruments

The Group has a well established formal structure for managing risks which includes formal risk policies, risk limits, reporting structures, mandates and control procedures. This structure begins with the Board of Directors which delegates responsibility for hedging risks to the Assets & Liabilities Committee (ALCO).

Financial instruments used by the Group for risk management purposes include off-balance sheet or derivative instruments. In accordance with the Building Societies Act 1986 such instruments are only used to limit the extent to which the Group will be affected by changes in interest rates.

As part of its responsibilities, ALCO approves the use of specified off-balance sheet instruments within approved limits and business activities. The Group does not undertake transactions for trading or speculative purposes and consequently all off-balance sheet financial instruments are classified as hedging contracts.

The off-balance sheet instruments used by the Group in managing its balance sheet risk exposures are interest rate swaps. These are used to protect the Group from exposures arising principally from fixed and capped rate mortgage lending, fixed rate savings products and deposit funding. The duration of the off-balance sheet contracts is generally short to medium-term and their maturity profile reflects the nature of exposures arising from underlying business activities.

Under an interest rate swap, the Group agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount.

### b. Risk Management

The main financial risks arising from the Group's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, and these are summarised below.

#### Credit Risk

All loan applications are assessed with reference to the Group's Lending Policy. Changes to Policy are approved by the Credit Committee and the approval of loan applications is mandated. ALCO is responsible for approving treasury counterparties and limits.

#### Liquidity Risk

The Group's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Group can meet its liabilities as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected development that might arise.

#### Interest Rate Risk

The Group is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Group manages this exposure continually by using both on and off-balance sheet instruments.

## c. Interest Rate Risk Exposure

The table below summarises these repricing mismatches as at 31 October 2011. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

	3 months or less £000s	More than 3 months, less than 6 months £000s	More than 6 months, less than a year £000s	More than a year, less than 5 years £000s	Non- interest bearing £000s	Total £000s
<b>Assets</b>						
Liquid assets	124,132	23,740	13,871	-	921	162,664
Loans and advances to customers	452,572	8,905	12,961	48,307	(1,301)	521,444
Tangible fixed assets	-	-	-	-	5,967	5,967
Other assets	-	-	-	-	426	426
<b>Total Assets</b>	<b>576,704</b>	<b>32,645</b>	<b>26,832</b>	<b>48,307</b>	<b>6,013</b>	<b>690,501</b>
<b>Liabilities</b>						
Shares	475,168	44,502	49,268	1,876	1,430	572,244
Amounts owed to credit institutions and other customers	60,306	4,592	9,561	178	314	74,951
Other liabilities	-	-	-	-	1,914	1,914
Provision for liabilities and charges	-	-	-	-	333	333
Reserves	-	-	-	-	41,059	41,059
<b>Total Liabilities</b>	<b>535,474</b>	<b>49,094</b>	<b>58,829</b>	<b>2,054</b>	<b>45,050</b>	<b>690,501</b>
Off-balance sheet items	66,000	(7,500)	(8,500)	(50,000)	-	-
Interest rate sensitivity gap	107,230	(23,949)	(40,497)	(3,747)	(39,037)	-
Cumulative surplus	107,230	83,281	42,784	39,037	-	-

The comparatives as at 31 October 2010 were as follows:

<b>Assets</b>						
Liquid assets	133,680	17,135	-	2,554	652	154,021
Loans and advances to customers	456,264	4,057	1,812	51,926	(828)	513,231
Tangible fixed assets	-	-	-	-	5,911	5,911
Other assets	-	-	-	-	1,921	1,921
<b>Total Assets</b>	<b>589,944</b>	<b>21,192</b>	<b>1,812</b>	<b>54,480</b>	<b>7,656</b>	<b>675,084</b>
<b>Liabilities</b>						
Shares	481,407	42,149	30,508	4,798	1,805	560,667
Amounts owed to credit institutions and other customers	54,738	12,326	2,516	2,601	403	72,584
Other liabilities	-	-	-	-	2,084	2,084
Provision for liabilities and charges	-	-	-	-	343	343
Reserves	-	-	-	-	39,406	39,406
<b>Total Liabilities</b>	<b>536,145</b>	<b>54,475</b>	<b>33,024</b>	<b>7,399</b>	<b>44,041</b>	<b>675,084</b>
Off-balance sheet items	51,500	-	(2,500)	(49,000)	-	-
Interest rate sensitivity gap	105,299	(33,283)	(33,712)	(1,919)	(36,385)	-
Cumulative surplus	105,299	72,016	38,304	36,385	-	-

#### d. Fair Values of Financial Assets and Financial Liabilities

Set out below is a comparison of carrying values of some of the Group's financial assets and financial liabilities as at 31 October 2011. The Group does not undertake transactions for trading or speculative purposes. The table excludes certain financial assets and financial liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes items such as mortgages, share accounts and deposits with banks. Market values have been used to determine the fair value of interest rate swaps and debt securities held.

	Group and Society			
	2011 Book value £000s	2011 Fair value £000s	2010 Book value £000s	2010 Fair value £000s
Financial assets and liabilities for which active markets exist				
Treasury bills	-	-	30,917	30,970
Debt securities	38,629	38,675	19,721	19,935
Interest rate swaps	-	(2,655)	-	(2,289)

The table below shows the notional principal amounts and credit risk weighted amounts of derivatives. Notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amount has been calculated in accordance with guidance on the solvency ratio issued by the Financial Services Authority. The replacement cost represents the cost of replacing contracts with positive value calculated at market rates current at the balance sheet date. This reflects the Group's maximum exposure should all counterparties default.

	Group and Society	
	2011 £000s	2010 £000s
Unmatured interest rate swaps		
Notional principal amounts	75,500	55,852
Credit risk weighted amounts	60	45
Replacement cost	-	-

#### Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised losses on hedges at the balance sheet date were £2,655,000 (2010: £2,289,000). These losses represent the expected future cost of interest rate hedges to the Group, given current economic conditions and after taking account of unrealised gains and losses which have been recognised in the balance sheet as at 31 October 2011. The Group expects to realise losses during the forthcoming financial year of £1,266,000 (2010: £1,359,000). Of the unrecognised gains and losses on hedges as at 1 November 2010, the effect on profit for the year was a loss of £1,417,000 (2010: £1,350,000).

#### 24. Pension Scheme

The Society operates a stakeholder defined contribution pension scheme and contributes to some other individual personal pension arrangements. The assets are held separately from those of the Society in independently administered funds. In addition the Society provides death in service cover for its employees. This is fully insured under the Newbury Building Society Death In Service Scheme. The pension cost charge represents contributions payable by the Society to the individual employee funds and death in service premiums and amounted to £381,000 (2010: £348,000). There were contributions payable at the year end of £29,000 (2010: £28,000).

## Annual Business Statement as at 31 October 2011

	<b>2011</b> %	<b>Statutory Limit</b> %
<b>1. Statutory Percentages</b>		
Lending limit	3.5	25.0
Funding limit	11.6	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Group plus provisions for bad and doubtful debts less liquid assets and tangible fixed assets as shown in the Group balance sheet.

The Funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are prescribed in building society legislation and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

	<b>2011</b> %	<b>2010</b> %
<b>2. Other Percentages</b>		
Gross capital as a percentage of shares and borrowings	6.34	6.22
Free capital as a percentage of shares and borrowings	5.55	5.42
Liquid assets as a percentage of shares and borrowings	25.13	24.32
Profit after tax as a percentage of mean total assets*	0.24	0.47
Management expenses as a percentage of mean total assets	0.84	0.83

The above percentages have been prepared from the Group accounts:

- 'Shares and Borrowings' represents the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers;
- 'Gross Capital' represents the aggregate of general reserves and revaluation reserve;
- 'Free Capital' represents the aggregate of gross capital and general provisions for bad and doubtful debts less tangible fixed assets;
- 'Mean total assets' represents the average of the total assets at the beginning and end of the financial year;
- 'Liquid Assets' has the same meaning ascribed in the Group Balance Sheet;
- 'Management Expenses' represents the aggregate of administrative expenses and depreciation shown in the Group Income and Expenditure Account.

\* The 2010 Profit after tax figure included a one-off interest payment of £1.49m.

### 3. Directors and Other Officers as at 31 October 2011

Name	Date of Birth	Business occupation	Date first appointed	Other directorships during the year
<b>A C D Rann</b> FCA	07/03/53	Chartered Accountant	01/03/96	James Cowper Ltd; James & Cowper Trustees Ltd; James & Cowper Bloodstock Ltd; JC Payroll Services Ltd; Newbury Mortgage Services Ltd
<b>J H Parker</b> MA (Cantab), FCA, ACIB	10/05/49	Company Director	17/04/07	The Housing Finance Corporation Ltd
<b>L F Bambridge</b> BA (Hons) ACA AMCT	20/04/63	Building Society Finance Director	23/07/07	Farnborough Aerospace Consortium Ltd
<b>P J Brickley</b> BSc (Hons)	27/08/60	Group IT Director	01/07/08	None
<b>B P Eighteen</b> ACA	26/10/54	Managing Director	27/10/09	Thames Vale Investments Ltd; Thames Vale Properties Ltd
<b>R M W Gardner</b> MA (Hons)	08/03/60	Building Society Chief Executive	01/09/06	Newbury and Thatcham Hospital Building Trust Ltd; Newbury Mortgage Services Ltd; Newbury Financial Services Ltd (non trading); Newbury Insurance Services Ltd (non trading)
<b>G M Knappett</b> MA, C Math	02/12/51	Building Society Development Director	01/11/02	Education Business Partnership West Berkshire; Newbury College Corporation
<b>R F Simms</b> BA (Hons)	01/09/65	Director Corporate Services - Insurance	28/06/10	University of Northampton
<b>H M E Wright</b> BA (Hons), MRICS	16/02/64	Operations Director	27/10/09	Beezer (No 1) Ltd; Bizspace (NE) Ltd; Bizspace GP Ltd; Bizspace Investments Ltd; Bizspace Letchworth Ltd; Bizspace Ltd; Bizspace Southern Ltd; Bizspace Trading Ltd; Bizspace Trustee Ltd; Cardington Properties Ltd; Glidefern Property Management Ltd; Highcross (Bugatti) Ltd; Highcross (Residential) Ltd; Highcross Commercial Developments Ltd; Highcross Developments Ltd; Highcross Group Ltd; Highcross Strategic Advisers Ltd; Knights Valley Ltd; Microstore Self-Storage Ltd; Pentagon Business Centres Ltd; Westport Land Ltd; Westport Land (No 1) Ltd; Sonoma Hotels Ltd; SGS (North East) Ltd; HXRUK3 (2010) UK Ltd; TIMEC 1320 Ltd

Mr Gardner, Mr Bambridge and Mr Knappett each have a service contract with the Society terminable by either party giving 12 months notice. The agreements were signed on 30 November 2001, 14 December 2008 and 1 November 2002 respectively.

Documents may be served on the above named Directors at the following address:  
Charles Lucas & Marshall, 28 Bartholomew Street, Newbury, Berkshire RG14 5EU

#### Other Officers - Assistant General Managers

**Phillippa Cardno** - Customer Services

**Erika Neves** BSc (Hons) - Sales

**Philip Relf** BA (Hons), ACIS - Secretary

**Rob Thomas** BSc (Hons), ACA - Finance

**Ian Thompson** FCIB - Treasury & Risk

#### Auditor

KPMG Audit Plc

One Snowhill, Snow Hill Queensway, Birmingham B4 6GH

#### Bankers

National Westminster Bank Plc

30 Market Place, Newbury, Berkshire RG14 5AJ

#### Solicitors

Charles Lucas and Marshall

28 Bartholomew Street, Newbury, Berkshire RG14 5EU

# Staff

The Board would like to thank all our members of staff without whom we would not have achieved the performance set out in these accounts.

## Branches

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<b>Abingdon</b>	Carly Warner • Trasi Williams • Michelle Cook • Jill Jeffery • Kay Malin
<b>Alton</b>	Clare Taylor • Louise Caira • Becky Mountfield • Julie Pink
<b>Andover</b>	Sandra Smith • Charlotte Barham • Paula Cox • Tracy Graham • Kat Pearce • Beth Roden • Hilary Sacree
<b>Basingstoke</b>	Matt Long • Sue Delaney • Bryony Gladwish • Sam Leeman • Nicola Pope • Bethan Scotford • Lisa Wedge
<b>Didcot</b>	Harriette Lane • Norma Banks • Marilyn Males • Laura Thorpe
<b>Hungerford</b>	Lisa Dixon • Kayleigh Oakes • Ella Bright • Kim Jones
<b>Newbury</b>	Lucy Amore • James Amor • Jill Bennett • Jane Boshier • Pamela Dobson • Hayley Gore • Rose Hallett • Rachel Hawkins • Nicola King-Head • Sue Mason • Kate Rockall • David Taylor • Kerry Thorne
<b>Thatcham</b>	Eve McDowell • Suzanne Allen • Linda Ardis • Jane Cobb • Amba Goodall • Liam Stacey
<b>Whitchurch</b>	Laura Wilson • Emily Clifton • Lisa Couch • Emma Franklin
<b>Wokingham</b>	Debbie Gadd • Charlotte Hall • Emma Fellows • Jac Goddard • Graham Kitteridge
<b>Area Managers</b>	Karen Smith • Martin Yates
<b>Business Managers</b>	Ros Comins • Nick Croxford • Stacey Davies • Paul Holt • Elizabeth Paull

## Head Office

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<b>Compliance</b>	Lynn Fiske • Kerry Thomas
<b>Customer Services</b>	Melanie Mildenhall • Andrée Goodall • Sue Newcombe • Deborah Bailey • Joan Bennett • Vicky Boyles • Rose Fishlock • Janet Jex • Melissa Kenah • Diana Lewis • Jane Mason • Gemma Robinson • Lynn Small • Kim Smyth • Catherine Turner • Elliot Walker • Hannah Westlake • Laura Williams
<b>Executives</b>	Roland Gardner • Lee Bambridge • Geoff Knappett • Phillippa Cardno • Erika Neves • Philip Relf • Rob Thomas • Ian Thompson
<b>Finance</b>	Lynda Ralph • Ruth Bowden • Cheryl Bowers • Deborah Springer
<b>Human Resources</b>	Anne-Marie Goldsmith
<b>ICT</b>	Traci Anne Sharp • Simon Goodson • Alice Brooks • Nicola Martin • Ben Egan • Shiv Stacey • Alex Talmage • Hayley Watt
<b>Lending</b>	Roger Knight
<b>Marketing</b>	Craig Leslie • Caroline Digby • Emma Lavers • Liz Mead
<b>Personal Assistants to the Executives</b>	Cara Holley • Jacky Reenan
<b>Premises, Health and Safety</b>	Sharon Golding • Philip Graham • Michael Goodall
<b>Treasury and Risk</b>	Louise Keep
<b>Valuer</b>	Ann Davidson

**Abingdon**

1 West St. Helen Street  
Abingdon  
Oxfordshire OX14 5BL  
01235 527750  
abingdon@newbury.co.uk

**Alton**

47 High Street  
Alton  
Hampshire GU34 1AW  
01420 84275  
alton@newbury.co.uk

**Andover**

35 High Street  
Andover  
Hampshire SP10 1LJ  
01264 361455  
andover@newbury.co.uk

**Basingstoke**

5-6 Chelsea House  
Festival Place, Basingstoke  
Hampshire RG21 7JR  
01256 816813  
basingstoke@newbury.co.uk

**Didcot**

136 The Broadway  
Didcot  
Oxfordshire OX11 8RJ  
01235 813431  
didcot@newbury.co.uk

**Hungerford**

127 High Street  
Hungerford  
Berkshire RG17 0DL  
01488 684705  
hungerford@newbury.co.uk

**Newbury**

105b Northbrook Street  
Newbury  
Berkshire RG14 1AA  
01635 522588  
newbury@newbury.co.uk

**Thattham**

4 High Street  
Thattham  
Berkshire RG19 3JD  
01635 864996  
thattham@newbury.co.uk

**Whitchurch**

1 Market Place  
Whitchurch  
Hampshire RG28 7AG  
01256 892034  
whitchurch@newbury.co.uk

**Wokingham**

19 Broad Street  
Wokingham  
Berkshire RG40 1AU  
0118 978 5945  
wokingham@newbury.co.uk

**Head Office**

17 Bartholomew Street  
Newbury  
Berkshire RG14 5LY  
01635 555700  
enquiries@newbury.co.uk

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