

Members' Review

Incorporating Summary Financial Statement
Year ended 31 October 2011



Newbury Building Society

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

”



www.newbury.co.uk

Members' Review

The Directors have pleasure in presenting the Members' Review incorporating the Summary Financial Statement of the Group for the year ended 31 October 2011.

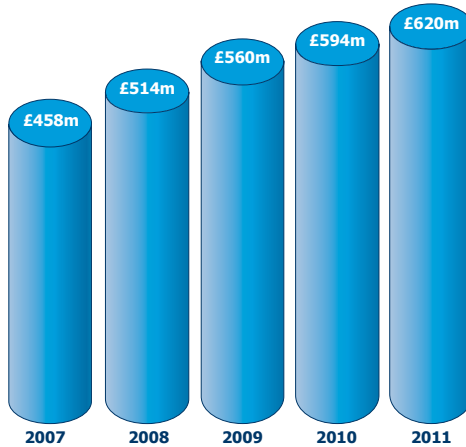
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Key Results and Trends

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

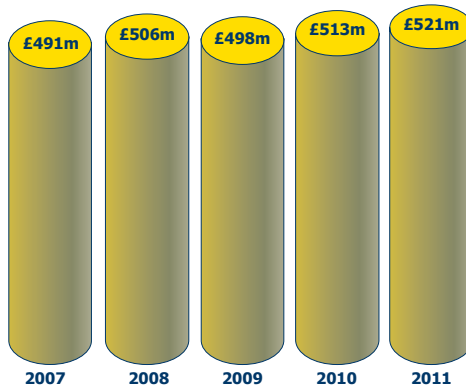
Our members and depositors invest in our branch savings accounts. The Society is now also offering online savings accounts.



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

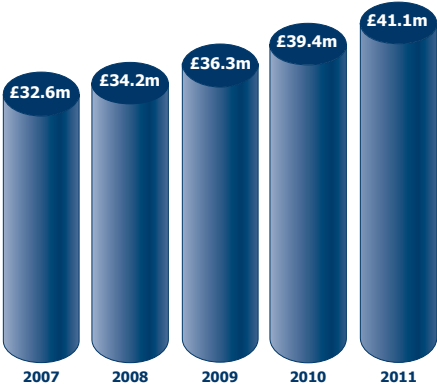
We use the retail shares and deposits received to provide mortgages, mainly for housebuyers in Central Southern England.



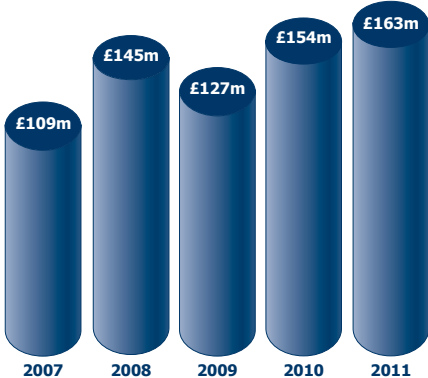
The Society lent £85m in the year, which after redemptions led to an increase of £8m in outstanding loans. Our increased lending to first time buyers helped drive this growth.

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

Capital



Liquid Assets



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.

Summary Financial Statement

This Financial Statement is a summary of the information in the Audited Annual Accounts, the Directors' Report and the Annual Business Statement. The Annual Report and Accounts will be available to members and depositors free of charge from all Newbury Building Society offices from 1 February 2012 or can be downloaded from www.newbury.co.uk from 1 January 2012.

Summary Directors' Report

Key Performance Indicators	2011	2010
Retail Shares and Deposits	£620m	£594m
Loans to Customers	£521m	£513m
Total Assets	£691m	£675m
Capital	£41.1m	£39.4m
Management Expenses as a % of Mean Total Assets	0.84	0.83
Interest Margin as a % of Mean Total Assets	1.22	1.20
Group Profit Before Tax , FSCS levy provision and exceptional item	£2.4m	£2.6m
Liquid Assets as a % of Shares and Borrowings	25.1%	24.3%
Mortgage Arrears - 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.

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.

“ 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



Junior Newbury Building Society cashiers from St Nicholas' School

accounts for fellow pupils whilst learning to save and understand basic personal finance matters.

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) 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 2 on page 16.

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 of the Annual Report and Accounts 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.

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.



Staff volunteers at the centre for Andover Young Carers

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 Annual 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 of the Annual Accounts.

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 2 on page 16.

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 Eigheten
- 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 18 and 19. 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.



Adrian Rann
Chairman
21 December 2011



Roland Gardner
Chief Executive



Lee Bambridge
Finance Director

Summary Financial Statement

(note 1)

	October 2011 £000s	October 2010 £000s
Group results for the year		
Net interest receivable	8,334	9,310
Other income and charges	342	329
Administrative expenses	(5,743)	(5,394)
Operating profit before provisions	2,933	4,245
Provisions for bad and doubtful debts	(494)	(114)
Operating profit before FSCS levy	2,439	4,131
Provision for FSCS levy (note 2)	(175)	200
Profit for the year before taxation	2,264	4,331
Taxation	(611)	(1,232)
Profit for the year	1,653	3,099
Group financial position at the end of year		
Assets		
Liquid assets	162,664	154,021
Mortgages	521,165	512,451
Other loans	279	780
Fixed and other assets	6,393	7,832
Total assets	690,501	675,084
Liabilities		
Shares	572,244	560,667
Borrowings	74,951	72,584
Other Liabilities	2,247	2,427
Reserves - general reserves	38,880	37,227
Revaluation reserve	2,179	2,179
Total liabilities	690,501	675,084
Key financial ratios		
	%	%
Gross capital as a percentage of shares and borrowings (note 3)	6.34	6.22
Liquid assets as a percentage of shares and borrowings (note 4)	25.13	24.32
Profit for the year as a percentage of mean total assets (note 5)	0.24	0.47
Management expenses as a percentage of mean total assets (note 6)	0.84	0.83

Notes - next page

Notes to the Summary Financial Statement

1. The Summary Financial Statement is prepared on a Group basis.

2. Financial Services Compensation Scheme (FSCS)

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.

3. The gross capital ratio measures the Group's capital as a proportion of its shares and borrowings. The Group's gross capital consists of general reserves and revaluation reserve which have been accumulated over many years.
4. The liquid assets ratio represents the total of cash, deposits and government securities held by the Group as a proportion of the Group's shares and borrowings. Cash and investments are held by the Group for prudential purposes in order to meet investor withdrawals from their accounts, make mortgage advances to borrowers and to fund general business activities.
5. Profit for the year as a percentage of mean total assets represents the Group's profit for the year (after tax) as a proportion of the average total assets held during the year. Subject to the overriding need to maintain a strong capital position, the Group seeks to minimise this figure for the benefit of members.
6. The ratio of management expenses to mean total assets is one of a range of ratios, widely used in the industry, to measure administrative efficiency.

Independent Auditor's Statement to the Members and Depositors of Newbury Building Society

We have examined the summary financial statement of Newbury Building Society for the year ended 31 October 2011 set out on pages 8 to 16.

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement 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 and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The Directors are responsible for preparing the summary financial statement within the Members' Review, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Members' Review, with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Members' Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 *The auditor's statement on the summary financial statement in the United Kingdom* issued by the Auditing Practices Board. Our report on the Group's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of Newbury Building Society for the year ended 31 October 2011 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Simon Clark for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

21 December 2011

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.

Directors' Attendance Record

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

() = number of meetings eligible to attend

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

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 on page 22.

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

Executive Directors' Emoluments £'s

2011	Performance Related Pay:			Taxable Benefits	Pension Contribution	TOTAL
	Salary	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
TOTAL	313,700	49,219	-	3,711	110,060	476,690

2010

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
TOTAL	303,783	26,177	40,830	3,230	111,511	485,531

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 21.

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
TOTAL	150,530	151,720

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

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