

Newbury Building Society



Annual Report and Accounts
Year ended 31 October 2014



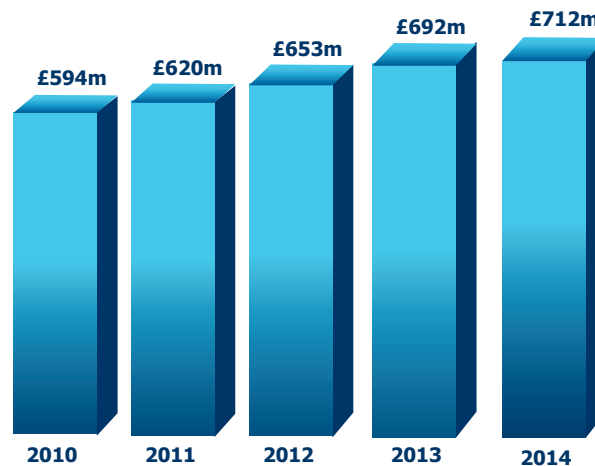
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Key Results and Trends

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

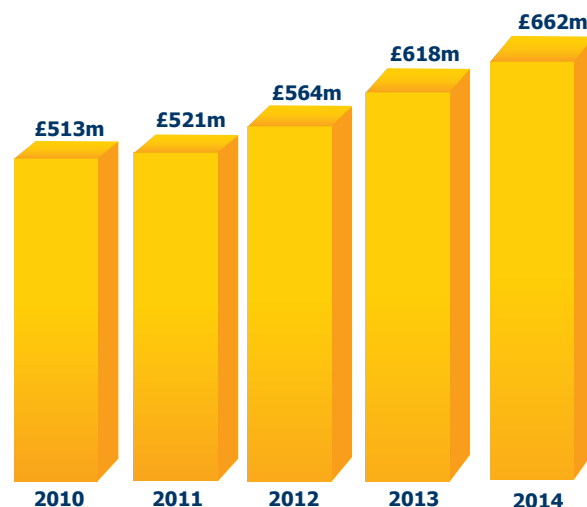
Our members and depositors invest in our savings accounts which are available in branch and online.



In 2014 our balances increased by £20m. The performance of our Treasure Plus, Existing Member and ISA accounts were significant factors in this achievement.

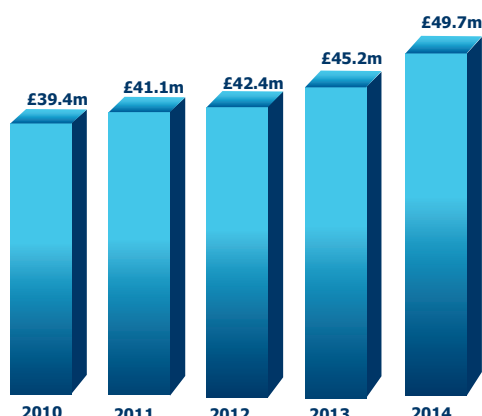
And make **Loans** to homebuyers

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

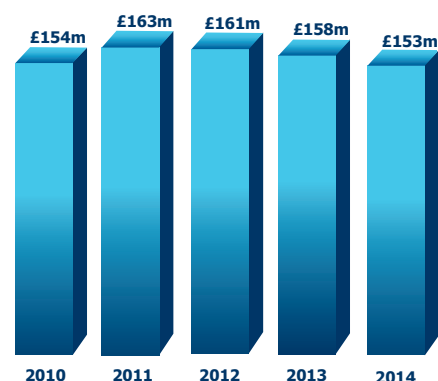


The Society lent £143m in the year, which after repayments led to an increase of £44m in outstanding loans. Strong demand for our first time buyer products helped this achievement.

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 2014.

Key Performance Indicators

	2014	2013
Retail Shares and Deposits	£712m	£692m
Loans to Customers	£662m	£618m
Total Assets	£821m	£781m
Capital	£49.7m	£45.2m
Management Expenses as a % of Mean Total Assets	0.97	0.90
Interest Margin as a % of Mean Total Assets	1.79	1.43
Group Profit Before Tax	£6.2m	£3.6m
Liquid Assets as a % of Shares and Borrowings	19.9%	21.5%
Mortgage Arrears - on accounts two months or more in arrears	£0.12m	£0.11m

Business Review

Your Board is pleased to report on an outstanding business performance, with the two main highlights being pre tax profitability of £6.2m and mortgage balance growth of just over 7%. Your Society has therefore managed simultaneously to achieve the two key goals of balance sheet growth and improving the Society's capital strength, and both at a significant level.

The pre tax profit figure is a record, reflecting the Society's need to boost its balance sheet in anticipation of the capital levels required under the new Capital Requirements Directive, known as CRDIV. The growth in profit reflects conditions in the retail savings market, where interest rates have fallen to all-time lows, and the Society has had to manage account availability and interest rates carefully to ensure it did not hold inappropriately high levels of liquidity. Savings balances have grown by 3%, although as the Society was entitled to continued access to low cost funding through the Funding for Lending Scheme (FLS), larger savings balance inflows were not actively sought during the year. As last year, our policy for savings in this abnormal environment has been to prioritise and protect the interests of existing members, by restricting access to our higher-paying savings accounts, thereby enabling us to maintain interest rates for our existing members.

On the 1st August, the Society replaced its core information technology systems with a new platform, supplied by Sopra Group Solutions UK Ltd. This was a major project, which will ultimately give members enhanced products and services as we develop and optimise the functionality now available to us. The Board was very pleased at how well the project was completed, which was due in no small part to the skill, effort and dedication of the Society's staff.

The Society's management expenses have risen by £941,000 to a ratio of 0.97% during the year, mainly as a result of additional staffing costs required to support the performance of the business in achieving growth, additional regulatory requirements and a major systems change. We anticipate that they will remain at a similar level during the next financial year, as we continue to make improvements and specifically commence an upgrade of the online service in our new system. Thereafter, we anticipate that our management expenses ratio will reduce as the benefits of our investment in the business manifest themselves and the economies of scale from balance sheet growth take effect. The Board is aware of the need for cost controls and this will continue to be a major area of focus for us as we seek an appropriate balance between investment in the business and providing quality products and services for members.

“ Your Society has therefore managed simultaneously to achieve the two key goals of balance sheet growth and improving the Society's capital strength ”

Mortgage arrears have continued to be well below market average and although there has been a modest increase from £0.11m to £0.12m during the year and the number of cases over two months in arrears has increased from 41 to 43 accounts, the Board is pleased to report that the Group's overall position in both arrears cases and those where forbearance is being deployed is stable. The Society also had no properties in possession at year end (compared with two properties in 2013) and incurred just a loss of

£749 on a single case during the year. These figures demonstrate the quality of your Society's mortgage book.

The Society's performance in 2014 has reflected the increasing confidence of the domestic economy, where housebuilding figures are improving after years in the doldrums. Your Board's strategy and planning has optimised those favourable conditions, and with the Society not restricted by the legacy issues which have hindered the progress of several of the biggest participants in our markets, building societies generally, and Newbury in particular, have thrived. Against this backdrop, your Board is pleased to be able to present such a solid business and financial performance.

Retail Shares and Deposits

The Society's retail balances increased by £20m to £712m during the year, an appropriate level of growth in view of the Society's reduced liquidity requirements given the availability of the FLS and the Bank of England's Discount Window Facility. It is fair to say that the Society could have achieved significantly higher levels of growth in savings balances this year, as evidenced by the large inflows into Notice Cash ISA, Treasure Plus and Senior Saver accounts, before they were closed to new business. The decision to suspend these accounts to new investors was taken in order to protect the interest rates for existing members, whilst simultaneously preventing the Society from being overwhelmed by demand from customers experiencing interest rate cuts elsewhere.

The Society also restricted one year fixed rate bonds to those members with maturing bonds, a policy which resulted in balances reducing from 12.3% to 6.7% of savings during the year, thus creating the capacity for more business of this type in the post FLS era whilst simultaneously ensuring that the Society's current liquidity levels remain prudent.

Despite these restrictions to product availability, the Society's savings accounts exceeded 70,000 in number for the first time, as our products remained in demand. The Society introduced a new account, Welcome to Newbury, which offers new members an introductory limited balance easy access account. This account has proved extremely popular, as it bridges the gap between joining the Society and the time the Existing Members Account becomes available. We 'welcomed' over 1,500 new members during the year through this account, and we also provided first savings accounts for many children through our new Barry Bear account as well as through the established Junior Newbury Building Society schools initiative. We believe so many new members are coming to us because we operate fairly, with simplicity in product design, and competitive terms and conditions. Given that the Bank of England base rate remained at 0.5% for a fifth consecutive year we are pleased to advise that every tier of every single

savings account attracts a minimum rate of 0.4% and that existing members still earn over 2% in selected accounts. In such a low interest rate environment, we believe strongly that our savings members have been well served by our pricing policy. Indeed, the Society has recently won the Savings Champion Award for Best Provider for Supporting Existing or Local Customers.

The Financial Services Compensation Scheme (FSCS) continues to have a significant impact on your Society as a result of the failures including Bradford & Bingley plc and three Icelandic banks in 2008. The Society's contribution to FSCS rose from £442,000 in 2013 to £476,000 in 2014. Further detail is contained within note 17 of the Accounts.

Loans to Customers

The growth of the balance sheet is a strategic aim for the Society and the Board is therefore very satisfied with mortgage balance growth of £44m during the year, representing an increase in balances of over 7%. Total lending at £143m was just short of last year's record level, which the Board considers to be an excellent result in a market where competition has intensified significantly as all the major lenders have returned to the market after a period of consolidation and recapitalisation. Not only has competition for mortgage lending increased, April 2014 also saw the introduction of the Financial Conduct Authority's Mortgage Market Review, a long-awaited regulatory response to some of the causes of the banking crisis. This new piece of regulation introduced a mandatory advice process for face to face interactions and new prescriptive rules on affordability. The outcome of the new rules has yet to be fully felt but initial impressions suggest that the overall size of the marketplace has reduced as fewer customers now qualify for the range of mortgages permitted. The new rules have only had a limited impact on the Society as practices similar to the new affordability rules were adopted several years ago and the Society has always offered advice since mortgage regulation began in 2004. If the market size continues to diminish this will pose challenges for the future if the number of lenders remains constant.

As in 2013, the main reason for the mortgage book growth was the Society's success in the first time buyer marketplace, where the Society's national reputation and its expertise in this specialist market resulted in a demand for our mortgage products. With the latest Land Registry figures showing 8.4% growth in West Berkshire house prices, a national average growth of 7.2% and the eastern end of our operating area experiencing house price growth of over 20%, demand for shared ownership mortgages has increased because this is often the only way onto the housing ladder for younger individuals and families, particularly in the South East of England. The Society has focused its attention on creating affordable products for such

purchasers, whilst also forging relationships with several Housing Associations based in our core operating area of Central Southern England. The Society will continue its commitment to helping aspiring homeowners onto the property ladder by further product and service innovation in this area of lending.

The Board is however aware that the housing market is currently subject to an abnormally high level of governmental intervention, and so the Society will continue to pay particular regard to the quality of its mortgage lending to ensure that there are no shocks when the level of governmental support is unwound in future years.

The Society's mortgage balances consists of over 82% residential owner-occupied loans and 14% buy to let. The remaining 4% comprises commercial lending and lifetime mortgages, and the Society has not sought to grow these in recent years. The mortgage balances remain of the highest quality with an average indexed loan to value under 35%. Less than 3% of the balances are over 75% of the value of the properties on which their mortgages are secured, and all lending over 75% loan to value at inception is insured through a mortgage indemnity policy, which covers the Society from losses incurred after a property is taken into possession during the first ten years of the loan.

“ The mortgage book remains of the highest quality with an average indexed loan to value under 35% ”

The Group's arrears and possession statistics remain low both for the sector and for the industry as a whole. There were seven cases in serious arrears of 12 months or more at our year-end (2013: five cases). The total amount of arrears outstanding on these accounts was £52,000 (2013: £30,000) and the aggregate capital balance was £405,000 (2013: £200,000). As at 31 October 2014 the Group had no properties in possession (2013: two). The Group has incurred one mortgage loss of £749 during the year, thus maintaining our enviable record of total mortgage losses of under £50,000 in the last ten years. There was a charge of £59,000 to the profit and loss account this year, not because there is any matter of particular concern but as a prudent action to recognise the fact that our book has grown by over 7%. The Society shows forbearance to as many borrowers as possible, where appropriate, and there were 30 accounts at 31 October 2014 where clients were benefiting from a forbearance action such as term extension, payment holiday or temporary interest only arrangement (2013: 28).

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 members' funds. We therefore set a strategy to ensure that both capital and liquidity are maintained at appropriate levels. The emphasis on high quality capital by world banking authorities has meant that the increase in profitability in recent years has been necessary for two reasons: firstly to continue to build our reserves for the stricter capital regime introduced by CRDIV, and secondly to reflect the increase in mortgage balances. This strategy has resulted in the following position as at 31 October 2014:

- **Capital:**
The Group's capital increased 9.1% to £49.7m (2013: £45.2m).
The Group's Gross Capital and Free Capital ratios were 6.47% (2013: 6.15%) and 5.82% (2013: 5.50%) respectively.
- **Liquidity:**
Liquid assets (which comprise cash and investments as shown on the balance sheet on page 21) were £153m (2013: £158m).

Liquid assets as a percentage of Shares and Borrowings decreased to 19.9% (2013: 21.5%). The Board felt able to reduce the liquidity percentage as the Society has access to both of the Bank of England's discount window and funding for lending facilities.

The Group is required to set out its capital position, risk exposures and risk assessment processes in its Pillar 3 disclosures document. This document also includes the CRDIV article 89 country by country reporting and can be obtained by writing to the Company Secretary at our head office.

Governance

There have been no changes to the Board during the year, the second successive year without a change in the Board's membership or committee structure. The resulting stability has furthered the development of the Board's expertise, which is so vital in the modern world of corporate governance where the Non-Executive director role assumes such importance. However, there will be changes to the Board in 2015.

I will be retiring at the AGM in February and will be succeeded by Peter Brickley, who has been a Non-Executive director since 2008 and currently chairs the Audit Committee. Also retiring will be Brian Eighteen who has given notice of his intentions to leave the Board in the Spring. Brian will have served five and a half years on the Board and is the chair of the Credit Committee. Brian has provided valuable and distinguished service to the Society and the Board wishes him well in his future undertakings. The Remuneration & Nomination committee has commenced the process to replace both retirees and at the time of writing, a significant number of high quality

applications have been received. It is anticipated that the new directors will be known by the time of the AGM.

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.

Employees

The Society's service proposition is founded upon well qualified staff, motivated to act in the best interests of our customers, with the time and the tools to do the job properly. As the business continues to grow, we have strengthened our resources to meet the needs of the business. We have welcomed new faces in many areas of the business (principally Mortgage Underwriting and Compliance) who bring new expertise to complement the existing skills and knowledge of our many long serving members of staff.

The Society is fully committed to providing access to learning and development, career progression and promotion opportunities to all staff. We now have 32% of our staff CeMAP qualified with Registered Mortgage Advisers available in all our branches. During the year 12 delegates graduated from our 18-month long Experiential Learning Programme. Another 12 colleagues have completed a Discovery Programme in partnership with Newbury College. 24 new colleagues attended the Society's internally developed Thinking Like Customers (TLC) programme and 12 attended the TLC reflections programme. In addition we have appointed a Field Trainer to support our branch staff and their development.

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.

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

The Communities We Serve

The communities in which our branch network operates are very much at the heart of the Society. This year we have continued to give something back to the communities where our members and employees live and work, supporting local projects, taking part in a whole host of community events and offering sponsorship, such as:

- Supporting young local talent in areas such as entertainment and sport

- Flower and agricultural events
- Christmas lights switch-ons
- Local fetes
- Theatre/drama productions
- Donating prizes and sponsoring local clubs
- Painting and decorating halls

Every member of staff has the opportunity to take two days paid leave to support community projects or local charities of their choosing. Our executive directors continue to support local organisations through their service and presence on the governing bodies of Newbury & Thatcham Hospital Building Trust, Sovereign Housing Association and Newbury College.

Our Junior Newbury Building Society programme continues to grow with 18 primary schools now participating. This programme offers school children the opportunity to run their own branch for their fellow pupils. The aim is to help the children learn how to save and understand basic personal finance matters. Due to its success, we have committed to increasing the number of schools that can take part to 24.



Office Manager Eve McDowell running the JNBS programme at Hungerford Primary.

This year we also launched 'Messy Money' with two free events over the May half-term holiday for children aged up to 7 years old. The events included activities such as a ball pool, bouncy castle, face painting, castle-building, glitter tattoos, mask-making, money mats, story corner and a treasure hunt. The events were a great success with over 470 children and 230 adults joining our new mascot, Barry Bear, during seven hours of fun and entertainment. Due to their popularity the events will continue next year.

This year the Society has made donations of £19,466 in support of 57 local charities and community organisations. In addition we have donated a total of £3,030 to our principal charity the Pink Ribbon Foundation. Our total support to the communities we serve, including time spent by our staff, totals nearly £70,000. No contributions were made for political purposes.

The Future

The Society's Purpose, Vision and Culture statement, which is recorded in full on page 10, demonstrates what we want the Society to offer to members. Delivering the Society's strategic vision has taken a significant forward movement in 2014 with a solid asset growth performance and a record profit. The strengthening of the Society's capital ratios, as a result of this year's profit, provides the base for further future growth of the business in coming years.

The Board holds an annual strategy day at which the Board and senior management discuss and create the action plan for the Society's future. At this year's day, the Board committed to invest further in the technological future, something which is currently changing the methods of money transmission so dramatically.

To benefit savers, it is our intention to offer members a 'bricks and clicks' environment, with the branch network promoting a savings culture using fair and transparent products which offer good value in the short, medium and long term. We intend our Newbury brand to be instantly recognisable in our branch towns and synonymous with what differentiates us from banks: member value and engagement, relevant products and services, a sustainable and capably strong business, and mutuality.

To benefit homebuyers, it is our intention to offer fair-priced relevant products, lend responsibly and support members to achieve their housing aspirations. To achieve this, we will continue to provide advice in our branches, we will innovate, be pragmatic and operate in niches where the wider market lacks capacity or capability.

The Board strongly believes that a successful future lies ahead for the Society as an independent, branch-based and vibrant mutually owned business. The Board's strategy for the future will be to continue 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 upgrade to our IT systems this year and the commitment to the development of our online service demonstrates how the Society is modernising itself for the challenges of financial service provision in the future.

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 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 & Financial Risk Management 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 & Financial Risk Management Policy ensures sufficient funds in liquid form are available at all times so 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 & Financial Risk Management 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 2014 can be found in note 20 on pages 34 to 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 17 on page 33.

Regulatory Risk

The risk that the volume and complexity of regulatory issues may impact the Society's ability to compete and grow. This is regularly reviewed by the Audit Committee.

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 T L Morshead
- Mr R F Simms

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 23 February 2015. Mr Brickley and Mr Knappett being eligible 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 2014 was 18 (2013: 10).

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 LLP, has expressed its willingness to continue in office and therefore a resolution for their reappointment will be proposed to the forthcoming Annual General Meeting of the Society.

A C D Rann
Chairman
17 December 2014



Thanks and Happy Retirement to our Chairman

After 19 years service on the Board, the last six as chairman, Adrian will be retiring from the Board at the forthcoming AGM. Adrian currently chairs the Remuneration & Nomination committee and is a past chairman of the Audit committee. Adrian has provided valuable and distinguished service to the Society and he has overseen significant change including the Society's response to the global banking crisis and he was instrumental in the decision to open our new branches in Basingstoke and Winchester. The Board wishes him well for the future, and thanks him for his contribution to the success of the Society.

Purpose, Vision and Culture

Our Business

- 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



Shingai Chipfupa and Jane Bosher receiving the Savings Champion Award, for Best Provider for Supporting Existing or Local Customers.



Our Members

- 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 Staff

- 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



Supporting Whitchurch Parish fete.

The Year in Pictures



1 Our Wokingham branch raising money for the Pink Ribbon Foundation.



2 Staff member Chloe Somerville completing her Intermediate Marketing Apprenticeship.



3 Winchester branch celebrates its 1st birthday.



4 Sponsoring the Aladdin Pantomime at the Corn Exchange, Newbury.



5 Discovery Programme graduates at their award ceremony.



6 Becky Davies welcomes Barry Bear to Alton's Messy Money event.

Non-Executive Directors



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.



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 Audit, Strategic Risk and Remuneration & Nomination Committees.



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 the Chairman elect and is currently Chairman of the Audit Committee, as well as a member of the Assets & Liabilities, Remuneration & Nomination and Strategic Risk Committees.



Brian Eighteen

Non-Executive Director

Brian was appointed to the Board of Directors in October 2009. He is a Chartered Accountant with over 30 years' experience of property development in the Newbury area. He is currently Managing Director of a property investment company. He is Chairman of the Credit Committee and a member of the Strategic Risk and Audit Committees.



Tracy Morshead

Non-Executive Director

Tracy was appointed to the Board of Directors in June 2012. He is a fellow of the Chartered Institute of Marketing and a chartered marketer. Tracy is a member of the Assets & Liabilities, Strategic Risk and Sales, Marketing & Development Committees.



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 Chairman of the Sales, Marketing & Development Committee and a member of the Credit and Strategic Risk Committees.

Executive Directors



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, Credit and Sales, Marketing & Development Committees.



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.



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 and Sales, Marketing & Development Committees.

Executives



Phillippa Cardno

Head of Operations

Phillippa joined the Society in 1996 and became an Executive in 2007. She heads the Customer Services and IT functions and attends Credit Committee by invitation. Phillippa holds the Certificate in Mortgage Advice and Practice qualification and reports to the Chief Executive.



Erika Neves

Head of Conduct

Erika joined the Society in 1991 and became an Executive in 2002. She heads the Conduct function and attends Sales, Marketing & Development and Audit Committees by invitation. Erika is a graduate with the Certificate and Diploma in Mortgage Advice and Practice and reports to the Development Director.



Nigel Briggs

Head of Compliance & Company Secretary

Nigel joined the Society as an Executive in February 2014. He is Company Secretary, heads the Compliance function and attends the Audit Committee by invitation. Nigel is an MBA and holds an MSc in Economics and Social Policy Analysis and reports to the Chief Executive.



Ian Thompson

Head of Treasury & Risk

Ian joined the Society in 2002 and became an Executive in 2007. He heads the Treasury and Risk functions and attends the Assets and Liabilities, Audit and Strategic Risk Committees by invitation. Ian is a Fellow of the Chartered Institute of Bankers and reports to the Finance Director.

Corporate Governance Report

The Society has regard to the principles of the Financial Reporting Council's UK Corporate Governance Code October 2012 (the Code) as they apply to a building society. It is also mindful of updates to the Code in September 2014 which will apply to subsequent financial reporting periods.

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.

The Board is responsible for determining the Society's strategy and approving the corporate plan, and for approving the allocation of funds to deliver that strategy. In so doing the Board determines limits on delegated expenditure, and it monitors the risk profile of the organisation and its capital position. The Board also has responsibility for the overall structure of the organisation, including the appointment and dismissal of Directors and the Secretary, as well as for general employment conditions. The Board approves major systems developments as well as changes in lending limits and higher level mandates. The Board is responsible for reporting annually on the performance of the Society.

There are six 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. Over the last year the Committee has monitored liquidity levels, interest rate and basis risk, and refinancing risk.

The Committee comprises three Non-Executive Directors who are currently Mr Parker, Mr Brickley and Mr Morshead, as well as the Chief Executive and the Finance Director. The Head of Treasury & Risk attends by invitation.

Audit Committee

The Committee is responsible for providing appropriate oversight, independently of the Executive, to ensure that the interests of members and the Society's other key stakeholders are properly protected in relation to financial reporting and internal control. Over the last year the Committee has assessed the effectiveness of audit and compliance assurance systems, assessing the accuracy and completeness of financial information, reviewing accounting policies and ensuring effective whistle-blowing controls. It has reviewed the fairness of disclosures and recommended acceptance of the annual accounts to the Board. The Committee has negotiated and agreed the scope of audit work and fees, and it has monitored the performance, independence, objectivity, competence and effectiveness of the internal and external auditors, recommending the re-appointment of KPMG LLP as external auditors and approving non-audit fees paid to the auditors in accordance with the Society's Policy. The Committee has also considered aspects of conduct, operational and reputational risk management.

The Committee comprises three Non-Executive Directors who are currently Mr Brickley, Mr Eighteen and Mr Parker. The Executive Directors, the Heads of Compliance & Company Secretary, Conduct and Treasury & Risk, 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 Mr Eighteen and Mr Simms as well as the Chief Executive and the Development Director. The Head of Operations 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. It is responsible for the Remuneration Policy. 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 Brickley and Mr Parker. The Chief Executive attends by invitation.

Sales, Marketing & Development Committee

The Committee is responsible for monitoring the Society's sales and marketing activity against business plan and ensuring positive customer outcomes. The Committee comprises two Non-Executive Directors who are currently Mr Simms and Mr Morshead as well as the Chief Executive and Development Director. The Head of Conduct 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 (Head of Treasury & Risk) attending by invitation.

The terms of reference for these Committees can be obtained from the Head of Compliance & Company Secretary at the AGM or by writing to the Society's head office. Proceedings of all Committees are formally minuted, minutes are distributed to all Board members and the Chairman of each Committee reports on the substance of the meeting. The Society maintains liability insurance cover for Directors and Officers. Attendance at Board and Committee meetings for the year to 31 October 2014 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 and has been granted specified

delegated powers by the Board which include creating new products, dealing with the regulators, initiating legal proceedings, negotiating the Society's insurance cover and granting discretionary salary increases within limits. The Chief Executive is also empowered to undertake capital expenditure and disposals and to set interest rates, again within limits. These powers are reviewed by the Board on an annual basis. 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 Board has selected Mr Brickley, subject to re-election by the Society's members, to be the next Chairman of the Society following the retirement from the Board of Mr Rann. Mr Brickley was appointed as an independent Non-Executive Director in July 2008 following a rigorous selection exercise.

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; independently 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 is reviewed annually 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 including the retiring Chairman who, despite his tenure, remains 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 but always makes Non-Executive Director appointments on merit, based on the specific skills and experience required to complement existing skills under the succession plan. No Board appointments were made this

year. When they arise vacancies are always advertised. For these reasons the Society does not have a measurable diversity objective. The Remuneration & Nomination Committee leads the process, and recommends a candidate and it is the Board which decides whether to appoint the candidate. All Directors must meet fitness and propriety standards and each Director must be approved by the PRA in order to fulfil their control function as a Director.

Commitment

Code Principle:

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

Board Comment:

Directors are informed of the time commitment in the letter of appointment. 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. Internal Audit reviews the adequacy of the information provided to the Board. The Society 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 identifies training needs and 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 within a maximum of 16 months of, or at the 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 Directors to annual re-election (unless they are Non-Executive Directors other than the Chairman who have served three terms) 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 fair, balanced and understandable assessment of the company's position and prospects.

Board Comment:

The Board believes that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for Members to assess performance, strategy and the business model of the Society. 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 has identified a number of principal risks that would threaten its business model, future performance, solvency or liquidity. These risks, together with the way in which they are mitigated, are explained in the Directors' Report on page 8. The Board is collectively responsible for determining risk appetites, 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 Board has reviewed the effectiveness of its 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. The Society's internal auditor, Deloitte LLP, provides independent and objective assurance that the systems are appropriate and controls effectively applied.

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 Society's external and internal auditors and the Executive Directors attend by invitation. The responsibilities of the Committee are set out on page 14. The Audit Committee meets four times a year. At least annually, the Audit Committee meets with the external and internal auditors without the Executive Directors present.

Audit firms often have specialist skills and expertise and can provide non-audit services competitively. The Audit Committee is required to approve the commissioning of material non-audit services provided by the auditors, taking into account the effect this has on objectivity and independence. The Society's policy is to tender for audit services on a regular basis and at least every 10 years.

Remuneration

The Directors' Remuneration Report on page 17 explains how the Society applies 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 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 all 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 can choose to vote by proxy if they are unable to attend the AGM. The AGM notices are distributed with at least 21 clear days notice. At the AGM a poll is called in relation to each resolution and the proxy votes cast are included in the results. 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

17 December 2014

Directors' Remuneration Report

This report explains how the Society applies the principles of the Code relating to remuneration. The Society has adopted a Remuneration Policy, which describes how the Society complies with the relevant sections of the FCA's Remuneration Code. The remuneration of the individual Directors is detailed in note 6 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 principles of the Society's remuneration policy are to:

- attract and retain good people that share our values;
- motivate staff to optimise achievements;
- achieve long term business objectives and strategy to ensure sustainability of the business;
- encourage a prudent approach to risk management;
- align the interests of staff with the interests of Members; and
- ensure compliance with applicable employment legislation.

The Executive Directors' benefit package is therefore designed in the long term interest of Members as a whole. A performance related pay scheme operated during the year for Executive Directors, which was designed to encourage the achievement of targets, linked to strategic objectives, that maintain customer service, 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 their responsibilities. It comprises 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.

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 10% of salary (prior to any salary sacrifice) can be earned for achievement of all targets. The Remuneration & Nomination Committee sets stretching targets and assesses whether any payment should be made. Fundamental prerequisites for any performance related payments include regulatory compliance, ethical standards and appropriate risk management. A proportion of the performance related payment is deferred to discourage inappropriate risk taking in accordance with good practice in remuneration policy. Misconduct or misstatement would lead to claw back of performance related pay.

Benefits

The Society makes a contribution of up to 20.25% of salary (prior to any salary sacrifice) to Executive Directors' private pension arrangements. Executive Directors receive other benefits comprising private healthcare scheme (covers the Directors and

their families), death in service and income protection insurance. 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. In the event of amalgamation, transfer of engagements or transfer of business where the Executive Director's employment is to be terminated the Society shall give not less than 24 months notice.

The Society meets contractual obligations for loss of office. Whilst the Remuneration & Nomination Committee has discretion to provide better terms, this would be disclosed to Members.

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 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 two independent Non-Executive Directors under the chairmanship of the Society's Chairman. The Chairman is appropriate for this role because of his extensive experience of the Society. The Chief Executive attends by invitation but takes no part in the discussion of his own salary. The Committee reviews Directors and Executive 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.

Whilst a binding vote on Remuneration Policy is not considered appropriate for a building society of our size and nature, if 25% of the turn out vote against the report, the Remuneration & Nomination Committee will take steps to address the concerns of the Membership.

On behalf of the Committee, I recommend that you endorse our report.

A C D Rann
Chairman
17 December 2014

Directors' Responsibilities

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the annual accounts

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the annual accounts in accordance with applicable law and regulations.

The Building Societies Act ("the Act") requires the Directors to prepare Group annual accounts for each financial year. Under that law they have elected to prepare the Group annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group annual accounts are required by law to give a true and fair view of the state of affairs of the Group and of the Society as at the end of the financial year and of the income and expenditure of the Group and of the Society for the financial year.

In preparing each of the Group and Society annual accounts, the Directors are required to:

select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and

Society will continue in business.

In addition to the annual 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 Group.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act;
- takes 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 both the Prudential Regulation Authority and the Financial Conduct Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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	Sales, Marketing & Development	Strategic Risk
A C D Rann Chairman	11 (11)				4 (4)		4 (4)
J H Parker Vice Chairman	10 (11)	10 (11)	4 (4)		4 (4)		4 (4)
L F Bambridge Finance Director	11 (11)	11 (11)					
P J Brickley	9 (11)	11 (11)	4 (4)		4 (4)		4 (4)
B P Eighteen	11 (11)		4 (4)	11 (11)			4 (4)
R M W Gardner Chief Executive	11 (11)	11 (11)		10 (11)		4 (6)	
G M Knappett Development Director	11 (11)			9 (11)		6 (6)	
T L Morshead	11 (11)	11 (11)				6 (6)	4 (4)
R F Simms	8 (11)			8 (11)		6 (6)	3 (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 2014 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 the annual accounts and for being satisfied that they 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 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 LLP,
Statutory Auditor

Chartered Accountants

One Snowhill, Snow Hill Queensway, Birmingham B4 6GH
17 December 2014

Income and Expenditure Accounts for the year ended 31 October 2014

	Notes	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
Interest receivable and similar income	1	25,230	25,077	23,100	22,936
Interest payable and similar charges	2	(10,877)	(10,877)	(12,260)	(12,260)
Net interest receivable		14,353	14,200	10,840	10,676
Fees and commissions receivable		806	799	975	961
Fees and commissions payable		(693)	(693)	(776)	(774)
Other operating income		16	16	82	82
Total Income		14,482	14,322	11,121	10,945
Administrative expenses	3	(7,402)	(7,395)	(6,456)	(6,451)
Depreciation and amortisation	11	(350)	(350)	(355)	(355)
		6,730	6,577	4,310	4,139
Provisions for bad and doubtful debts	9	(59)	(62)	(352)	(351)
Operating profit before FSCS levy		6,671	6,515	3,958	3,788
Provision for FSCS levy	17	(500)	(500)	(389)	(389)
Profit on Ordinary Activities before Tax		6,171	6,015	3,569	3,399
Tax on profit on ordinary activities	4	(1,353)	(1,321)	(871)	(834)
Profit for the Financial Year	18	4,818	4,694	2,698	2,565

Statement of total recognised gains and losses

Profit for the financial year	4,818	4,694	2,698	2,565
Property revaluation	(281)	(281)	-	-
Total Recognised Gains and Losses Relating to the Year	4,537	4,413	2,698	2,565

The **notes** on pages 23 to 36 form part of these accounts. The operating profit for the Group and Society is equivalent to Profit on Ordinary Activities before Tax. 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 2014

	Notes	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		117,640	117,639	71,855	71,855
Loans and advances to credit institutions	7	35,364	35,221	85,830	85,261
		153,004	152,860	157,685	157,116
Loans and advances to customers					
Loans fully secured on residential property	8	647,865	612,764	604,619	562,751
Other loans	8	13,834	7,273	12,883	5,565
		661,699	620,037	617,502	568,316
Investments in subsidiary undertakings	10	-	40,052	-	48,132
Tangible fixed assets	11	5,722	5,722	5,428	5,428
Other assets	12	88	68	438	421
Prepayments and accrued income		243	243	307	307
Total Assets		820,756	818,982	781,360	779,720
Liabilities					
Shares	13	657,003	657,003	627,871	627,871
Amounts owed to credit institutions	14	54,945	54,945	33,057	33,057
Amounts owed to other customers	15	56,351	56,351	72,784	72,784
Other liabilities	16	1,546	1,508	1,374	1,343
Accruals and deferred income		868	857	792	784
Provisions for liabilities	17	371	371	347	347
Revaluation reserve	18	1,425	1,425	1,706	1,706
Reserves - general reserves	18	48,247	46,522	43,429	41,828
Total Liabilities		820,756	818,982	781,360	779,720

The **notes** on pages 23 to 36 form part of these accounts.

These accounts were approved by the Board of Directors on 17 December 2014

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

	2014 £000s	2013 £000s
Net Cash (Outflow) / Inflow from Operating Activities	(606)	17,757
Taxation	(1,136)	(674)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(928)	(501)
Proceeds from disposals of tangible fixed assets	2	10
Proceeds from sale of debt securities	-	-
(Decrease) / increase in cash	(2,668)	16,592
Reconciliation of Operating Profit to Net Cash (Outflow)/ Inflow from Operating Activities		
Operating profit	6,171	3,569
Decrease / (increase) in prepayments and accrued income	77	(12)
Decrease in accruals and deferred income	(476)	(1,050)
Provisions for bad and doubtful debts	(384)	352
Provision for FSCS levy	24	(53)
Depreciation and amortisation	350	355
Profit on sale of fixed assets	(2)	(1)
Net Cash Inflow from Trading Activities	5,760	3,160
Movement in:		
Loans and advances to customers	(43,812)	(53,986)
Shares	29,664	30,512
Amounts owed to credit institutions and other customers	5,477	17,795
Loans and advances to credit institutions	2,000	20,300
Other assets	310	-
Other liabilities	(5)	(24)
Net Cash (Outflow) / Inflow from Operating Activities	(606)	17,757

	2013 £000s	Cash Flow £000s	2014 £000s
Reconciliation of Cash Balances			
Cash in hand and balances with the Bank of England	71,855	45,785	117,640
Loans and advances to credit institutions - repayable on demand	83,789	(48,453)	35,336
	155,644	(2,668)	152,976
	2012 £000s	Cash Flow £000s	2013 £000s
Cash in hand and balances with the Bank of England	55,212	16,643	71,855
Loans and advances to credit institutions - repayable on demand	83,840	(51)	83,789
	139,052	16,592	155,644

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. Assets under the course of construction are capitalised and when available for use are transferred to Fixed Assets and depreciated.

Freehold properties are revalued every three years by a qualified 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.

Funding for Lending (FLS)

In order for the Society to access funding from the FLS mortgage assets are required to be pledged as collateral. Where the risk and reward of ownership of the mortgage assets remains with the Society they are retained on balance sheet. The interest receivable on these assets continues to be the Society's and is accounted for as earned on an

accruals basis.

Treasury bills borrowed under the FLS are not recognised on the balance sheet when substantially all the risks and rewards of the ownership remain with the lender. The interest cost of borrowing the treasury bills is accrued in the accounts on a straight line basis over the drawdown period.

If treasury bills are lent or sold subject to a commitment to repurchase, the net proceeds received are recognised as cash on the balance sheet together with a corresponding liability. Interest is accrued over the life of the agreement on a straight line basis.

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 two 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, where forbearance has been applied, 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.

The Society utilises forbearance measures to assist borrowers who are, or could be, experiencing financial difficulty. Provision against these cases are made in accordance with the policy set out above.

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

**Group
2014
£000s**

**Society
2014
£000s**

**Group
2013
£000s**

**Society
2013
£000s**

1. Interest Receivable and Similar Income

On loans fully secured on residential property	24,974	23,141	22,654	20,521
On other loans:				
• Connected undertakings	-	1,941	-	2,379
• Other	538	277	652	242
On other liquid assets:				
• Interest and other income	642	642	928	928
Net expense on financial instruments	(924)	(924)	(1,134)	(1,134)
	25,230	25,077	23,100	22,936

2. Interest Payable and Similar Charges

On shares held by individuals	9,834	9,834	10,770	10,770
On other shares	60	60	73	73
On deposits and other borrowings	983	983	1,417	1,417
	10,877	10,877	12,260	12,260

3. Administrative Expenses

Employee costs				
• Wages and salaries	3,495	3,495	2,848	2,848
• Social security costs	358	358	294	294
• Other pension costs	466	466	374	374
	4,319	4,319	3,516	3,516
Other administrative expenses	3,083	3,076	2,940	2,935
	7,402	7,395	6,456	6,451

Other administrative expenses include:

• Remuneration of auditor and its associates				
- audit of annual accounts	48	48	35	35
- audit of subsidiary's financial statements	5	-	5	-
- other services pursuant to such legislation	7	7	2	2
- other services relating to taxation	6	5	6	6
• Operating lease costs	136	136	125	125

The audit cost increase was a result of the additional work required to assess the transfer to the new IT system.

4. Taxation

The taxation charge for the year comprises:

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
UK corporation tax on profits in the year	1,319	1,284	793	763
Adjustment in respect of previous year	(6)	(6)	3	3
Total current tax	1,313	1,278	796	766

Deferred taxation:

Origination and reversal of timing differences	36	39	51	47
Adjustment in respect of previous year	4	4	(3)	(3)
Effect of tax rate change on opening balance	-	-	27	24
Total deferred tax	40	43	75	68
Tax on profit on ordinary activities	1,353	1,321	871	834

Factors affecting the tax charge for the year are:

Profit on ordinary activities before tax	6,171	6,015	3,569	3,399
Profit on ordinary activities multiplied by 21.83% (2013: 23.41%)	1,347	1,313	836	796

Effects of:

Difference between capital allowances and depreciation	(74)	(74)	(15)	(15)
Movement on non-taxable provisions	35	31	(46)	(40)
Depreciation on non-qualifying assets	13	13	16	16
Adjustment in respect of previous year	(6)	(6)	3	3
Small company relief	(3)	-	(4)	-
Disallowable expenses	1	1	6	6
Current tax charge for the year	1,313	1,278	796	766

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

5. Employees

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

	Full time 2014	Part time 2014	Full time 2013	Part time 2013
Head Office and Administration Centre	53	13	50	10
Branch Offices	42	25	36	26
	95	38	86	36

6. Directors' Remuneration and Transactions

The emoluments for both Executive and Non-Executive Directors totalled £700,156 for the year (2013: £665,400).

Executive Directors' Emoluments £s

2014	Salary	Performance Related Pay	Taxable Benefits	Pension Contribution	TOTAL
R M W Gardner	161,804	16,434	1,522	42,490	222,250
L F Bambridge	149,227	22,281	1,066	-	172,574
G M Knappett	95,673	9,326	1,868	31,314	138,181
TOTAL	406,704	48,041	4,456	73,804	533,005

2013

R M W Gardner	152,606	26,090	1,487	36,327	216,510
L F Bambridge	113,228	19,610	961	16,860	150,659
G M Knappett	91,132	15,086	1,819	26,645	134,682
TOTAL	356,966	60,786	4,267	79,832	501,851

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 two of the Executive Directors took advantage of this option. Mr Bambridge, with agreement from the Society, took his pension contributions as salary.

Mr Bambridge also received £12,573 from Sovereign Housing Association for his services as a Non-Executive Director.

Total employee costs increased 23% during the year which included an average pay review increase of 6.6%. The Executive Directors' emoluments increased 6.2% which included a 2.6% increase for the Chief Executive.

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

	2014 £	2013 £
A C D Rann (Chairman)	40,794	39,460
J H Parker (Vice Chairman)	27,463	26,976
P J Brickley	27,463	26,976
B P Eighteen	24,730	24,278
T L Morshead	21,971	21,581
R F Simms	24,730	24,278
TOTAL	167,151	163,549

The amount shown in respect of Mr A C D Rann is a contribution made to James Cowper LLP 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 £1,140,441 (2013: £891,503) representing loans to five (2013: four) 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.

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
7. Loans and Advances to Credit Institutions				
Accrued interest	28	28	41	41
Repayable on demand	35,336	35,193	83,789	83,220
Other loans and advances by residual maturity repayable:				
In not more than three months	-	-	2,000	2,000
	35,364	35,221	85,830	85,261

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
8. Loans and Advances to Customers				
Loans and advances to customers net of provisions are analysed as follows:				
Loans fully secured on residential property	647,865	612,764	604,619	562,751
Other Loans				
- Loans fully secured on land	13,834	7,273	12,883	5,565
	661,699	620,037	617,502	568,316

At 31st October 2014 the Group had pledged £82.4m (2013: £58.3m) of mortgage assets to the Bank of England as collateral under the Funding for Lending Scheme.

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
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	-	-	84	84
Repayable with remaining maturity:				
In not more than three months	1,813	1,763	4,938	4,644
In more than three months but not more than one year	5,540	5,278	17,879	16,556
In more than one year but not more than five years	46,334	40,274	103,785	96,294
In more than five years	608,843	573,452	492,031	451,849
	662,530	620,767	618,717	569,427
Less provisions (note 9)	(831)	(730)	(1,215)	(1,111)
	661,699	620,037	617,502	568,316

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
9. Provisions for Bad and Doubtful Debts								
At 1 November 2013								
General provision	552	547	130	56	-	-	682	603
Specific provision	90	65	-	-	443	443	533	508
	642	612	130	56	443	443	1,215	1,111
Written off in year	-	-	-	-	(443)	(443)	(443)	(443)
Income and expenditure account								
General provision	107	78	10	17	-	-	117	95
Specific provision	(58)	(33)	-	-	-	-	(58)	(33)
	49	45	10	17	-	-	59	62
At 31 October 2014								
General provision	659	625	140	73	-	-	799	698
Specific provision	32	32	-	-	-	-	32	32
	691	657	140	73	-	-	831	730

The Other loan that was written-off in the year was fully provided for in 2013 and relates to a commercial loan originated in 2007.

	Shares £000s	Loans £000s	Total £000s
10. Investments in Subsidiary Undertakings			
At 1 November 2013	-	48,132	48,132
Repayment	-	(8,080)	(8,080)
At 31 October 2014	-	40,052	40,052

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			Total £000s
	Assets under the course of construction £000s	Land and Buildings £000s	Equipment, fixtures, fittings & vehicles £000s	
11. Tangible Fixed Assets				
Cost / valuation				
At 1 November 2013	359	4,792	2,776	7,927
Additions	-	-	928	928
Revaluation	-	(377)	-	(377)
Transfer to asset in use	(359)	-	359	-
Disposals	-	-	(327)	(327)
At 31 October 2014	-	4,415	3,736	8,151
Depreciation				
At 1 November 2013	-	167	2,332	2,499
Charge for the year	-	59	291	350
Elimination in respect of Revaluation	-	(96)	-	(96)
Elimination in respect of Disposal	-	-	(324)	(324)
At 31 October 2014	-	130	2,299	2,429
Net book value				
At 31 October 2013	359	4,625	444	5,428
At 31 October 2014	-	4,285	1,437	5,722

The Assets under the course of construction comprised costs relating to the replacement of the Society's core IT system. As the system became operational during the year this amount was transferred to the equipment category.

The freehold properties were revalued on 7 April 2014 on a vacant possession basis by Quintons, chartered surveyors. The valuation of the freehold properties has been reviewed and approved by the Society's Board and the £281,000 decrease in value has been debited to the revaluation reserve (see note 18).

If the freehold properties had been held under the historical cost basis their net book value as at 31 October 2014 would have been £3,153,201.

Included in the land and buildings above is £1,711,520 (2013: £1,711,520) of non-depreciable land.

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

	2014 £000s	2013 £000s
Freehold	4,234	4,573
Long leasehold	51	52
	4,285	4,625
Net book value of Land and Buildings occupied by the Group and Society for its own activities:	2014 £000s	2013 £000s
Freehold	3,725	4,312
Long leasehold	51	52
	3,776	4,364

12. Other Assets

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
Deferred tax assets	88	68	128	111
Cash collateral pledged against off-balance sheet contracts	-	-	310	310
	88	68	438	421

Deferred tax assets comprise:

General provisions	(64)	(84)	134	117
Accelerated capital allowances	158	158	-	-
Prepaid pension costs	(6)	(6)	(6)	(6)
	88	68	128	111

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
Movement on deferred tax asset:				
At 1 November	128	111	203	179
Deferred tax charge (note 4)	(40)	(43)	(75)	(68)
At 31 October	88	68	128	111

The UK corporation tax rate at 1 April 2013 was 23% and was substantively enacted on 3 July 2012. A reduction to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the society's future current tax charge accordingly. The deferred tax asset at 31 October 2014 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

13. Shares

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
Held by individuals	656,930	656,930	627,858	627,858
Other shares	73	73	13	13
	657,003	657,003	627,871	627,871

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

Accrued interest	295	295	827	827
Repayable on demand	491,669	491,669	422,849	422,849
In not more than three months	101,648	101,648	113,992	113,992
In more than three months but not more than one year	60,545	60,545	82,907	82,907
In more than one year but not more than five years	2,846	2,846	7,296	7,296
	657,003	657,003	627,871	627,871

14. 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:

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
Accrued interest	120	120	135	135
In not more than three months	54,825	54,825	32,922	32,922
	54,945	54,945	33,057	33,057

Included in the amounts above is £54.8m (2013: £29.9m) relating to a sale and repurchase agreement of treasury bills borrowed from the Bank of England under the Funding for Lending Scheme.

15. 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:

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
Accrued interest	2	2	9	9
On demand	23,827	23,827	26,660	26,660
In not more than three months	32,096	32,096	44,559	44,559
In more than three months but not more than one year	426	426	1,556	1,556
	56,351	56,351	72,784	72,784

16. Other Liabilities

Amounts falling due within one year:

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
Corporation tax	652	617	475	445
Income tax	783	783	828	828
Other creditors	111	108	71	70
	1,546	1,508	1,374	1,343

17. Provisions for liabilities

Financial Services Compensation Scheme

	Group £000s	Society £000s
At 1 November 2013	347	347
Paid in year	(476)	(476)
Income and Expenditure account:		
Increase in Provision	500	500
At 31 October 2014	371	371

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Society pays levies to the 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. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford and Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members, including Newbury Building Society, over this period.

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012. The provision at 31 October 2014 includes an estimate of the management expenses levy for the scheme year 2014/15. The compensation levy for 2014/15 was paid in the year to 31 October 2014. No provision has been made for any levies relating to 2015/16 and subsequent scheme years.

	Group £000s	Society £000s
18. Reserves		
General Reserves		
At 1 November 2013	43,429	41,828
Profit for the financial year	4,818	4,694
At 31 October 2014	48,247	46,522
Revaluation Reserve		
As at 1 November 2013	1,706	1,706
Decrease	(281)	(281)
As at 31 October 2014	1,425	1,425

The potential tax liability on the surplus on revaluation is £285,000 (2013: £341,000). This liability would crystallise if the revalued assets were sold; no deferred tax has been provided for this amount.

	Group 2014 £000s	Society 2014 £000s	Group 2013 £000s	Society 2013 £000s
19. Capital and Other Financial Commitments				
a. Capital commitments contracted for but for which no provision has been made in the accounts	-	-	482	482
b. Annual commitments under non-cancellable operating leases are as follows:-				
Land and buildings				
• Leases which expire within one year	5	5	19	19
• Leases which expire within two to five years inclusive	25	25	25	25
• Leases which expire after more than five years	99	99	75	75

The Group has a commitment to repurchase treasury bills amounting to £54.9m (2013: £29.9m)

20. 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 2014. 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
Assets						
Liquid assets	152,580	-	-	-	424	153,004
Loans and advances to customers	527,673	14,365	16,589	103,902	(830)	661,699
Tangible fixed assets	-	-	-	-	5,722	5,722
Other assets	-	-	-	-	370	370
Total Assets	680,253	14,365	16,589	103,902	5,686	820,795
Liabilities						
Shares	593,317	5,555	54,990	2,846	295	657,003
Amounts owed to credit institutions and other customers	110,749	243	183	-	122	111,297
Other liabilities	-	-	-	-	2,444	2,444
Provision for liabilities and charges	-	-	-	-	371	371
Reserves	-	-	-	-	49,680	49,680
Total Liabilities	704,066	5,798	55,173	2,846	52,912	820,795
Off-balance sheet items	132,000	(15,500)	(11,500)	(105,000)	-	-
Interest rate sensitivity gap	108,187	(6,933)	(50,084)	(3,944)	(47,226)	-
Cumulative surplus	108,187	101,254	51,170	47,226	-	-

The comparatives as at 31 October 2013 were as follows:

Assets						
Liquid assets	157,265	-	-	-	420	157,685
Loans and advances to customers	502,034	12,158	4,413	100,113	(1,216)	617,502
Tangible fixed assets	-	-	-	-	5,428	5,428
Other assets	-	-	-	-	745	745
Total Assets	659,299	12,158	4,413	100,113	5,377	781,360
Liabilities						
Shares	536,841	46,016	36,891	7,296	827	627,871
Amounts owed to credit institutions and other customers	104,141	1,186	370	-	144	105,841
Other liabilities	-	-	-	-	2,166	2,166
Provision for liabilities and charges	-	-	-	-	347	347
Reserves	-	-	-	-	45,135	45,135
Total Liabilities	640,982	47,202	37,261	7,296	48,619	781,360
Off-balance sheet items	114,000	(13,500)	(3,000)	(97,500)	-	-
Interest rate sensitivity gap	132,301	(48,544)	(35,848)	(4,683)	(43,242)	-
Cumulative surplus	132,317	83,773	47,925	43,242	-	-

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 2014. 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			
	2014 Book value £000s	2014 Fair value £000s	2013 Book value £000s	2013 Fair value £000s
Financial assets and liabilities for which active markets exist				
Interest rate swaps	-	(878)	-	(1,289)

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 Prudential Regulation 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	
	2014 £000s	2013 £000s
Unmatured interest rate swaps		
Notional principal amounts	135,500	119,000
Credit risk weighted amounts	271	240
Replacement cost	100	85

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 £877,802 (2013: £1,289,000). 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 2014. The Group expects to realise losses during the forthcoming financial year of £837,496 (2013: £920,000). Of the unrecognised gains and losses on hedges as at 1 November 2013, the effect on profit for the year was a loss of £832,255 (2014: £1,064,000).

21. 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 £466,000 (2013: £374,000). There were contributions payable at the year end of £35,000 (2013: £26,000). There was a prepayment at the year end of £35,000 (2013: £30,000) for the Society Death in Service Scheme.

Annual Business Statement as at 31 October 2014

	2014 %	Statutory Limit %
1. Statutory Percentages		
Lending limit	2.2	25
Funding limit	14.5	50

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.

	2014 %	2013 %
2. Other Percentages		
Gross capital as a percentage of shares and borrowings	6.47	6.15
Free capital as a percentage of shares and borrowings	5.82	5.50
Liquid assets as a percentage of shares and borrowings	19.91	21.49
Profit after tax as a percentage of mean total assets	0.60	0.36
Management expenses as a percentage of mean total assets	0.97	0.90

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.

3. Directors and Other Officers as at 31 October 2014

Name	Year of Birth	Business occupation	Date first appointed	Other directorships
A C D Rann FCA	1953	Chartered Accountant	01/03/96	James Cowper LLP; James Cowper Corporate Finance LLP; Kreston James Cowper Ltd; James & Cowper Trustees Ltd; James & Cowper Bloodstock Ltd; JC Payroll Services Ltd; Newbury Mortgage Services Ltd; JC (Corporate) Rann Ltd; James Cowper Capital Ltd; James Cowper Services Ltd
J H Parker MA (Cantab), FCA, ACIB	1949	Company Director	17/04/07	Affordable Housing Finance Plc; The Housing Finance Corporation Ltd
L F Bambridge BA (Hons), ACA, AMCT	1963	Building Society Finance Director	23/07/07	Sovereign Housing Association Ltd
P J Brickley BSc (Hons)	1960	Global Chief Information Officer	01/07/08	None
B P Eighteen ACA	1954	Managing Director	27/10/09	Thames Vale Investments Ltd; Thames Vale Properties Ltd
R M W Gardner MA (Hons)	1960	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)
G M Knappett MA, C Math	1951	Building Society Development Director	01/11/02	Newbury College Corporation
R F Simms BA (Hons)	1965	Director Corporate Services - Insurance	28/06/10	BGL Group
T L Morshead FCIM	1956	Company Director	01/06/12	Mortgage Brain Holdings Ltd; Assurant Group Ltd; National Friendly Society Ltd; Morshead Consulting Ltd; Assurant Life Ltd; Mortgage Brain Ltd; The Mortgage Trading Exchange Ltd; MBL Financial Services Ltd; Premier Processing Services Ltd; 425 Direct Ltd

Mr Gardner, Mr Bambridge and Mr Knappett each have a service contract with the Society terminable by either party giving 12 months notice. In the event of amalgamation, transfer of engagements or transfer of business where the Executive Director's employment is to be terminated the Society shall give not less than 24 months notice. The agreements were signed on 30 November 2001, 14 December 2008 and 1 November 2002 respectively.

Other Officers

Nigel Briggs BA (Hons), MSc, MBA - Head of Compliance
& Company Secretary

Phillippa Cardno - Head of Operations

Erika Neves BSc (Hons), DIMA - Head of Conduct

Ian Thompson FCIB - Head of Treasury & Risk

Auditor

KPMG LLP
One Snowhill, Snow Hill Queensway, Birmingham B4 6GH

Bankers

National Westminster Bank Plc
30 Market Place, Newbury, Berkshire RG14 5AJ

Solicitors

Documents may be served on the above named Directors at the following address:

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

Abingdon	Graham Tolfts • Helen McMahon • Jenna Powell • Faye Hook
Alton	Julie Pink • Ellie Pearson • Becky Mountfield • Becky Davies • Ellen Turner
Andover	Trudi Smart • Brett Humphrey • Sheila Sandham • Charlotte Barham • Kat Pearce • Hilary Sacree
Basingstoke	Shannon Rigler • Lucy Parnell • Matt Long • Emily Lucas • Jess McAuley • Nicola Pope • Harriette Lane • Sam Jones • Kelly Carter
Didcot	Norma Banks • Matt Hodge • Angela Bradshaw • Hannah Tame • Sonja Roostan
Hungerford	Kayleigh Tingle • Eve McDowell • Sallie McNaught-Davis • Sarah Hubbard • Paula Wheeler
Newbury	Agnes Frydel • Jordan Sharpe • Sue Mason • Rose Hallett • Emma Trincas • Shingai Chipfupa • Chloe Somerville • Jane Bosher • Nicola King-Head • Rachel Hawkins • Kate Rockall • Jill Bennett • Laura Heal
Thatcham	Xania Bosley • Louise Griffin • Amba Goodall • Debbie Brockett • Karen Griffin
Whitchurch	Fiona Cornish • Anna Royle • Coralie Maryon
Winchester	Laura Whale • Alan Doney • Leigh Yates • Lisa Wedge • Sandra Smith
Wokingham	Debbie Gadd • Charlotte Hall • Jac Goddard • Daniel Shah • Toby Williams
Area Managers	Karen Smith • Martin Yates
Business Managers	Luke Pummell • Paul Holt • Diane Long
Development Manager	Nick Croxford
Business Support Managers	Ella Bright • Stacey Davies • Emma Lavers • Clare Taylor

Head Office

Compliance	Lynn Fiske • Charlotte Courtenay
Customer Services	Katy Bungay • Tash Stacey • Chloe Brock • Lucy Amore • Andree Goodall • Elliot Walker • Melissa Kenah • Tim Kirby • Craig Turner • Katie Stubbs • Katie Rocks • Janet Jex • Gemma Robinson • Rose Fishlock • Debbie Bailey • Diana Lewis • Kim Smyth • Lynn Small • Joan Bennett • Jane Mason • Melanie Mildenhall • Hannah Westlake • Emma Franklin • Sue Newcombe • Lisa Dixon • Laura Pitcher
Executives	Roland Gardner • Lee Bambridge • Geoff Knappett • Phillippa Cardno • Erika Neves • Nigel Briggs • Ian Thompson
Finance	Debbie Springer • Cheryl Bowers • Lynda Ralph • Ruth Bowden • Suzanne Allen • Laura Chisling
Human Resources	Anne-Marie Goldsmith • Cara Holley • Jacky Reenan • Laura Wilson
ICT	Peter Jaworski • Seth Ford • Ian Willson • Traci Sharp • Ben Egan • Hayley Watt • Nicky Martin • Vicky Boyles • Shiv Stacey
Lending	Roger Knight
Marketing	Steve White • Louise McCormack • Daryl Wing • Ellie Inglis • Bronwyn Tucker
Premises, Health and Safety	Sharon Golding • Michael Goodall • Phillip Graham • Ricky Walker
Personal Assistant to the Executives	Charlotte Dyer
Treasury and Risk	Louise Keep
Valuer	Ann Davidson

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