ANNUAL REPORT & ACCOUNTS

YEAR ENDED 31 OCTOBER 2015

NEWBURY
building society

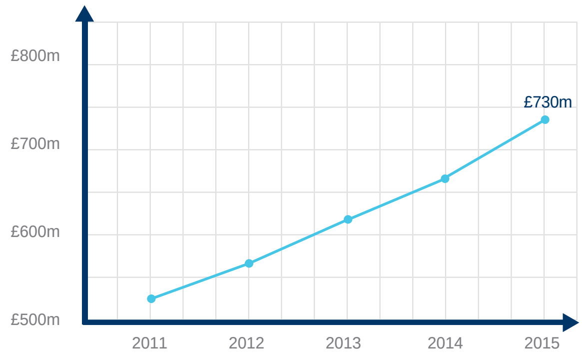
Contents

Our Highlights

Mortgages

- Our mortgage book increased £68m to £730m
- We lent £183m for mortgages to members (2014: £143m)
- Strong demand for our residential, first time buyer and buy to let products drove this growth

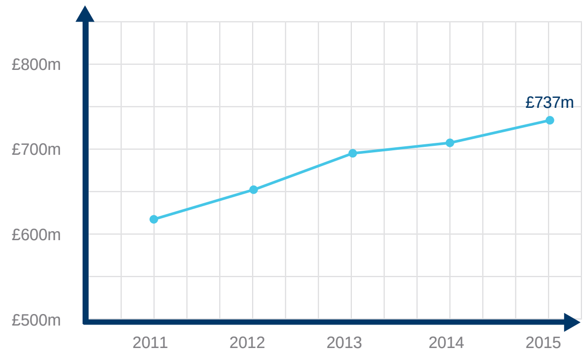
Mortgage Balances



Savings & Funding

- Savings balances increased £25m to £737m
- The performance of our ISA, Existing member and Instant premium accounts were significant factors in the growth
- We borrowed a further £15m from the Bank of England Funding for Lending Scheme

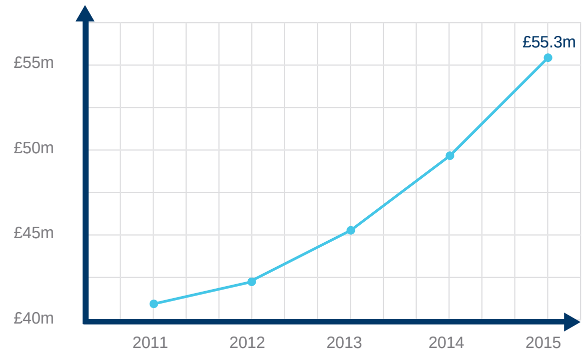
Savings Balances



Financial strength

- Our capital grew to £55.3m (2014: £49.7m)
- Our profit after tax increased to £5.6m (2014: £4.8m)
- We held £133m of liquidity at year end

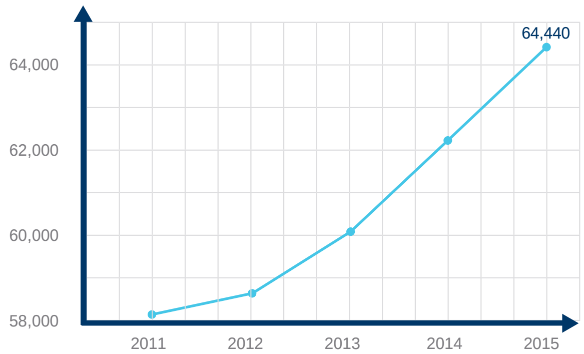
Capital



Members

- Our member numbers increased by 2,251 to 64,440
- Our mystery shopping scores averaged 95%

Member Numbers



Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Annual Accounts and Business Statement of the Group for the year ended 31 October 2015.

Key Performance Indicators

		2015	2014
Balance sheet	**Loans to Customers**	£730m	£662m
	Retail Shares and Deposits	£737m	£712m
Operating performance	**Management Expenses** as a % of Mean Total Assets	0.93	0.97
	Interest Margin as a % of Mean Total Assets	1.82	1.79
	Mortgage Arrears - on accounts two months or more in arrears	£0.16m	£0.12m
	Group Profit After Tax	£5.6m	£4.8m
Financial strength	**Capital**	£55.3m	£49.7m
	Liquid Assets as a % of Shares and Borrowings	16.4%	19.9%
Members	**Members -** numbers	64,440	62,189
	Mystery Shopping - % score achieved	95.0%	92.4%
	Complaints - as a % of members	<0.1%	<0.1%

Business Review

This has been an exceptional business year for the Society, with the two most significant achievements being mortgage balance growth of just over 10% and profitability of £5.6m after tax. Both of these figures exceed those achieved in 2013-14, which was in itself an excellent year. The key element to the success is the fact that the Society has managed simultaneously to achieve a high level of balance sheet growth and to improve capital strength. With these twin objectives both ahead of our targets for the year, the Board is delighted to report on such a positive set of results.

For the second successive year, the profit after tax figure is a record. This level of profitability is required not only to support the lending growth, it also reflects the Society's ongoing need to boost its capital strength in response to the higher capital levels needed under the Capital Requirements Directive. The size of the profit figure also reflects favourable trading conditions in the retail savings market, where interest rates have remained subdued, and the Society has therefore had to manage account availability and interest rates carefully, in order to facilitate a return to a lower level of liquidity than that required in the aftermath of the banking crisis. Savings balances have grown by 3.5%, although as the Society had 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 unusual environment has been to prioritise and protect the interests of existing members, by restricting access to new customers to our higher-paying savings accounts, therefore enabling us to maintain interest rates ahead of the market average for our existing clients. Unlike many of our competitors, the Society did not lower any interest rates during the year but this is unlikely to be sustained into 2016 as competition in the mortgage market continues to drive pricing downwards on both sides of the balance sheet. Therefore, going forward, the Board does not anticipate the margin, and hence profit levels, being maintained at the current level.

The Board is mindful that controlling costs is vital for the Society's competitive position in the market place and is therefore pleased to report that the Society's management expenses ratio has reduced from £0.97 to £0.93. The fact that the ratio reduced demonstrates that balance sheet growth coupled with careful management of expenses does bring about the economies of scale which will make the business stronger in the long term. 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 high quality and value products and services for members.

> "The Board recognises that as a membership organisation the service to our members is paramount."

While financial performance is very important, the Board recognises that as a membership organisation the service to our members is paramount. It is therefore pleasing that our mystery shopping scores have increased in the year to an average of 95% across all our branches and that we received complaints from fewer than 0.1% of our members. In addition, the number of members in the Society has grown to 64,440 in the year, re-enforcing the fact that the combination of a strong service proposition with competitive rates is an effective strategy for the Society to follow.

> "The number of members in the Society has grown to 64,440 in the year"

The Society's performance in 2015 has reflected a confidence in the domestic economy and in the housing market in particular, where house prices continue to rise well ahead of inflation in reaction to the shortage of stock and the overall lack of transactions. The Society's strategy and planning has been to take advantage of those favourable conditions, and with the Society not restricted by the type of legacy issues which have hindered the progress of several of the bigger 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.

Mortgages (Loans to Customers)

The Board is very satisfied with mortgage balance growth of £68m during the year, representing an increase in balances of 10.3% of the total book. Gross lending at £183m was a record, comfortably exceeding last year's total of £143m when lending was reined back somewhat over the late summer (because the Society was migrating to its new core computer system). Without the distraction of such a major computer project, management was able to fully focus on balance sheet growth. This growth was achieved against the backdrop of a market where competition has intensified significantly, with the major lenders all returning to the market after a period of consolidation and recapitalisation, and with a number of new challenger banks entering the market with aggressive lending targets.

The Society's success was based on providing a competitive range of fixed and discounted mortgages mainly for owner occupiers but also for buy to let landlords. With competition in residential lending proving intense, in order to sustain the profitability and deliver fair returns for savers, the Society has also operated in areas of the market where appropriate returns for risk can be made. For instance, in addition to what might be reasonably described as universally mainstream business, the Society is also willing to lend to borrowers who have the ability to continue paying mortgages into retirement, to customers with credible repayment plans who require interest only mortgages, to self-builders who need stage releases and to first time buyers utilising the Help To Buy schemes.

The Society has also provided buy to let mortgages for the growing number of individuals seeking to diversify their investment portfolios by becoming landlords, as well as to more seasoned property investors. With private sector renting representing its highest ever percentage as a proportion of the housing market in total, the Society's growth in buy to let lending demonstrates our response to the local demand. With Government policy firmly based upon owner occupation, it will be interesting to see if the new fiscal measures announced in this year's budget and autumn statement and the Bank of England's increased focus in this area will dampen the market or whether buy to let will continue to grow. Either way, the Society will react appropriately and will continue to provide the type of products required by the market.

The Society's mortgage book comprises 82% residential owner-occupied loans, 15% buy to let, and 3% commercial lending and lifetime mortgages. The Society does not actively seek to grow the commercial and lifetime books. The book remains of the highest quality with an average indexed loan to value under 35%. Less than 3% of the balances in the book are over 75% of the value of the properties on which their mortgages are secured, and 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 Group's arrears and possession statistics remain low both for the sector and for the industry as a whole. While there has been an increase in the amount of arrears from £0.12m to £0.16m during the year and the number of cases over two months in arrears has increased from 43 to 49 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 essentially stable. There were nine cases in serious arrears of twelve months or more at our year-end (2014: seven cases). The total amount of arrears outstanding on these accounts was £65,000 (2014: £52,000) and the aggregate capital balance was £590,000 (2014: £405,000). As at 31 October 2015 the Group had one property in possession (2014: nil). The Group has incurred no mortgage losses during the year (2014: one loss of £749), thus maintaining our enviable record of total mortgage losses under £50,000 in the last ten years. The Society shows forbearance to as many borrowers as possible, where appropriate, and there were 26 accounts at 31 October 2015 where clients were benefitting from a forbearance action such as term extension, payment holiday or temporary interest only arrangement (2014: 30). These figures continue to demonstrate the quality of your Society's mortgage book and the quality of underwriting processes over recent years.

Our loans are all individually underwritten by an experienced team based in Head Office, who have the authority to exercise some flexibility with our lending criteria in appropriate cases. Responsible lending and decision-making is the key to our loan quality, and our desire to reduce the risk of future default has been paramount in our lending strategy.

2014/15 was the first full year of operating under the rules of the Financial Conduct Authority's Mortgage Market Review. The Society was well prepared for this regulation, whose two main provisions were the introduction of a mandatory advice process for face to face interactions and new prescriptive rules on affordability. As the Society had been offering advised sales since Mortgage Conduct of Business regulation was first introduced in 2004 and had also adopted practices similar to the new affordability rules several years ago, the Society was able to be agile and maintain its normal service standards during the first 18 months of MMR, which contributed to the strong performance this year.

> "The Society's success was based on providing a competitive range of fixed and discounted mortgages mainly for owner occupiers but also for buy to let landlords."

In March 2016, further regulation in the form of the Mortgage Credit Directive will apply to residential mortgages. Again, the Society has been working hard in preparation for this new European driven regime, where although there are no major changes in the areas of advice, responsible lending and arrears management, there are major changes in the rules on disclosure, where a European Standard Information Sheet will replace the Key Facts Illustration.

Retail Shares and Deposits

The Society's retail balances increased by 3.5% during the year, an appropriate level of growth in view of the Society's reduced liquidity requirements given the availability of the Bank of England's FLS and Discount Window Facility. The Society could undoubtedly have achieved significantly higher levels of growth in savings balances this year had we not restricted new adult members to the Welcome To Newbury, Square Deal ISA and Instant Premium accounts for nearly all the year. No new corporate accounts were opened during the year either, as we concentrated on servicing our existing depositors.

The decision to maintain the suspension of the majority of our product range to new investors was taken to protect interest rates for existing members, whilst simultaneously preventing the Society from being overwhelmed by demand from clients experiencing interest rate cuts or low interest rates elsewhere. In October, the Society lifted its restriction on the Senior Saver and Treasure Plus accounts, but the ISA range (except Square Deal), the Access range (notice accounts) and company accounts remain closed as management continues to seek the right balance between mortgage funding requirements and generating appropriate levels of savings. This also meant that the Society restricted its one year fixed rate bonds to those members with maturing bonds.

Despite the restrictions to product availability, membership increased by 2,251 during the year with both the Welcome To Newbury account (for adults) and the Barry Bear account (for children) proving popular.

The most popular account during the year was the Existing Members Account, where balances increased by over £18m. We were pleased to increase the annual subscription limit from £3,000 to £4,000 in April to help loyal members improve their returns.

Our philosophy for our savers is to operate fairly, with simplicity in product design, competitive terms and conditions, and to ensure existing members are treated at least equally with new members. In other words we do not offer short term bonus accounts (often described as 'teaser' accounts) or 'new customer only' products. The reality in recent years has been that existing members have experienced better terms and conditions than new members, as the Society has maintained above average rates for savers.

Given that the Bank of England base rate has remained at 0.5% since March 2009 and seems likely to remain low for another year, we believe strongly that our savings members have been well served by our pricing policy.

Capital and Liquidity

The Board is conscious that both members and the Regulator require the Society to be financially secure. Financial strength protects the Society against its principal risks and uncertainties (see below) and safeguards members funds. The Board therefore sets a strategy to ensure that both capital and liquidity are maintained at appropriate levels. The continuing emphasis on high quality capital by world banking authorities has meant that the level of profitability this year was necessary for two reasons: firstly to continue the process of building our reserves for the Capital Requirements Directive, and secondly to reflect the 10% increase in mortgage balances. The reserves now stand at a record level for the Group.

This strategy has resulted in the following position as at 31 October 2015:-

- Capital

	2015 £000s	2014 £000s
Tier 1 Capital	55,311	49,672
Tier 2 Capital	868	799
Capital Resources	56,179	50,471
Total Capital Ratio	18.2%	18.1%

- Liquidity: Liquid assets (which comprise cash and investments as shown on the balance sheet on page 22) decreased to £133m (2014: £153m). Liquid assets as a percentage of Shares and Borrowings decreased to 16.4% (2014: 19.9%). The Board decided to reduce the liquidity percentage during the year as the Society has access to both the Bank of England's FLS and Discount Window facilities.

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

Governance

There have been a number of changes to the Board this year. As announced last year, Adrian Rann, who had been Chairman since 2009, retired following the AGM in February 2015. Non-Executive Director Brian Eighteen resigned in May 2015, and Development Director Geoff Knappett accepted an offer of voluntary redundancy in January 2015, following the completion of a review of the senior management structure. I and the Board take this opportunity on behalf of all members to thank all three for their service to the Society and wish them well for the future.

As a result of three directors leaving the Board, and to reflect the Society's growing size and the degree of specialist skills required, four new directors were appointed in February 2015. Three non-executive directors, Abigail Gammie, Sarah Hordern and William Roberts, joined the Board following an extensive recruitment process. Phillippa Cardno was also appointed to the Board following her promotion from Head of Operations to Operations & Sales Director. Their biographical details appear on pages 12-13.

The Board is committed to best practice in Corporate Governance. The report on pages 14 to 17 explains how the Society applies the principles contained in the UK Corporate Governance Code as well as setting out the changes in Committee chairs and membership as a result of the Board membership changes

Newbury Mortgage Services Ltd (NMS)

During the year, the decision was taken to stop any further trading activity in NMS to avoid ongoing administrative tasks and costs. NMS therefore sold its remaining mortgages to the Society. As a result NMS borrowers have become members of the Society, a benefit they did not enjoy as borrowers in the Society's subsidiary company. During the year a dividend of £1.8m was paid by NMS to the Society.

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, recruiting new managers in the areas of Regulatory change, Project management and Marketing & Communications. Recruiting suitably qualified employees has become more of a challenge in recent years, as we compete with firms in Reading and London to acquire the best talent. As the Society continues to grow, there is a regulatory expectation that the Society's management is suitably strengthened to handle the risks and challenges of being a larger corporate entity in the Financial Services world. We have therefore welcomed new managers this year, who bring the necessary expertise to complement the existing skills and knowledge of our experienced long serving members of staff.

Members naturally expect Society staff to be knowledgeable and efficient in their service provision. This year the Society, in party with a training solutions company, took a significant step in improving staff training with the introduction of a Society-wide learning programme, which has dramatically improved the effectiveness with which staff acquire and retain regulatory and compliance knowledge. The quality of the programme has been recognised nationally, with the Society being one of only three finalists at the recent Best Training in Compliance awards, and the Society has also been nominated for the 2016 Distinction in HR awards in the Innovative Use of Technology category.

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

The Society supported the Basingstoke Half Marathon.

The Communities We Serve

The communities in which our branch network operates form the heart of the Society. We have continued to give something back to the communities where our members and employees live and work, by supporting local projects, taking part in a whole host of community events and offering sponsorship.

Events this year included:

- Ongoing support of the Pink Ribbon Foundation, the Society's nominated charity for 2015.
- Wokingham branch volunteers carried out improvements at the Westmead Centre in Wokingham, a day care centre for adults with disabilities.
- Brave staff volunteers from Abingdon and Didcot branches abseiled down the side of the John Radcliffe Hospital, raising over £800 for The Children's Hospital's Fund.

- Alton branch staff helped raise money for charities supported by All Saints' Church and the Royal Marines School of Music.
- In Basingstoke, the Society hosted a charity Netball tournament, raising over £350.
- Head Office staff hosted a bake-off for Macmillan, raising £130.
- Basingstoke branch staff attended the popular Basingstoke Half Marathon to raise money for St. Michael's Hospice, with the help of a giant inflatable obstacle course.
- At Christmas, several branches had giving trees where members donated presents, which were then given to disadvantaged children over the festive period.
- Abingdon branch supported the Play2Give football tournament, an Oxfordshire based organisation raising funds for the Oxford Children's Hospital.

Pupils of Hungerford Primary School participating in the JNBS programme

Our Junior Newbury Building Society programme has expanded from 18 to 24 primary schools in the past year. This programme is at the heart of the Society's Corporate Social Responsibility programme and offers primary schoolchildren 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.

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

This year the Society has made donations totalling £24,582 in support of local charities and community organisations. No contributions were made for political purposes.

The Future

Delivering the Society's strategic vision took another significant forward movement in 2015 as a result of our greatest asset growth since the banking crisis, and an all-time record profit. The strengthening of the Society's capital ratio provides the base for further growth and investment in the business, for the benefit of all members.

There has been a noticeable increase in regulatory activity in the last year and this is unlikely to change in the foreseeable future. As a result, the Board sees balance sheet growth as an important element of strategy in order to defray the costs of running a deposit-taking and mortgage lending business in the modern era. In order to help achieve this growth, the Society is investing significantly in new technology to improve how members and intermediaries can operate their savings or mortgage accounts. Members are likely to start to see the benefits from this exercise during 2016.

The Board is fully committed to its 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 but not excessive profit-making business, and mutuality (best described as the benefit of being member owned).

There are challenges ahead as large banks and a number of new 'challengers' are looking to attract market share, which means competition is increasing. This can only be good for members and it will remain our intention to offer fair-priced relevant products, to lend responsibly and to support borrowers achieve their housing aspirations. We will continue to provide advice in our branches and operate in niches where the wider market lacks capacity or capability. The Board is also aware that the housing market is currently subject to an abnormally high level of Governmental intervention to promote owner occupation. 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 Board believes that as the Society approaches its 160th birthday in 2016 a successful future lies ahead as an independent, branch-based and vibrant mutually owned business.

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

Interest rate risk 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 2015 can be found in note 20 on pages 35 to 37.

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

Regulatory risk is 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:

- Peter Brickley
- John Parker
- Roland Gardner
- Lee Bambridge
- Tracy Morshead
- Ron Simms
- Phillippa Cardno - from 19/2/15
- Abigail Gammie - from 19/2/15
- Sarah Hordern - from 19/2/15
- William Roberts - from 19/2/15
- Geoff Knappett - to 31/1/15
- Adrian Rann - to 23/2/15
- Brian Eighteen - to 27/4/15

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.

The Directors retiring at the Annual General Meeting are Phillippa Cardno, Abigail Gammie, Sarah Hordern and William Roberts who, being eligible, offer themselves for election and Roland Gardner and Tracy Morshead who, being eligible, offer themselves for re-election.

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 2015 was 15 (2014:18).

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.

Peter Brickley
Chairman
16 December 2015

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

Julie Pink from Alton branch presents a cheque to Alton Covernant Youth Choir, for money raised in memory of musician Bob Symonds.

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

Discovery Programme graduates at their award ceremony.

The Year in Pictures

Business Manager Paul Holt and our mascot Barry Bear presenting a cheque to Oxford Children's Hospital for money raised.

Training Programme nomination at this year's Thomson Reuters Compliance Awards.

Basingstoke branch celebrates its 5th birthday.

The Society took part in a charity netball tournament to raise money for The Pink Ribbon Foundation.

Jonathan Prince from the Pink Ribbon Foundation receiving a cheque from the Society for money raised.

Staff abseiling to raise money for The Children's Hospital Fund.

Non-Executive Directors

Peter Brickley
Chairman of the Board

Peter was appointed to the Board of Directors in July 2008 and was elected Chairman in February 2015. He is the Managing Director for Global Business Services for a global brewer. Peter is Chairman of the Strategic Risk and Nomination Committees and member of the Remuneration Committee.

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 and Remuneration Committees and a member of the Audit, Strategic Risk and Nomination Committees.

Abigail Gammie
Non-Executive Director

Abigail was appointed to the Board of Directors in February 2015. She is currently Managing Director International Financial Services for a global advisory and consulting firm. Abigail has an extensive background in financial services with specific experience in Treasury and Risk. She is a member of the Assets & Liabilities, Audit and Strategic Risk Committees.

Sarah Hordern
Non-Executive Director

Sarah was appointed to the Board of Directors in February 2015. She is a Chartered Accountant and former joint Managing Director of Newbury Racecourse and is currently the Chief Operating Officer of an estate management company. Sarah is the Chair of the Credit Committee and a member of the Sales Marketing & Development and Strategic Risk 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 Chair of the Sales, Marketing & Development Committee and a member of the Credit and Strategic Risk Committees.

William Roberts
Non-Executive Director

William was appointed to the Board of Directors in February 2015. He is a Chartered Accountant and is Finance Director for a Housing Association. William has over 15 years' experience in the property sector and 10 years' experience in the Housing Association sector. He is a member of the Audit, Credit and Strategic Risk Committees.

Ron Simms
Non-Executive Director

Ron was appointed by the Board of Directors in June 2010. He is a Solicitor and is Director of Corporate Services for one of the UK's largest intermediaries. Ron is Chairman of the Audit Committee and a member of the Asset & Liabilities, Remuneration, Nomination and Strategic Risk Committees.

Executive Directors

Roland Gardner
Chief Executive

Roland joined the Society in 1987 and was appointed to the Board of Directors in September 2006. He was appointed Chief Executive on 1 February 2007. As Chief Executive Roland leads the Society's strategic direction and chairs the Executive Committee. 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. Lee is responsible for the Society's capital, liquidity and funding position as well as for financial reporting and risk management. He is a member of the Assets & Liabilities Committee.

Phillippa Cardno
Operations & Sales Director

Phillippa joined the Society in 1996 and was promoted to the Executive team in 2007. She was appointed to the Board of Directors in February 2015 as Operations and Sales Director and is responsible for operational strategy and performance as well as the Society's IT function and Lending Policy. Phillippa is a member of the Credit and Sales, Marketing & Development Committees.

Executives

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.

Erika Neves
Head of Risk & Conduct

Erika joined the Society in 1991 and became an Executive in 2002. She heads the Conduct function and attends the 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 Chief Executive.

Ian Willson
Head of IT

Ian joined the Society in 2013 and became an Executive in 2015. He heads the IT and Customer Service functions and attends the Audit Committee by invitation. Ian reports to the Operations and Sales Director.

Corporate Governance Report

The Financial Reporting Council last updated the UK Corporate Governance Code in September 2014. Although the Code does not directly apply to mutual organisations, the Group has regard to its principles as they apply to a building society.

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 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. The Board approves major initiatives as well as changes in lending limits and higher level mandates.

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 usually meets eleven times a year, together with a day focused on strategy, to discharge these duties. The Non-Executive Directors meet without the Executive Directors present at least once a year. The internal auditors carry out governance reviews as part of a rolling audit plan and the Board acts on any recommendations.

The Board delegates certain responsibilities to the following Committees:

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 John Parker, Ron Simms and Abigail Gammie, as well as the Chief Executive and the Finance Director. The Treasury Manager 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. During the reporting period the Committee monitored 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. The Committee reviewed the fairness of disclosures and recommended acceptance of the annual accounts to the Board. The Committee also monitored the performance, independence, objectivity, competence and effectiveness of the internal and external auditors, re-selecting Deloitte LLP as the Society's internal auditors following a formal tender process and recommending the re-appointment of KPMG LLP as external auditors. The Committee negotiated and agreed the scope of audit work and fees, approving non-audit fees paid to the auditors in accordance with the Society's Policy. The Committee also considered aspects of conduct, operational and reputational risk management.

The Committee comprises four Non-Executive Directors who are currently Ron Simms, John Parker, Abigail Gammie and William Roberts. The Executive Directors, the Head of Compliance & Company Secretary, the Head of Risk & Conduct and the Head of IT, as well as representatives from the internal and external auditors, attend by invitation.

Credit Committee

The Committee is responsible for credit risk oversight, reviewing the quality and profile of the mortgage portfolio against the Society's credit risk appetite. Over the last year the Committee has approved changes to lending policy and lending mandates, it has monitored lending quality, volume and arrears performance, and it has undertaken individual reviews of all commercial and larger loans.

The Committee comprises three Non-Executive Directors who are currently Sarah Hordern, Tracy Morshead and William Roberts, as well as the Chief Executive and the Operations and Sales Director. The Mortgage Underwriting Manager and the Customer Services Manager attend by invitation.

Remuneration & Nomination Committee

Over the course of the year the Committee considered the balance and diversity of skills, knowledge and experience of the Board, led the process to recruit three new Non-Executive Directors and to effect change in the Executive Director structure. The Committee reviewed the performance of Directors individually and collectively, and recommended the election of four new Directors to the Board and the re-election of two existing Directors. It oversaw preparations for the new Strengthening Accountability regulations which come into effect from March 2016. The Committee also reviewed changes to the Remuneration Policy in light of regulatory changes and negotiated changes to the Executive Directors' contractual notice period in the event of amalgamations.

At the end of the reporting period the Remuneration & Nomination Committee decided that the Board would be better served by separate Nomination and Remuneration Committees. Terms of reference have been agreed under which the Nomination Committee is responsible for succession planning for both Executive and Non-Executive Director positions and the Remuneration Committee is responsible for setting and monitoring adherence to the Society's Remuneration Policy. The membership of both committees comprises three Non-Executive Directors who are currently Peter Brickley, John Parker and Ron Simms. 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 Tracy Morshead and Sarah Hordern as well as the Chief Executive and the Operations and Sales Director. The Head of Risk & Conduct and the Marketing & Communications Manager attend 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 Head of Risk & Conduct 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 2015 is set out on page 17.

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 Society's Chairman, Peter Brickley, was appointed as an independent Non-Executive Director in July 2008 following a rigorous selection exercise and became Chairman on 23 February 2015.

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 Directors attend an annual strategy day, the purpose of which is to identify and assess the strategic options available to the Society. Following the strategy day, the Executive Directors and the management team produce a rolling three year corporate plan which the Non-Executive Directors scrutinise, offering constructive challenge to ensure that the plans presented are robust and in the long-term interests of the Society and its members.

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 seven Non-Executive 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 within each Committee to discharge its terms of reference. All Non-Executive Directors are considered by the Board to be independent in character and judgement.

Appointments to the Board

Code Principle:

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

Board Comment:

Three Non-Executive Director appointments were made this year. Prior to making these appointments members of the Nomination Committee determined the type of candidate required based on an evaluation of the skills, experience and diversity of the existing Board members. A description of the person specification was provided to an independent external recruitment consultant who conducted an extensive search for suitable candidates.

All the candidates short-listed were interviewed by members of the Nomination Committee with the Chief Executive present. The profiles of the candidates recommended by the Nomination Committee were then discussed at a meeting of the full Board before the decisions to appoint were made. All the candidates had to demonstrate that they were fit and proper to take up the role prior to being approved by the appropriate regulators.

One Executive Director appointment was made this year. The Executive Director appointment followed an internal selection exercise with the successful candidate being approved by the appropriate regulators.

The Board's policy on diversity is to appoint individuals with a diverse range of backgrounds, skills, experience and gender. In so doing it looks to maintain a Board where no more than two thirds of its Directors are of the same gender, although it will always base any decisions to appoint foremost on merit. With the four new Director appointments made this year, the Society has demonstrated its intent to maintain a balanced Board.

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 their letter of appointment. The Nomination Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment, taking into account where applicable information provided by referees. 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 17.

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 Society 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 are provided with internal briefings and attend industry seminars and conferences in order to continually update their skills and knowledge.

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 Society 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's 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 Chairman of the Nomination Committee appraises the Chief Executive's performance and the Committee reviews the other Executive Director appraisals. The contribution of individual Directors is evaluated by the Chairman using questions based on those recommended in the FRC guidance on Board Effectiveness 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. With input from the Nomination Committee, 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, to identify training needs and inform 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 Nomination Committee considers whether members are independent in character and judgement, are able to commit sufficient time and demonstrate capability and knowledge. The 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 are contained in the Directors' Responsibilities on page 19.

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 and 9. The Board is collectively responsible for determining risk appetites, strategies for risk management and control as described in the Society'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 four 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 18 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. The Society also has a Senior Independent Director (Vice-Chair), providing a further means by which members can communicate with the Society.

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.

Peter Brickley
Chairman
16 December 2015

Directors' Attendance Record

( ) = number of meetings required to attend

Director	Board	Assets & Liabilities	Audit	Credit	Remuneration & Nomination	Sales, Marketing & Development	Strategic Risk
Peter Brickley	11 (11)	3 (3)	2 (2)		3 (3)		4 (4)
John Parker	11 (11)	9 (10)	4 (5)		3 (3)		4 (4)
Lee Bambridge	11 (11)	10 (10)					
Phillippa Cardno	8 (8)			7 (7)		4 (4)	
Brian Eighteen	6 (6)		2 (2)	5 (6)			2 (2)
Abigail Gammie	7 (8)	6 (7)	2 (3)				3 (3)
Roland Gardner	11 (11)	10 (10)		11 (11)		6 (6)	
Sarah Hordern	8 (8)			6 (7)		4 (4)	3 (3)
Geoff Knappett	2 (2)			2 (2)		1 (1)	
Tracy Morshead	11 (11)	3 (3)		7 (7)		6 (6)	4 (4)
Adrian Rann	3 (3)				1 (1)		1 (1)
William Roberts	8 (8)		1 (3)	7 (7)			3 (3)
Ron Simms	8 (11)	5 (7)	2 (3)	4 (4)	2 (2)	2 (2)	3 (4)

Directors' Remuneration Report

This report explains how the Society applies the principles of the UK Corporate Governance Code September 2014 (the Code) relating to remuneration. It also explains how the Society's Remuneration Policy complies with relevant regulations including the Remuneration Part of the Prudential Regulation Authority's Rulebook and the Financial Conduct Authority's Remuneration Code for dual regulated firms (SYSC 19D).

The Remuneration Committee has determined that, as at 31 October 2015, all of the current seven Non-Executive Directors and the three Executive Directors, as well as three other members of senior management reporting directly to the Executive Directors, are designated as being subject to the Remuneration Code.

The Level and Components of Remuneration

Code Principle:
D.1. Executive Directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

Board Comment:
The Society's objective when setting remuneration is to ensure that it is in line with its business strategy, risk appetite and long term objectives, and that it is consistent with the interests of Members as a whole. Remuneration is set at a level to retain and attract individuals of the calibre necessary to operate and meet the Society's objectives.

Executive Directors' Emoluments

The remuneration of the individual Directors is detailed in note 6 on page 27. The remuneration reflects the Directors' specific responsibilities and comprises basic salary, annual performance related pay and various benefits detailed below.

Basic Salaries

Basic salaries are reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations and in 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, growth in mortgages, retail funds and total assets. A maximum of 5% of salary can be earned for achievement of these targets together with a maximum 5% of salary based on personal contribution. The Committee believes that the targets set for 2015 were suitably balanced and risk adjusted.

The Society does not operate a multi-year incentive scheme and as a mutual the Society has no share option scheme. 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. Performance related payments are not pensionable and are paid in cash through payroll.

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

The Executive Directors each have a service contract with the Society, terminable by either party giving twelve months' notice. The Society meets contractual obligations in the event of providing compensation for loss of office. The Remuneration Committee has discretion to provide better terms, which are disclosed to Members if used.

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.

Other Material Risk Takers

The Remuneration Committee is also responsible for determining the terms and conditions of other members of senior management, after consultation with the Chief Executive. These roles are the Head of IT, the Head of Compliance & Company Secretary, and the Head of Risk & Conduct. These individuals are subject to the same variable pay performance targets as the Executive Directors.

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 of the Non-Executive Directors, Executive Directors and other members of senior management is determined by the Remuneration Committee, which consists of three Non-Executive Directors and which meets four times a year. The Chief Executive attends by invitation but takes no part in the discussion of his own salary. Minutes of the Committee's meetings are distributed to all Board members.

The Remuneration Committee reviews the Society's Remuneration Policy annually. In setting remuneration, the Committee takes account of fees and salaries payable and other benefits provided to directors and other senior management of building societies that are similar in size and complexity, and other relevant organisations. Periodically, a report may be commissioned from external consultants to assist in this process. The Committee also ensures that variable remuneration does not undermine the objectivity of any member of staff including those in risk and compliance functions.

The Remuneration Committee assesses whether any performance related payments should be made taking into account reports, where applicable, from the risk and compliance functions. Fundamental prerequisites for any performance related payments include compliance, ethical standards and appropriate risk management. Although it is not required to do so, the Committee defers a proportion of any payment to Executive Directors to discourage inappropriate risk taking in accordance with good practice in remuneration policy. Misconduct would lead to the non-payment of variable remuneration.

Whilst a binding vote on Remuneration Policy is not considered appropriate for a building society of our size and nature, if 25% of the turnout votes against the report, the Remuneration Committee will take steps to address the concerns of the Membership. On behalf of the Committee, I recommend that you endorse our report.

John Parker
Chair of the Remuneration Committee
16 December 2015

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, 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.

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 2015 set out on pages 21 to 37. 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 19, 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 2015 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
16 December 2015

Income and Expenditure Accounts for the year ended 31 October 2015

	Notes	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Interest receivable and similar income	1	25,995	25,887	25,230	25,077
Interest payable and similar charges	2	(10,620)	(10,620)	(10,877)	(10,877)
Net interest receivable		15,375	15,267	14,353	14,200
Fees and commissions receivable		995	990	806	799
Income from shares in subsidiary undertaking		-	1,797	-	-
Fees and commissions payable		(853)	(852)	(693)	(693)
Other operating income		26	26	16	16
Total Income		15,543	17,228	14,482	14,322
Administrative expenses	3	(7,375)	(7,369)	(7,402)	(7,395)
Depreciation and amortisation	11	(456)	(456)	(350)	(350)
		7,712	9,403	6,730	6,577
Provisions for bad and doubtful debts	9	(130)	(130)	(59)	(62)
Operating profit before FSCS levy		7,582	9,273	6,671	6,515
Provision for FSCS levy	17	(425)	(425)	(500)	(500)
Profit on Ordinary Activities before Tax		7,157	8,848	6,171	6,015
Tax on profit on ordinary activities	4	(1,518)	(1,497)	(1,353)	(1,321)
Profit for the Financial Year	18	5,639	7,351	4,818	4,694

Statement of total recognised gains and losses

Profit for the financial year	5,639	7,351	4,818	4,694
Property revaluation	-	-	(281)	(281)
Total Recognised Gains and Losses Relating to the Year	5,639	7,351	4,537	4,413

*The **notes** on pages 24 to 37 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 2015

	Notes	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		116,532	116,532	117,640	117,639
Loans and advances to credit institutions	7	16,124	16,070	35,364	35,221
		132,656	132,602	153,004	152,860
Loans and advances to customers					
Loans fully secured on residential property	8	716,469	716,469	647,865	612,764
Other loans	8	13,401	13,401	13,834	7,273
		729,870	729,870	661,699	620,037
Investments in subsidiary undertakings	10	-	18	-	40,052
Tangible fixed assets	11	5,976	5,976	5,722	5,722
Other assets	12	35	35	88	68
Prepayments and accrued income		359	359	243	243
Total Assets		868,896	868,860	820,756	818,982
Liabilities					
Shares	13	691,738	691,738	657,003	657,003
Amounts owed to credit institutions	14	69,914	69,914	54,945	54,945
Amounts owed to other customers	15	49,137	49,137	56,351	56,351
Other liabilities	16	1,604	1,583	1,546	1,508
Accruals and deferred income		819	817	868	857
Provisions for liabilities	17	373	373	371	371
Revaluation reserve	18	1,425	1,425	1,425	1,425
Reserves - general reserves	18	53,886	53,873	48,247	46,522
Total Liabilities		868,896	868,860	820,756	818,982

*The **notes** on pages 24 to 37 form part of these accounts.*

These accounts were approved by the Board of Directors on 16 December 2015
***Peter Brickley** - Chairman*
***John Parker** - Vice Chairman*
***Roland Gardner** - Chief Executive*
***Lee Bambridge** - Finance Director*

Group Cash Flow Statement

	2015 £000s	2014 £000s
Net Cash Outflow from Operating Activities	(18,292)	(606)
Taxation	(1,400)	(1,136)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(762)	(928)
Proceeds from disposals of tangible fixed assets	123	2
Decrease in cash	(20,331)	(2,668)

Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

	2015 £000s	2014 £000s
Operating profit	7,157	6,171
(Increase) / decrease in prepayments and accrued income	(99)	77
Decrease in accruals and deferred income	(149)	(476)
Provisions for bad and doubtful debts	130	(384)
Provision for FSCS levy	2	24
Depreciation and amortisation	456	350
Profit on sale of fixed assets	(71)	(2)
Net Cash Inflow from Trading Activities	7,426	5,760
Movement in:		
Loans and advances to customers	(68,301)	(43,812)
Shares	34,836	29,664
Amounts owed to credit institutions and other customers	7,755	5,477
Loans and advances to credit institutions	-	2,000
Other assets	-	310
Other liabilities	(8)	(5)
Net Cash Outflow from Operating Activities	(18,292)	(606)

Reconciliation of Cash Balances	2014 £000s	Cash Flow £000s	2015 £000s
Cash in hand and balances with the Bank of England	117,640	(1,108)	116,532
Loans and advances to credit institutions - repayable on demand	35,336	(19,223)	16,113
	152,976	(20,331)	132,645

	2013 £000s	Cash Flow £000s	2014 £000s
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

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 Group'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 Group 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 Group they are retained on balance sheet. The interest receivable on these assets continues to be the Group'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 an 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 Group 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 Group'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 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
1. Interest Receivable and Similar Income				
On loans fully secured on residential property	25,947	24,629	24,974	23,141
On other loans:				
• Connected undertakings	-	1,426	-	1,941
• Other	496	280	538	277
On other liquid assets:				
• Interest and other income	440	440	642	642
Net expense on financial instruments	(888)	(888)	(924)	(924)
	25,995	25,887	25,230	25,077
2. Interest Payable and Similar Charges				
On shares held by individuals	9,741	9,741	9,834	9,834
On other shares	68	68	60	60
On deposits and other borrowings	811	811	983	983
	10,620	10,620	10,877	10,877
3. Administrative Expenses				
Employee costs				
• Wages and salaries	3,761	3,761	3,495	3,495
• Social security costs	364	364	358	358
• Other pension costs	512	512	466	466
	4,637	4,637	4,319	4,319
Profit on disposal of fixed assets	(71)	(71)	-	-
Other administrative expenses	2,809	2,803	3,083	3,076
	7,375	7,369	7,402	7,395
Other administrative expenses include:				
• Remuneration of auditor and its associates				
- audit of annual accounts	50	50	48	48
- audit of subsidiary's financial statements	6	-	5	-
- other services pursuant to such legislation	6	6	7	7
- other services relating to taxation	8	8	6	5
• Operating lease costs	137	137	136	136

4. Taxation

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
The taxation charge for the year comprises:				
UK corporation tax on profits in the year	1,465	1,444	1,319	1,284
Adjustment in respect of previous year	-	-	(6)	(6)
Total current tax	1,465	1,444	1,313	1,278
Deferred taxation:				
Origination and reversal of timing differences	53	53	36	39
Adjustment in respect of previous year	-	-	4	4
Effect of tax rate change on opening balance	-	-	-	-
Total deferred tax	53	53	40	43
Tax on profit on ordinary activities	1,518	1,497	1,353	1,321
Factors affecting the tax charge for the year are:				
Profit on ordinary activities before tax	7,157	8,848	6,171	6,015
Profit on ordinary activities multiplied by 20.41% (2014: 21.83%)	1,460	1,805	1,347	1,313
Effects of:				
Difference between capital allowances and depreciation	(73)	(73)	(74)	(74)
Movement on non-taxable provisions	19	19	35	31
Depreciation on non-qualifying assets	53	53	13	13
Exempt dividend income	-	(366)	-	-
Adjustment in respect of previous year	-	-	(6)	(6)
Small company relief	-	-	(3)	-
Disallowable expenses	6	6	1	1
Current tax charge for the year	1,465	1,444	1,313	1,278

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

5. Employees

	Full time 2015	Part time 2015	Full time 2014	Part time 2014
The average number of persons employed by the Society and Group (including Executive Directors) during the year was as follows:				
Head Office and Administration Centre	57	14	53	13
Branch Offices	44	23	42	25
	101	37	95	38

6. Directors' Remuneration and Transactions

The emoluments for both Executive and Non-Executive Directors totalled £711,391 for the year (2014: £700,156).

Executive Directors' Emoluments £s

2015	Salary	Performance Related Pay	Taxable Benefits	Pension Contribution	TOTAL
Roland Gardner	165,726	17,700	1,575	43,646	228,647
Lee Bambridge	158,680	14,000	1,185	-	173,865
Phillippa Cardno (from 19/2/15)	66,748	6,959	740	11,977	86,424
Geoff Knappett (to 31/1/15)	23,966	-	483	7,906	32,355
TOTAL	415,120	38,659	3,983	63,529	521,291
2014					
Roland Gardner	161,804	16,434	1,522	42,490	222,250
Lee Bambridge	149,227	22,281	1,066	-	172,574
Geoff Knappett	95,673	9,326	1,868	31,314	138,181
TOTAL	406,704	48,041	4,456	73,804	533,005

The Executive Directors' emoluments decreased by 2.2% in the year which included a 2% annual salary increase for the Chief Executive. Total employee costs increased 7% in the year due to increased staff numbers and an average annual salary increase of 3.3%.

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. Lee Bambridge, with agreement from the Society, took his pension contributions as salary.

Lee Bambridge also received £13,500 from Sovereign Housing Association for his services as a Non-Executive Director.

Geoff Knappett received compensation of £168,660 for loss of office of which £128,660 was contractual.

Further details on the components of Directors' emoluments can be found in the Directors' Remuneration Report on page 18.

Non-Executive Directors' Emoluments £s (comprising fees only)	**2015 £**	**2014 £**
Peter Brickley (Chairman)	34,792	27,463
John Parker (Vice Chairman)	28,600	27,463
Brian Eighteen (resigned 27 April 2015)	12,292	24,730
Abigail Gammie (appointed 19 February 2015)	15,686	-
Sarah Hordern (appointed 19 February 2015)	17,386	-
Tracy Morshead	24,592	21,971
Adrian Rann (resigned 23 February 2015)	13,383	40,794
William Roberts (appointed 19 February 2015)	15,686	-
Ron Simms	27,683	24,730
TOTAL	190,100	167,151

The amount shown in respect of Adrian 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 £1,247,769 (2014: £1,294,256) representing loans to six (2014: six) persons. A register of loans to and transactions with Directors and connected persons is maintained. It is available for inspection by members at the Society's Head Office for the period of fifteen days prior to the Annual General Meeting and at the Annual General Meeting.

7. Loans and Advances to Credit Institutions

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Accrued interest	11	11	28	28
Repayable on demand	16,113	16,059	35,336	35,193
Other loans and advances by residual maturity repayable:				
In not more than three months	-	-	-	-
	16,124	16,070	35,364	35,221

8. Loans and Advances to Customers

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Loans and advances to customers net of provisions are analysed as follows:				
Loans fully secured on residential property	716,469	716,469	647,865	612,764
Other Loans				
- Loans fully secured on land	13,401	13,401	13,834	7,273
	729,870	729,870	661,699	620,037

At 31st October 2015 the Group had pledged £112.1m (2014: £82.4m) of mortgage assets to the Bank of England as collateral under the Funding for Lending Scheme.

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £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	-	-	-	-
Repayable with remaining maturity:				
In not more than three months	3,838	3,838	1,813	1,763
In more than three months but not more than one year	10,057	10,057	5,540	5,278
In more than one year but not more than five years	45,925	45,925	46,334	40,274
In more than five years	671,011	671,011	608,843	573,452
	730,831	730,831	662,530	620,767
Less provisions (note 9)	(961)	(961)	(831)	(730)
	729,870	729,870	661,699	620,037

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		Total	
	Group £000s	**Society £000s**	**Group £000s**	**Society £000s**	**Group £000s**	**Society £000s**
9. Provisions for Bad and Doubtful Debts						
At 1 November 2014						
General provision	659	625	140	73	799	698
Specific provision	32	32	-	-	32	32
	691	657	140	73	831	730
Transfered in year	-	34	-	67	-	101
Income and expenditure account						
General provision	74	74	(5)	(5)	69	69
Specific provision	61	61	-	-	61	61
	135	135	(5)	(5)	130	130
At 31 October 2015						
General provision	733	733	135	135	868	868
Specific provision	93	93	-	-	93	93
	826	826	135	135	961	961

	Shares £000s	**Loans £000s**	**Total £000s**
10. Investments in Subsidiary Undertakings			
At 1 November 2014	-	40,052	40,052
Repayment	-	(40,034)	(40,034)
At 31 October 2015	-	18	18

The Society holds directly 100% of the issued voting ordinary share capital of £1 in Newbury Mortgage Services Ltd (NMS), whose principal business activity was the provision of mortgage related finance. During the year the decision was taken to stop any further trading activity in NMS. NMS therefore sold its remaining mortgages to the Society and all but £18,000 of the outstanding loan was repaid. 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.

11. Tangible Fixed Assets	Group and Society Land and Buildings £000s	 Equipment, fixtures, fittings & vehicles £000s	 Total £000s
Cost / valuation			
At 1 November 2014	4,415	3,736	8,151
Additions	474	288	762
Disposals	(74)	(27)	(101)
At 31 October 2015	4,815	3,997	8,812
Depreciation			
At 1 November 2014	130	2,299	2,429
Charge for the year	65	391	456
Elimination in respect of Disposal	(24)	(25)	(49)
At 31 October 2015	171	2,665	2,836
Net book value			
At 31 October 2014	4,285	1,437	5,722
At 31 October 2015	4,644	1,332	5,976

If the freehold properties had been held under the historical cost basis their net book value as at 31 October 2015 would have been £3,105,350.

Included in the land and buildings above is £1,711,520 (2014: £1,711,520) of non-depreciable land.

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

	2015 £000s	2014 £000s
Freehold	4,178	4,234
Long leasehold	466	51
	4,644	4,285

Net book value of Land and Buildings occupied by the Group and Society for its own activities:	2015 £000s	2014 £000s
Freehold	3,677	3,725
Long leasehold	466	51
	4,143	3,776

12. Other Assets

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Deferred tax assets	35	35	88	68
	35	35	88	68
Deferred tax assets comprise:				
General provisions	197	197	(64)	(84)
Accelerated capital allowances	(156)	(156)	158	158
Prepaid pension costs	(6)	(6)	(6)	(6)
	35	35	88	68

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Movement on deferred tax asset:				
At 1 November	88	68	128	111
Deferred tax charge (note 4)	(53)	(53)	(40)	(43)
Deferred tax transfer	-	20	-	-
At 31 October	35	35	88	68

The UK corporation tax rate at 1 April 2015 was 20% and was substantively enacted on 2 July 2013. This will reduce the Society's future current tax charge accordingly. The deferred tax asset at 31 October 2015 has been calculated based on the rates of 20% substantively enacted at the balance sheet date.

13. Shares

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Held by individuals	691,522	691,522	656,930	656,930
Other shares	216	216	73	73
	691,738	691,738	657,003	657,003

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

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Accrued interest	194	194	295	295
Repayable on demand	544,434	544,434	491,669	491,669
In not more than three months	95,209	95,209	101,648	101,648
In more than three months but not more than one year	46,530	46,530	60,545	60,545
In more than one year but not more than five years	5,371	5,371	2,846	2,846
	691,738	691,738	657,003	657,003

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 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Accrued interest	119	119	120	120
In not more than three months	69,795	69,795	54,825	54,825
	69,914	69,914	54,945	54,945

Included in the amounts above is £69.8m (2014: £54.8m) 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 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Accrued interest	3	3	2	2
On demand	21,336	21,336	23,827	23,827
In not more than three months	26,370	26,370	32,096	32,096
In more than three months but not more than one year	1,428	1,428	426	426
	49,137	49,137	56,351	56,351

16. Other Liabilities

Amounts falling due within one year:

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
Corporation tax	718	697	652	617
Income tax	786	786	783	783
Other creditors	100	100	111	108
	1,604	1,583	1,546	1,508

17. Provisions for liabilities

	Group £000s	Society £000s
Financial Services Compensation Scheme		
At 1 November 2014	371	371
Paid in year	(423)	(423)
Income and Expenditure account:		
Increase in Provision	425	425
At 31 October 2015	373	373

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 2015 includes an estimate of the management expenses levy for the scheme year 2015/16. The compensation levy for 2015/16 was paid in the year to 31 October 2015. No provision is required for any compensation levy relating to 2015/16 and subsequent scheme years.

18. Reserves

	Group £000s	Society £000s
General Reserves		
At 1 November 2014	48,247	46,522
Profit for the financial year	5,639	7,351
At 31 October 2015	53,886	53,873
Revaluation Reserve		
As at 1 November 2014	1,425	1,425
Decrease	-	-
As at 31 October 2015	1,425	1,425

The potential tax liability on the surplus on revaluation is £285,000 (2014: £285,000). This liability would crystallise if the revalued assets were sold; no deferred tax has been provided for this amount.

19. Capital and Other Financial Commitments

	Group 2015 £000s	Society 2015 £000s	Group 2014 £000s	Society 2014 £000s
a. Capital commitments contracted for but for which no provision has been made in the accounts	186	186	-	-
b. Annual commitments under non-cancellable operating leases are as follows:-				
Land and buildings				
• Leases which expire within one year	5	5	5	5
• Leases which expire within two to five years inclusive	25	25	25	25
• Leases which expire after more than five years	124	124	99	99

The Group has a commitment to repurchase treasury bills amounting to £69.8m (2014: £54.9m)

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 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 2015. 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	132,227	-	-	-	429	132,656
Loans and advances to customers	600,556	9,217	23,122	97,936	(961)	729,870
Tangible fixed assets	-	-	-	-	5,976	5,976
Other assets	-	-	-	-	448	448
Total Assets	732,783	9,217	23,122	97,936	5,892	868,950
Liabilities						
Shares	639,643	6,952	39,578	5,371	194	691,738
Amounts owed to credit institutions and other customers	117,502	1,244	184	-	121	119,051
Other liabilities	-	-	-	-	1,598	1,598
Provision for liabilities and charges	-	-	-	-	1,193	1,193
Reserves	-	-	-	-	55,370	55,370
Total Liabilities	757,145	8,196	39,762	5,371	58,476	868,950
Off-balance sheet items	131,513	(10,000)	(26,000)	(95,513)	-	-
Interest rate sensitivity gap	107,150	(8,979)	(42,640)	(2,948)	(52,583)	-
Cumulative surplus	107,150	98,171	55,531	52,583	-	-

The comparatives as at 31 October 2014 were as follows:

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	(6,993)	(50,084)	(3,944)	(47,226)	-
Cumulative surplus	108,187	101,254	51,170	47,226	-	-

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 2015. 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			
	2015 Book value £000s	**2015 Fair value £000s**	**2014 Book value £000s**	**2014 Fair value £000s**
Financial assets and liabilities for which active markets exist				
Interest rate swaps	-	(766)	-	(878)

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	
	2015 £000s	**2014 £000s**
Unmatured interest rate swaps		
Notional principal amounts	140,012	135,500
Credit risk weighted amounts	234	271
Replacement cost	30	100

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 £765,788 (2014: £877,802). 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 2015. The Group expects to realise losses during the forthcoming financial year of £748,246 (2014: £837,496). Of the unrecognised gains and losses on hedges as at 1 November 2014, the effect on profit for the year was a loss of £785,972 (2014: £832,255).

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 £512,000 (2014: £466,000). There were contributions payable at the year end of £34,000 (2014: £35,000). There was a prepayment at the year end of £40,000 (2014: £35,000) for the Society Death in Service Scheme.

22. Country by Country Reporting

The regulations under Article 89 of the CRD IV require the Society to disclose the following information about the source of the Society's income and the location of its operations:

- Name, nature of activities and geographical location: The Newbury Building Society has three subsidiaries and operates only in the United Kingdom. The principal activities of the Society are noted in the Directors' report on pages 4 to 9 and the principal activities of the subsidiaries are disclosed in Note 10 to the accounts.
- Average number of employees: as disclosed in Note 5 to the accounts.
- Annual turnover and profit before tax: as disclosed in the Income and Expenditure account on page 21 .
- Corporation Tax paid: as noted in the Cash Flow Statement on page 23.
- Public subsidies: there were none received in the year.

Annual Business Statement as at 31 October 2015

1. Statutory Percentages

	2015 %	Statutory Limit %
Lending limit	1.9	25
Funding limit	14.7	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.

2. Other Percentages

	2015 %	2014 %
Gross capital as a percentage of shares and borrowings	6.82	6.47
Free capital as a percentage of shares and borrowings	6.19	5.82
Liquid assets as a percentage of shares and borrowings	16.36	19.91
Profit after tax as a percentage of mean total assets	0.67	0.60
Management expenses as a percentage of mean total assets	0.93	0.97

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 2015

Name	Year of Birth	Business occupation	Date first appointed	Other directorships
Peter Brickley BSc (Hons)	1960	Managing Director	01/07/08	SABMiller Global Business Services Limited; Newbury Mortgages Services Ltd
John Parker MA (Cantab), FCA, ACIB	1949	Company Director	17/04/07	Affordable Housing Finance Plc; The Housing Finance Corporation Ltd
Lee Bambridge BA (Hons), ACA, AMCT	1963	Building Society Finance Director	23/07/07	Sovereign Housing Association Ltd
Phillippa Cardno PGCert, CeMap	1969	Building Society Operations and Sales Director	19/02/15	Temptings Ltd
Abigail Gammie LLB (Hons), MSc	1960	Managing Director Advisory	19/02/15	Newnham Experts Genesis Oil and Gas Field Development Ltd
Roland 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)
Sarah Hordern BA (Hons), ACA	1972	Chief Operating Officer	19/02/15	Perspicio Limited
Tracy 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
William Roberts BSc (Hons), ACA	1970	Finance Director	19/02/15	Hastoe Capital Plc; Hastoe Homes Limited
Ron Simms BA (Hons)	1965	Director Corporate Services - Insurance	28/06/10	None

Roland Gardner, Lee Bambridge and Phillippa Cardno each have a service contract with the Society terminable by either party giving 12 months notice. The agreements were orginally signed on 30 November 2001, 14 December 2008 and 31 January 2015 respectively.

Other Officers

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

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

Ian Willson - Head of IT

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	Stacey Davies • Faye Hook • Helen McMahon • Jenna Powell • Hayley Tustain
Alton	Becky Davies • Matt Long • Ellie Pearson • Julie Pink
Andover	Gemma Adolph • Kelly Carter • Alice Champion • Cliff Osborne • Sheila Sandham
Basingstoke	Maisy Knight • Lucy Parnell • Nicola Pope • Shannon Rigler
Didcot	Angela Bradshaw • Aishling Breakspear • Sonja Roostan • Hannah Tame
Hungerford	Sarah Hubbard • Eve McDowell • Sarah McNaught-Davis • Paula Wheeler
Newbury	Chloe Bance • Jane Bosher • Pippa Bracey • Agnes Frydel-Sapinska • Rose Hallett • Pete Hawkins Rachel Hawkins • Nicola King-Head • Susan Mason • Kate Rockall • Jordan Sharpe • Chloe Somerville • Emma Trincas
Thatcham	Christine Barnes • Xania Bosley • Debbie Brockett • Karen Griffin • Louise Griffin • Kayleigh Tingle
Whitchurch	Fiona Cornish • James Rolfe
Winchester	Brett Humphrey • Lisa Wedge • Laura Whale • Luke Wooldridge • Leigh Yates
Wokingham	Max Beasleigh • Debbie Gadd • Jac Goddard • Charlotte Hall • Sue Murgatroyd • Justine Ransom
Area Managers	Karen Smith • Martin Yates
Business Managers	Paul Holt • Luke Pummell
Development Managers	Nick Croxford • Diane Long
Business Support Managers	Ella Bright • Clare Taylor

Head Office

Compliance	Keira Bell • Charlotte Courtenay • Lynn Fiske • Andy Ransom
Customer Services	Deborah Bailey • Chloe Brock • Lisa Dixon • Rose Fishlock • Henrietta Garrety • Janet Jex • Jane Mason • Melanie Mildenhall • Sue Newcombe • Emma Robinson • Gemma Robinson • Katie Rocks • Lynn Small • Sandra Smith • Katie Stubbs • Alison Thompson • Elliot Walker
Mortgage Underwriting	Lucy Amore • Jill Bennett • Victoria Boyles • Nathan Bryan • Holly Jebbitt • Tim Kirby • Diana Lewis • Alice Pocock • Michelle Seeber • Kim Smyth • Craig Turner • Hannah Westlake
Executives	Roland Gardner • Lee Bambridge • Nigel Briggs • Phillippa Cardno • Erika Neves • Ian Willson
Finance	Suzanne Allen • Ruth Bowden • Cheryl Bowers • Laura Chisling • Louise Keep • Deborah Springer
Human Resources	Anne-Marie Goldsmith • Cara Holley • Jacky Reenan • Sarah Walczak • Laura Wilson
IT	Shingai Chipfupa • Tim Cooke • Ben Egan • Seth Ford • Amba Goodall • Laura Heal • Piotr Jaworski • Melissa Kenah • Nicola Martin • Darren Oliver • Traci Sharpe • Shiv Stacey • Hayley Watt
Lending	Roger Knight
Marketing	Emma Lavers • Louise McCormack • Bronwyn Tucker • Daryl Wing
Premises, Health and Safety	Michael Goodall • Ricky Walker
Personal Assistant to the Executives	Sarah Rouault
Treasury and Risk	Jahangir Ahmed • Sam Jones • Ian Thompson
Valuer	Ann Davidson

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