ANNUAL REPORT AND ACCOUNTS 2019

Year ended 31st October 2019

Contents

Our Highlights

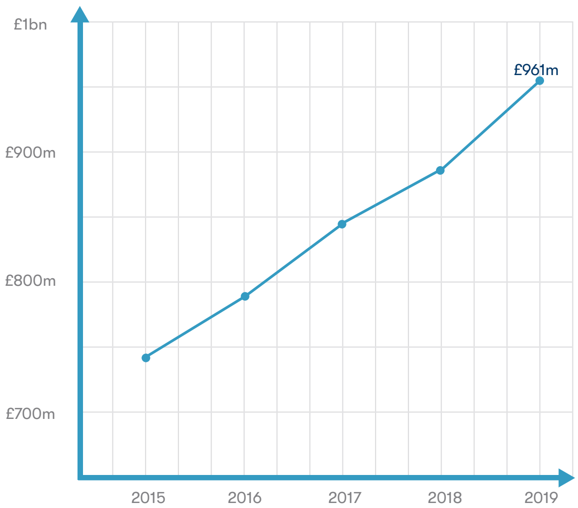
Mortgages

- Our mortgage book increased by £65m to £961m (7.1%)
- We lent £201m to mortgage customers (2018: £197m)
- Strong demand for our residential and first time buyer products
- There were no mortgage losses in the year

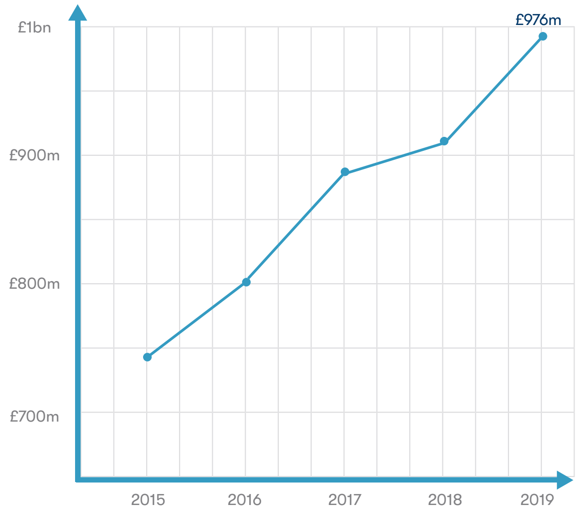
Savings & Funding

- Savings balances increased £63m to £976m (6.9%)
- The performance of a number of easy access and ISA accounts were significant factors in the growth
- We held funding of £115m from the Bank of England Term Funding Scheme at year end (2018: £125m)

Mortgage Balances



Savings Balances



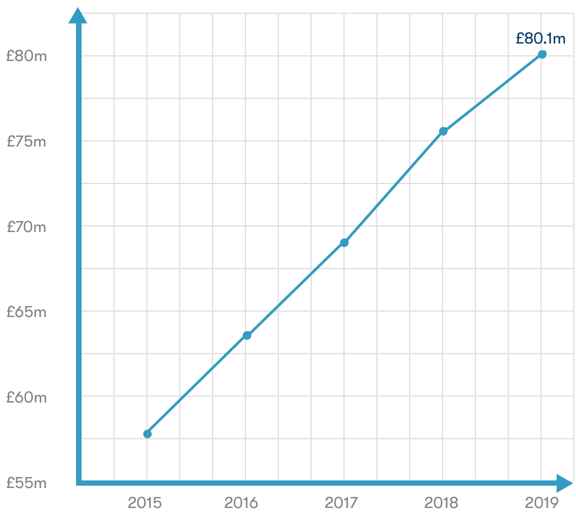
Financial strength

- Our regulatory capital grew £4.5m to £80.1m (6%) (2018: £75.6m)
- Our Total Capital Ratio reduced to 20.0% (2018: 20.4%)
- Our profit after tax was £4.4m (2018: £6.6m)
- We held £217m of liquidity at year end (2018: £212m)

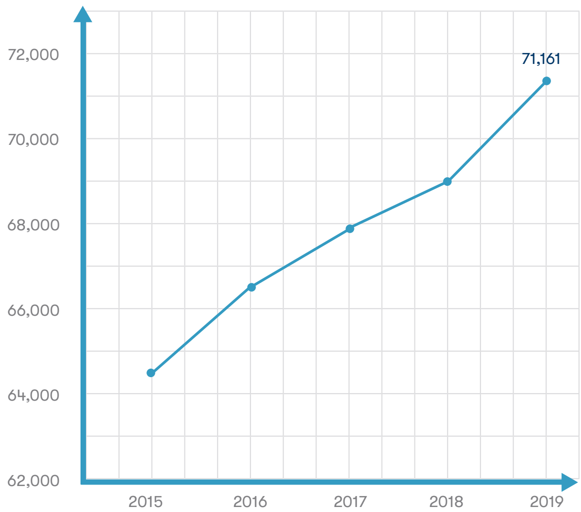
Members

- Our member numbers increased by over two thousand to 71,161
- Our mystery shopping scores averaged 97% (2018: 95%)
- Complaints as a percentage of members was 0.16% (2018: 0.08%)

Capital



Member Numbers



Strategic Report

Twelve months ago we reported: 'The Society's performance in 2018 has been achieved against more challenging circumstances than in recent years, with house prices in central southern England faltering in reaction to the effects of a hung parliament and the unknown outcome of Brexit negotiations'. It is difficult to conclude anything different this year as the effect on our marketplace of two Brexit delays and the attendant political uncertainty continues to create a general lack of confidence in our core market of residential mortgage lending. Given the recent political deadlock the UK economy has shown signs of a downturn with GDP growth very sluggish. This may change following the decisive general election result. With bank branches closing and some retailers failing to change their business models to meet modern day consumer demand, it is inevitable that the Society should assess how it is going to evolve to meet the needs of its members in the future. Despite this background of political and economic uncertainty and the rapidly changing world of how financial services are provided and consumed, 2019 has been another year of strong balance sheet growth and profitability for the Society. Given the deteriorating political and economic outlook, the Board is delighted to report on such a positive year.

Business objectives and activities

Offering simple and straightforward savings products to investing members and providing mortgages so that borrowing members can buy a home has always been the Society's main purpose and continues to be so. As a mutual society we are owned by our members and keep our members' interests at the heart of everything that we do. For 163 years the Society has been bringing savers and borrowers together for their common benefit. We need to balance carefully the need to retain sufficient earnings to ensure the sustainability of the Society for our members, employees and local community, whilst recognising that it is important to invest in the business for the benefit of future members too.

Mortgages and Savings

The Society's lending proposition is based on the provision of a competitive range of fixed and discounted mortgages mainly for owner occupiers but also for Buy To Let (BTL) landlords.

With competition in residential lending proving intense, the Society not only operates in the low margin mainstream market, but also operates in areas of the residential market where appropriate returns for risk can be made. These areas include the first-time buyer products in the Help To Buy range, customers with credible repayment plans who require interest only mortgages, self-builders and custom builders who wish to build their own home, and those seeking mortgages beyond normal retirement dates.

Lending into Retirement and Lending in Retirement have been an industry focus for building societies in recent times, and the Society participates fully in this market, with the exception of Lifetime mortgages.

The Society does not use credit scoring as all loans are 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 are the key to our loan quality, and our desire to reduce the risk of future default has been paramount in our lending strategy.

The BTL market has continued to prove challenging. Following prior legislation involving additional stamp duty on entry, less taxation relief on mortgage interest and tougher affordability rules, existing and prospective landlords now face a market where tenants no longer pay letting fees following a law change in June this year. With capital gains also proving difficult to achieve in the current market, the market is depressed.

This downward trend is likely to continue in a market where increasingly transactions are either remortgages of existing debt or are made to limited company ownership vehicles. The Society will continue to offer appropriate products to the BTL community, including limited company purchasers and to British nationals working overseas.

> "2019 has been another year of strong balance sheet growth and profitability for the Society"

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 as equally as new members. The reality in recent years has been that existing members have experienced better rates than new members, as the Society has maintained above average rates for savers. The Board believes that savings members have been well served by our pricing policy and that they receive above average returns, coupled with fair terms and conditions on their investments.

Profitability

As a mutual, the Society has no shareholders and does not need to maximise profits. Our objective is to balance the requirements to offer attractive rates for savers and competitive rates for borrowers, whilst ensuring sufficient profits are generated to maintain a strong capital position and to enable continued investment in the Society.

The Board fully recognises that controlling costs is vital for the Society's competitive position in the marketplace and our Management Expenses (ME) ratio is only surpassed by eight Societies, all of whom have the benefit of greater economies of scale by being larger than us in asset size. Given the precarious nature of the economy, cost controls are a major area of focus as the Society seeks an appropriate balance between investment in the business and providing high quality and value products and services for members.

Capital

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 page 11) and safeguards member funds. Given the continuing emphasis on high quality capital by world banking authorities, the Board sets a strategy to ensure that capital is maintained at an appropriate level to cater not only for its day to day business needs but also for significant stresses in the marketplace. As a result of this year's profitability, the reserves stand at the highest ever level and at 31 October 2019 were as follows:

	2019	2018
Capital:	£000s	£000s
Tier 1 Capital	79,070	74,756
Tier 2 Capital	1,037	817
Capital Resources	80,107	75,573
Capital Ratio	20.0%	20.4%

Brexit

Brexit has remained the dominant topic of conversation at both the political level as well as in our communities. There are a range of possible outcomes although there is little consensus on the possible effects on the financial markets or the wider UK economy from our departure from the EU. Although continuing uncertainty is reported to be acting as a constraining factor on the domestic housing market, the result of the December General Election may finally deliver some clarity on the way forward.

The political and economic uncertainty and specifically the potential impact on the housing market have been matters for debate by the Board this year and have encouraged a broadening of the scope of our stress testing. The conclusion however is that the impact will be much less severe than that of the 2008 financial crisis and that the risk faced by the Society would be as a result of the wider impact on the UK economy, which could take the form of an economic downturn leading to general unemployment, which could lead to mortgage payment difficulties and associated repossession action across the market. A consequence of this would be a likely fall in house prices, generating further difficulties – a downward spiral.

As far as the more direct impact on the Society is concerned, the implications for increased employee costs should be minimal with low risk disruption of recruitment for the Society. There are no links or implications regarding salary costs if the pound drops in value as all salaries are paid in sterling. However, economic growth/decline, inflation and wage rates (including minimum wage), working hours and the cost of living could impact in the medium to long term.

The downward spiral scenario is considered highly unlikely but the Board has considered the potential impacts of Brexit and believes the Society is well positioned to manage the outcome, particularly as it has strong capital and liquidity which means it could reduce activity and 'ride out the storm' if this was felt to be appropriate. The Board also takes comfort from the Bank of England who recently stated in their November Monetary Policy Report that post Brexit economic indicators do not point to a further downturn, indeed they expect a trade deal will be done early in the New year giving a greater level of certainty than experienced for some time and an associated improvement in growth. To date there has been no indication of a risk of a rise in unemployment; the economy has been at effective full employment for some years. The Board continues to monitor the situation.

Future

There are many challenges ahead for the Society as large banks, second tier competitors and new 'challengers' seek to increase their market share, which inevitably means competition is increasing. This can be good for members and it will remain our intention to offer fair-priced savings and mortgage products, to lend responsibly and to support borrowers to achieve their housing aspirations. The Society will continue to provide a full mortgage and savings service in its branches and operate in niches where the wider market lacks capacity or capability. Supplemented by the Society's online savings capability, which allows members to view their accounts and transfer money to their current account, members enjoy the real advantages of a 'bricks and clicks' service.

Technology acts as an enabler to our service proposition and in the last year the Society has improved its customer service by introducing a video advice service for mortgage clients. This offers a significantly enhanced experience to the previous telephone call service for those members not easily able to visit branches at times such as when their mortgage products reach maturity.

Early in the year, the Society engaged the services of two industry experts to form a digital advisory panel, specifically to help the Society develop its digital thinking. We are currently in the design stage of a mobile app intended to take advantage of some of the benefits of open banking, and we will be seeking member volunteers to test the system in 2020.

Whilst technological development will be a key focus, the Board is fully committed to the branch network, promoting a savings culture using fair and transparent products, which offer good value in the short, medium and long term. Our aspiration is for the Newbury brand to be instantly recognisable in our branch towns and synonymous with what differentiates the Society from banks: being a mutual, member centric, with relevant attractive products and exceptional customer service.

The Society's vision to be the chosen provider of savings and mortgages in its operating area remains as strong as ever. As the Society encounters a new era in the provision of Financial Services, characterised by Open Banking and the Fintech revolution, there are more options than ever for people on how to manage their money. The Board is very much aware of the Society's need to embrace change by investing in its staffing and technological capabilities, and members will therefore see changes and improvements to the way the Society delivers its products and services in the coming months and years. The growth and profitability of recent years has provided the foundations for the Society to make these investments, not only for the benefit of our current members but also for those who will be our future members.

> "Members will see changes and improvements to the way the Society delivers its products and services in the coming months and years"

From a business perspective the immediate outlook for next year seems challenging as the usual level of mortgage enquiries and applications did not materialise in the Autumn this year. Competition is fierce and is likely to remain tough as we acclimatise to the new order whereby the six biggest lenders are collectively all active in the mortgage market and with sufficient capital and liquidity to compete more intensely than hitherto, following the ring-fencing of their retail activities. With many new challengers also seeking a share of the residential mortgage market, and specialising in the types of niche lending which have been the hallmark of the Society's proposition in recent years, the prospects for profitable balance sheet growth are not as strong as they have been. Whilst we will remain vigilant for any opportunities that may arise as a consequence of these difficult trading conditions, we believe that the next 12 months will in reality offer a diminished opportunity to return results at the levels of recent years.

The Board is aware that house prices in the south east have stalled in recent months as the market takes a watchful eye over political developments, specifically the outcome of withdrawal negotiations with the EU. Confidence levels are low which means the Society will continue to pay particular regard to the appropriateness and quality of its mortgage lending, to ensure that there are no shocks, should the market experience unexpectedly high price reductions in the wake of the Brexit process. The safety of savings balances is the top priority and the capital strength of the Society means that the Society comfortably passes all its stress tests. In addition to that, the Board has adequate plans in place to cater for an unruly market, and if necessary by reviewing the aims of the Corporate plan.

Notwithstanding the political uncertainty at the time of writing, the Board believes that a successful future lies ahead for the Society as an independent, branch-based, technologically-enabled and vibrant mutually-owned business.

Peter Brickley
Chairman
18 December 2019

Directors Report

The Directors have pleasure in presenting their Annual Report together with the Annual Accounts and Business Statement of the Society for the year ended 31 October 2019. This report includes Key Performance Indicators and Principal Risks and Uncertainties. These have been disclosed in this report instead of the Strategic Report. The Directors Responsibilities Statement is included on page 24.

Key Performance Indicators*

		2019	2018
Balance sheet	**Assets**	£1.19bn	£1.12bn
	Loans to Customers	£961m	£896m
	Retail Shares and Deposits	£976m	£913m
Operating performance	**Management Expenses** as a % of Mean Total Assets	0.92	0.91
	Interest Margin as a % of Mean Total Assets	1.50	1.61
	Mortgage Arrears - on accounts two months or more in arrears	£0.23m	£0.13m
	Profit After Tax	£4.4m	£6.6m
Financial strength	**Regulatory Capital**	£80.1m	£75.6m
	Total Capital Ratio	20.0%	20.4%
	Liquid Assets as a % of Shares and Borrowings	19.7%	20.5%
Members	**Members** - numbers	71,161	68,967
	Mystery Shopping - % score achieved	97%	95%
	Complaints - as a % of members	0.16%	0.08%

* Further information on the definitions is included in the glossary on page 68.

Performance overview

Assets increased by 6.5% to £1.19bn and profit after tax reduced to £4.4m after last year's outstanding figure of £6.6m. These figures continue the consistent strong performances of recent years, as the Society focuses on growth to sustain itself against its rising costs and the effects of margin compression caused by increasing competition and its imminently expected rising funding cost. As in prior years, growth and profitability have been achieved in an appropriate equilibrium, with the result that the Society's capital ratio has remained broadly unchanged whilst the balance sheet has grown sufficiently to largely absorb the rising costs of running a highly regulated and increasingly technological business.

"As in prior years, growth and profitability have been achieved in an appropriate equilibrium"

Mortgage Balances

Mortgage balances rose by 7.1% in the year, a figure achieved against a background of greater competition, declining market transaction numbers and the increasingly unsettled political and economic horizon. Gross lending at £201m exceeded £200m for the first time and is the fifth successive year of increased gross lending performance. Net lending increased from £53m to £65m and as a result, the total mortgage book for the Society grew from £896m to £961m. There was a strong performance in standard residential owner-occupied lending after a quiet year in 2018, as the Society utilised a combination of competitive pricing, appropriate lending criteria and high quality service to achieve growth in that area of the market. Another core element of the lending during the year was in affordable housing products, which form the starting point on the housing ladder for so many individuals and families.

Our BTL balances to individuals were down £4.2m on the previous year, but this was offset largely by the Society's BTL lending to limited companies which showed a balance increase of £3.5m.

The Society's mortgage book comprises 84.8% residential owner-occupied loans (2018: 83.6%), with the remainder being 12.4% BTL (2018: 13.7%), and 2.8% commercial lending (2018: 2.7%) including limited company BTL. The Society's book remains very high quality with an average indexed loan to value at 31% on the Society's residential mortgages (2018: 32%). Furthermore less than 2.9% (2018: 2.4%) of the balances in the book are more than 80% of the current indexed value of the properties on which their mortgages are secured. Lending over 80% loan to value at inception is insured through a mortgage indemnity policy, which protects the Society from losses incurred if a property is taken into possession during the first ten years of the loan. This year the Society advanced £11.2m on mortgages where the loan to value was over 80%, a modest increase of £0.3m over 2018.

Savings Balances

Savings balances increased by £63.1m during the year, a significant increase on last year's £33.6m. The main reason for the increase was the Society's performance in the fourth quarter when the re-opening of the popular Senior Saver and Treasure Plus accounts to new and existing members created a surge in activity, as the Society took its first planned steps to generate the funding required to refinance the low cost funding borrowed from the Bank of England through the Term Funding Scheme (TFS). The Society naturally wishes to avoid excessive liquidity levels but as it has £115m TFS borrowing to refinance by February 2022, it is prudent to begin the process at this stage. That said, in order to control the cost and volume of inflows into savings accounts, the Society continued to keep a number of its accounts closed to new business and for the second consecutive year only permitted a reduced annual subscription into the Existing Members Account (EMA). Despite this restriction, the account continued to prove very popular and generated over £13m of the year's inflow.

The majority of accounts continue to be priced favourably against the market and unlike some of our peers, who cut interest rates during the year, no changes were made to the rates of any accounts. The policy of protecting higher paying accounts for the benefit of existing members meant the Society restricted its one year fixed rate bonds to only those members with maturing bonds, although a three year bond was offered in the latter part of the year. It was fully subscribed and withdrawn in November. A new corporate savings account (Business Saver) was launched in October to cater for demand from limited companies and businesses.

Management Expenses

The Society's management expenses (ME), including depreciation and amortisation, increased by 9.2% from £9.69m to £10.58m during the year, with the result that the ME ratio increased by 0.01% to 0.92%. The main reasons for the increase were employee costs: firstly an increasing head count at Head Office required to manage the increasing complexity and growth of the business, and secondly the fact that the Society has to compete for talent in the South East of England, which is a full employment area and where a shortage of skills exists in certain fields, thereby putting pressure on starting salaries in particular.

Interest Margin

As planned, the Society's interest margin reduced during the year, by 0.11% to 1.50%, primarily as a result of lower average interest rates to new borrowing members and as existing members transfer onto lower priced mortgage deals on maturity of their current products.

The Board anticipates the margin will reduce further next year, not only because the full impact of lower mortgage pricing will continue to reduce income, but also because average savings rates are anticipated to increase due to the greater availability of higher paying accounts for new and existing members than were available this year. We have consistently tried to protect our savings members from the low interest rate environment and our average rate payable at the end of the year stood at 1.30%, with no account paying lower than 0.5% (0.4% if the member allows the balance to fall below the account minimum).

Mortgage Arrears

The Society's arrears and possession statistics remain low both for the building society sector and for the industry as a whole. The low arrears level is reflective of the macro-economic environment, with ongoing low mortgage rates assisting customers with their repayment obligations. However, the position also reflects our low risk business model and prudent underwriting approach. We always seek to ensure that customers can afford to meet their mortgage repayments from the outset and throughout the full duration of their mortgage term. It is this approach that has ensured arrears levels have remained below industry average and although the numbers are generally up on last year, the statistics still show a proportionately low number of cases, which demonstrates the effectiveness of good quality counselling and the quality of underwriting processes over many years.

The value of arrears for cases more than two months in arrears increased from £0.13m to £0.23m and the number of borrowers in this category increased from 28 to 41 accounts. There were six cases in serious arrears of twelve months or more at our year-end (2018: six cases). The total amount of arrears outstanding on these accounts was £130,000 (2018: £70,000) and the aggregate balances were £475,000 (2018: £749,000). The Society had two properties in possession at year end (2018: nil). No other properties were taken into possession during the year. The Society also incurred no mortgage losses during the year (2018: nil). The Society shows forbearance to borrowers where appropriate, and there were 52 accounts at 31 October 2019 (2018: 37) where clients were benefitting from a forbearance action such as temporary interest only concessions, payment plans or reduced payment concessions.

Profit

The Society's profit after tax as a percentage of mean total assets reduced from 0.62% in 2018 to 0.38% in 2019, as profits reduced from £6.6m to what is nevertheless a healthy £4.4m. After building up the Society's capital reserves in recent years, this reduced level of profitability is at an appropriate level to support continued lending growth and the Society's ongoing need to maintain its capital strength in response to the higher capital levels and buffers set out under the Capital Requirements Directive (CRD). In addition, the fact that the Society needs to invest in both its buildings and in technological developments, the profit provides the capital for such investment but without the consequence of any significant weakening in its capital ratios.

Liquidity

The Society maintains a prudent level of liquid assets, of appropriate quality, to meet its financial obligations as they fall due, under normal and stressed conditions. Liquid assets (which comprise cash and investments as shown on the statement of financial position) were broadly unchanged at year end with the Society holding £217m (2018: £212m). Liquid assets as a percentage of shares and borrowings decreased modestly to 19.7% (2018: 20.5%). As the Society commences the repayment of its TFS funding, the level of liquidity will reduce over the next two and a half years to a level commensurate with its anticipated future needs.

The two key measures of liquidity introduced under CRD are the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR'). The Society remains well in excess of the minimum levels required for both measures, with the LCR at the end of the year being 327% (2018: 387%) and the NSFR at 152% at the end of September (2018: 152%).

Retail savings continue to be the cornerstone of our funding, with the remainder obtained from the secured and unsecured wholesale funding markets. The Bank of England's TFS has continued to provide access to secured funding with £115m (2018: £125m) borrowed as at year end, with a further £13.7m (2018: nil) borrowed unsecured from a range of other counterparties.

Service to Members

The Board recognises that as a membership organisation, the service to members is of paramount importance. Our service is in demand and we exceeded 70,000 members for the first time as our member base grew by over 2,000 during the year, taking us to a total of 71,161 (2018: 68,967). Many new members enjoy the benefits, including the attractive rate, of the Welcome to Newbury account as their introduction to the Society, thus re-enforcing the message that the combination of a strong service proposition with competitive interest rates is an effective strategy for the Society to follow.

Head of Customer Service Melanie Mildenhall accepted the coveted ServiceMark accreditation from the Institute of Customer Service for outstanding achievement and commitment to customer service excellence – the only UK-based building society to be so recognised.

The highlight of the year was the Society's Servicemark accreditation awarded by the Institute of Customer Service (ICS). This accolade was a result of the Society's satisfaction rating improving over two years to 90.8 (2017: 89.1) and its Net Promoter Score also increasing to 67 (2017: 65) when they were last measured. The ICS representative who conducted the accreditation process made a number of positive comments, an example of which is: "it was clear during conversations with the senior members of staff and throughout all levels of employees that the responsibility for delivering great customer experience is taken personally, as well as seriously and with great passion".

In addition to our financial performance measures, the Board monitors a range of customer service activities designed to ensure we offer high quality service in a way that meets our customers' requirements. It is pleasing to note that independently assessed mystery shopping scores have remained above 90% for the sixth successive year. When that is coupled to the significant number of positive reviews from members made via the independent Smart Money People review site, the Board is significantly reassured by the quality of service members receive.

> "It was clear during conversations with the senior members of staff and throughout all levels of employees that the responsibility for delivering great customer experience is taken personally, as well as seriously and with great passion."
>
> ICS representative

The Society received complaints from 0.16% (2018: 0.08% of our members. The number of complaints rose during the year as an increased level of MPPI (Mortgage Payment Protection Insurance) complaints were made in advance of the August deadline for historic complaints of this type. Many of the complaints received were speculative as became clear when investigation showed that less than a quarter of the complainants had actually bought a policy through the Society. Excluding historic MPPI complaints, the ratio was 0.06% (2018: 0.04%). It is always our intention to satisfy complaints fairly and promptly so that our members do not need to recourse to the Financial Ombudsman Service. When the Society occasionally does get things wrong, we strive to correct errors as quickly as possible, with appropriate compensation when applicable.

Community

The communities in which our branch network operates sit at the heart of the Society. We make it our mission to support those who live and work in our branch communities by undertaking fundraising activities, taking part in community events and offering sponsorships. Our head office and branch employees support their charity partners by undertaking volunteering activities throughout the year and the Society also match-funds the totals raised to provide further financial support to worthwhile causes.

In total this year, the Society made donations totalling nearly £54,000 (2018: £33,000) in support of local charities and community organisations. No contributions were made for political purposes.

During the year, fundraising activities included:

- The Basingstoke team taking part in the annual Moonlight Walk in aid of St Michael's Hospice
- Abingdon branch employees hosting a quiz night to raise funds for Helen & Douglas House
- Wokingham branch employees undertaking the Sue Ryder Forget-Me-Not 10km walk in support of the Duchess of Kent hospice

The Society continued to offer all employees the opportunity to take two days paid leave to support community projects or local charities of their choosing through volunteering. During the financial year 2018/19, employees completed 153 volunteering hours. Activities included:

- Hungerford branch employees visited Prior's Court Foundation and helped to tidy and clear its Countryside Learning Centre
- The Didcot team helped Chilton County Primary School to decorate its outdoor space for students
- Andover branch served hot drinks and mince pies at the Countess of Brecknock's 'Light Up a Life' service

The Society donated a total of £11,426 to 26 local community projects as part of its Community Support Scheme. Now in its third year, the scheme continues to provide financial awards between £100 and £500 to local organisations involved in improving community life within the Society's ten branch towns.

Projects which benefitted from the Community Support Scheme in 2018/19, included:

- Citizens Advice West Berkshire, Newbury: the not-for profit organisation requested support for its money management seminars to assist clients living in debt
- Here4Me, Thatcham: an Action for Children initiative, the project was awarded a grant to help fund recreational activities for 20 disadvantaged children
- Keep Mobile, Wokingham: the charity received a financial award to help with the running costs of its volunteer-run accessible community transport service

Other events and activities undertaken in our communities included:

- The launch of the first NBS Community Champion Awards to celebrate individuals who make a difference to the lives of others in the community
- The Society, in partnership with not-for-profit group WizeUp, hosted a series of one-hour forums which focussed on important money matters with students from Park House secondary school in Newbury
- Junior Newbury Building Society (JNBS) continued to provide primary school children the opportunity to learn how to save and understand basic personal finance matters in a fun and interactive environment

The Society's Charity savings account grew in popularity and the Society continued to make an annual donation of 0.4% of balances in accounts to each member's preferred charity. During the financial year 2018/19, over £21,000 was paid from this source, split between the chosen charities.

Newbury Building Society was recognised by the Rosemary Appeal trustees for its support in the realisation of The Greenham Wing at West Berkshire Community Hospital. In total the Rosemary Appeal raised more than £5.5 million to construct a high-spec renal dialysis unit and a cancer care unit; a lifeline for patients based in West Berkshire, Hampshire and South Oxfordshire, who previously had to travel to the Royal Berkshire Hospital in Reading for treatment.

CEO Roland Gardner and Newbury branch staff Nicola King-Head and Matthew Harris accepted a certificate of thanks from The Rosemary Appeal Committee trustees.

Since 2016 the Society has also been actively managing its carbon footprint. A carbon footprint is the amount of total greenhouse gas emissions (GHG) caused directly by an individual or organisation and is measured in Carbon Dioxide Equivalent (CO2e). Measuring the GHG emissions and sources will help Newbury Building Society understand the impact it is having on climate change and identify areas where reductions can be made. The Society's organisational carbon footprint totalled 135.95 tCO2e (tonnes of carbon dioxide equivalent) for 2018-19, which represents a modest reduction of 1.1% compared to the previous year's 137.43 tCO2e. From next year, we will include employee owned vehicle and rail travel in the calculation. This year's travel equated to 29.37 tCO2e, and this will therefore form the basis for comparison from next year.

The Society has introduced a programme of reducing its carbon footprint through, for example, the installation of more efficient gas boilers and new LED lighting, as well as introducing technology to facilitate on-line meetings. An awareness of the impact of climate change, and the Society's impact on its environment, is an increasing part of the Society's culture.

Governance

There has been one change to the Board this year, with Christine (Chris) Brown joining the Board as a Non-Executive Director in June, following Tracy Morshead's retirement at last year's AGM. Chris brings her career expertise to the Society as Chief Information Officer for a wide range of businesses, at a time when technology and digital capability are at the forefront of the Board's strategic agenda.

There will be a further change in the Board following the AGM in February when our Senior Independent Director, Ron Simms, will be retiring from the Board when his period of office expires. Ron has served the Society and Board during a period of significant change and success and he has been Vice Chair and Senior Independent Director for the last two of the nine years he has served the Society. During his tenure he has at various points been a member of all four Board sub-committees, most notably as Chair of the Audit Committee and Chair of the Remuneration Committee. He has consistently championed the voice of the member, ensuring that we maintain top class service levels, catalysed by a vibrant conduct agenda. We are currently conducting a search for a new Non-Executive Director to commence early next year. We offer Ron our very best wishes for the future and thank him for his notable contribution to the Society's success.

The Board is committed to best practice in Corporate Governance. The report on pages 18 to 20 explains how the Society applies the principles contained in the UK Corporate Governance Code as well as setting out the review of Committee activities that occurred during the year.

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.

Risk management framework

The Society operates in a business environment that contains a wide range of financial and non-financial risks. To ensure that these risks are contained within the Board's risk appetite a Risk Management Framework (RMF) operates throughout the Society. To enable a clear focus on this area, the Board delegates the oversight of the RMF to the Risk Committee. The Chief Risk Officer, who is an Executive Director on the Board, oversees the effective implementation of the RMF including the review of risks and uncertainties in the business.

The Society's RMF defines the three lines of defence model used to manage risk. This ensures a clear separation between the ownership of risk and controls (first line), oversight, support and challenge (second line) and internal audit assurance (third line).

Principal Risks and Uncertainties

The principal risks to which the Society is exposed, along with how they are controlled and the associated policies, are consistent with previous years and are set out below.

The Society has a cautious risk appetite across all its principal risks. The Risk Committee reviews both the key risk indicators for each principal risk and the output from a range of stress tests to ensure that risk levels remain within the Society's agreed risk appetite.

Strategic Risk

Strategic risk is the impact on the Society's business model as a result of competition, legislation and macro-economic conditions. These have the potential to reduce the Society's profit levels and contribution to capital, thereby threatening the financial strength of the Society.

The Board will not seek out strategic options which have a potential to create losses to capital, although will consider options that could result in reduced profit in the short to medium term provided that the capital ratio remains within appetite. Strategic risk is regularly considered by the Board.

Credit Risk

Credit risk is the risk that mortgage loan customers or treasury counterparties default on their obligation to repay the Society.

Mortgage credit risk is controlled in accordance with the Board-approved lending policy and by strict controls over lending mandates. Lending is done on prudent terms, is maintained within carefully controlled limits and is subject to regular Credit Committee and Board reviews.

Whilst the policy allows lending in a limited number of niche areas which may be considered to have a greater degree of risk, this is mitigated by the fact that these are areas where the Society either has significant experience or has set non-material limits and each application is carefully underwritten by an experienced team.

Counterparty credit risk is controlled through adherence to the Board-approved Treasury Policy and is regularly reviewed by the Assets & Liabilities Committee with oversight by the Risk Committee. The Policy defines prudent limits, relating to quality and quantity, on credit exposures to individual and groups of counterparties.

The counterparty limits are developed by reference to credit ratings and other market data and any new counterparties are approved by the Assets & Liabilities Committee in accordance with the Treasury Policy.

Liquidity Risk

Liquidity risk is the risk of the Society failing to meet its financial obligations as they fall due, resulting in the inability to support normal business activity and failure to meet regulatory liquidity requirements. This includes the funding risk of not being able to find new funding to replace outflows or maturing facilities.

The Liquidity Policy is contained within the Treasury Policy, which is reviewed by the Assets & Liabilities Committee and approved by the Board.

Regular stress tests are conducted which help to determine the level of liquidity required to withstand all reasonably foreseeable liquidity stresses. The Society also has a contingency funding plan in place to manage sudden or extreme outflows.

The results of stress testing and the liquidity position are reported to the Assets & Liabilities Committee and the Risk Committee.

Market Risk

Market risk includes interest rate risk and basis 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 Society's assets and liabilities. Basis risk is the risk that assets and liabilities re-price on a different basis as interest rates change.

Market risk is controlled by setting Board approved limits to control non-administered business (e.g. fixed rate) therefore ensuring the majority of assets are on an administered interest rate. To mitigate the risks associated with non-administered assets, hedging contracts are used in accordance with the Board- approved Treasury Policy.

Market risk is regularly reviewed by the Assets & Liabilities Committee. A detailed analysis of the Society's interest rate position at 31 October 2019 can be found in note 24 on pages 61 to 64.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. Therefore, operational risks can arise from all of the Society's activities, across all business areas.

The Society has robust processes and controls in place for all operational areas, which are designed to mitigate this risk and uses software to help manage the risk by providing a single source of data for risk events, actions, horizon scanning and controls testing.

Whilst effective operational risk management will help to mitigate the likelihood and impact of operational risk, it is not possible to eradicate the risk. To ensure operational resilience, the Society protects against disruption resulting from operational risk events (such as cyber or data loss) by having controls in place to reduce risk exposures (prevention), having clear tolerances on what can be absorbed and having actions in place to respond beyond these points (response), and having clear plans and arrangements in place to respond to and recover from incidents and to learn and adapt from operational disruption (recovery).

A range of metrics and risk limits are used to monitor the Society's ability to recover from an operational risk event in line with the defined risk tolerances for the key business services.

The Board is aware of significant operational issues, particularly relating to systems, which have occurred in banks. The security and robustness of systems have been a key focus in recent years, with ongoing developments to the Business Continuity Plan, including upgrading of disaster recovery facilities, and network security including penetration testing.

The Executive Committee and Risk Committee receive management information relating to operational risk and resilience. The Audit Committee is responsible for assessing the effectiveness of the system of inspection and control.

Legal and Regulatory Risk

Legal and Regulatory risk is the risk of fines, public censure, limitations on business or restitution costs arising from failing to understand, interpret, implement and comply with legal and regulatory requirements. Legal and Regulatory change is closely monitored and reported to the Executive Committee and Board.

Conduct Risk

Conduct Risk is the risk of developing systems, behaviour and attitudes within the Society which do not deliver fair customer outcomes or which create an environment which does not result in staff being open, honest, and doing the right thing.

The Society is committed to treating customers fairly and this is underpinned by the Society's Conduct Risk Framework, which is regularly reviewed by the Risk Committee and approved by the Board.

The Customer Committee monitors conduct risk at an operational level, with oversight provided by the Risk Committee.

Other Risks

In addition to these, the Society is at risk from uncertainty in the economic environment, including political changes and the potential implications of Brexit, which could impact the markets in which we operate. For example, changes in the strength of the UK economy and interest rate levels could influence the demand for our products and our customers' ability to repay their mortgages.

The Society also recognises the risks and challenges posed by climate change. While the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming apparent now. The Society particularly recognises two risks: physical and transitional. Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of properties mortgaged for Buy to Let purposes. The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. The Finance Director has responsibility for monitoring climate change risk at an operational level, with oversight provided by the Risk Committee.

Directors

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

- Peter Brickley
- Roland Gardner
- Lee Bambridge
- Kieron Blackburn
- Ron Simms
- Tracy Morshead (retired 21/2/19)
- Phillippa Cardno
- Sarah Hordern
- William Roberts
- Zoe Shaw
- Piers Williamson
- Chris Brown (appointed 1/6/19)

Biographies of the Directors appear on pages 16 and 17. None of the Directors had 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. There are no Directors' indemnities.

The Directors retiring at the Annual General Meeting are Peter Brickley, Lee Bambridge and Piers Williamson who, being eligible, offer themselves for re-election. Chris Brown who was appointed to the Board since the last AGM, and being eligible, stands for election.

Other Matters

Creditor Payment Policy

It is the Society's 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 2019 was 0 (2018: 7).

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.

Auditor

The Board are recommending that Deloitte LLP are re-appointed as external auditors of the Society for 2019/20. A resolution for their appointment will be proposed to the forthcoming Annual General Meeting of the Society.

Political Donations and Gifts

The Society has not made any political gifts or donations (2018: £0) in the year to 31 October 2019.

Financial Instruments

The Society's use of financial instruments is contained in the Society's Accounting Policy note on page 38.

Going Concern

The Directors are required to consider whether the Society will continue as a going concern for a period of twelve months from the signing of the accounts.

In considering the position the Directors have reviewed the Society's Corporate Plan and the stress tests undertaken on the plan, which cover the risks that could impact the Society's business model. In addition, as part of the planning process the Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The Society stresses its capital and liquidity plans, under "severe but plausible" stress test scenarios, in line with Prudential Regulation Authority (PRA) requirements. The ICAAP ensures that the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged in the Corporate Plan. A capital buffer is held to ensure the Society can deal with any plausible erosion in its capital and still meet its regulatory capital requirements. The ILAAP test ensures that the Society holds sufficient liquid assets to meet its liquidity needs not only under normal circumstances but if the Society was to enter into a period of stress.

Brexit could also cause significant disruption to the UK economy and the markets within which the Society operates. This risk is considered in more detail in the Strategic Report on page 4. However, the Board remains confident that given the Society's high-quality balance sheet, robust capital ratios and careful approach to managing risk, the Society is in a strong position to manage any negative impacts that may materialise.

After considering all of this information including the Society's capital and liquidity positions, the Board is satisfied that the Society has adequate resources to continue in business for at least the twelve-month period from the signing of the accounts.

Pillar 3 disclosures

The Society is required to set out its capital position, risk exposures and risk assessment processes in its Pillar 3 disclosures document. These are available on the Society's website.

Peter Brickley
Chairman

Roland Gardner
Chief Executive
18 December 2019

Purpose, Vision and Culture

To be the trusted provider of mortgages and savings in our operating area.

Our purpose statement supports the actions we take in the interest of our members, colleagues and the communities we serve.

MEMBER FOCUSSED

To put our members and their communities at the centre of everything we do.

MEMBER OWNED

To be a mutually owned regional building society.

OUR PEOPLE

To engage, support and develop our people to be the best they can be.

SAFE

To ensure our financial and operational strength is maintained.

SERVICE DRIVEN

To provide a high quality, individual service through our branches and technology.

VALUE

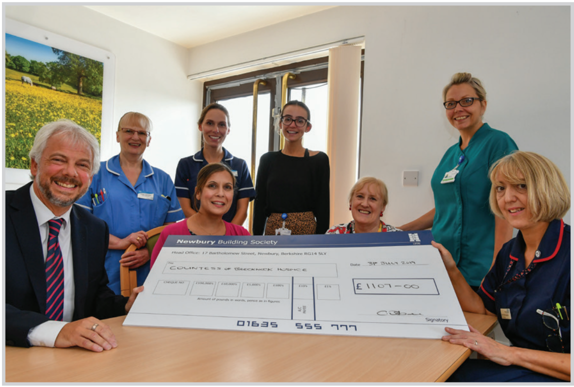
To offer attractive products and services appropriate to our member's needs.

Community support in 2019

CEO, Roland Gardner and Direct Sales Manager, Luke Pummell, visited Winchester branch's charity partner, Friends of PICU, at Southampton University Hospital to see first-hand the important work the charity undertakes.

Citizens Advice West Berkshire was awarded £500 from Newbury Building Society's Community Support Scheme to help fund the running of 20 financial literacy sessions.

Alton Branch Manager Becky Reynolds and Chief Risk Officer Lee Bambridge visited Alton Food Bank to deliver donations made in branch and discuss how our employees and members can support this much needed service.



Andover Branch Manager Cliff Osborne and Operations and Sales Director Phillippa Cardno visited the Countess Of Brecknock Hospice to present the funds raised by the branch team and our members during the year and also to discuss the different ways in which the Society will support their work moving forward.

Our Wokingham branch team visited their partner charity, Sue Ryder's Wokingham Day Hospice, to help brighten up the outdoor seated area for patients.

Marketing Manager Emma Simms presented Newbury Gymnastics Club with a cheque of £500 to replace old and worn equipment through the Society's Community Support Scheme.

Colleagues from the Society's Basingstoke branch raised an impressive £1,486.26 by completing this year's sponsored Moonlight Walk in aid of their branch charity partner, St Michael's Hospice.

Our Wokingham branch team completed this year's Forget-Me-Not walk in support of their branch charity partner, Sue Ryder, raising £680.

The Society's Community Support Scheme awarded Berkshire Maestros £500 towards the organisation's ongoing funding campaign to raise £17,773 for its Mini Maestros initiative to provide 10 weeks of free music classes for children aged 0-3 years across Berkshire.

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 Chief Information Officer for a European beverage business. Peter is Chairman of the Risk and Nomination Committees and a member of the Remuneration Committee.

Ron Simms
Vice Chairman

Ron was appointed to the Board of Directors in June 2010 and is the Society's Senior Independent Director. He is a Solicitor and a Director of a service company providing in-house legal services. Ron is Chair of the Audit and the Remuneration Committees and is a member of the Nomination and Risk Committees. Ron retires from the Board following the AGM.

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 a strategic property consultant. Sarah is a member of the Risk, Remuneration and Nomination 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 Hastoe Housing Association. William has more than 20 years' experience in the property sector and 15 years' experience in the Housing Association sector. William is a member of the Audit and Risk Committees.

Zoe Shaw
Non-Executive Director

Zoe was appointed to the Board of Directors in September 2017. She has been General Manager at a German bank, CEO of a credit fund and Head of Fixed Income at a leading UK pension fund manager. She has extensive experience of the UK property market. Zoe is a member of the Risk Committee.

Piers Williamson
Non-Executive Director

Piers was appointed to the Board of Directors in January 2018. He has more than 30 years' financial markets experience specialising in treasury risk management and is Chief Executive of The Housing Finance Corporation, a mutual company that lends funds to Housing Associations. Piers is a member of the Audit, Remuneration, Risk and Nomination Committees.

Chris Brown
Non-Executive Director

Chris was appointed to the Board of Directors in June 2019. She is the Group IT Director of Manpower UK. She has 15 years experience of leading all aspects of technology and digital in commercial organisations, of which 10 have been spent in financial services. Chris is a member of the Risk Committee and the Digital Panel.

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 and is responsible for the Society's strategic development, leading the Executive team, providing leadership and direction throughout all areas of the business and for setting and maintaining culture and standards.

Lee Bambridge
Chief Risk Officer

Lee joined the Society and the Board of Directors in July 2007. He is a Chartered Accountant and a Corporate Treasurer. Lee acted as the Society's Finance Director until February 2018, when he was appointed Chief Risk Officer. Lee is responsible for the Society's Risk and Compliance functions.

Phillippa Cardno
Operations & Sales Director

Phillippa joined the Society in 1996 and was appointed an Executive 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.

Kieron Blackburn
Finance Director

Kieron joined the Society and the Board of Directors in February 2018, following nine years as Finance Director at Ipswich Building Society. He is a Chartered Accountant and is responsible for the Society's capital, liquidity and funding position as well as for financial reporting.

Executives

Gorse Burrett
Head of HR and People Development

Gorse joined the Society and the Executive team in October 2018. She is a Chartered Fellow of CIPD and an Executive Coach. She is responsible for leading, developing and implementing the Society's HR and people strategy. Gorse reports to the Chief Executive.

Erika Neves
Head of Risk & Company Secretary

Erika joined the Society in 1991 and was appointed an Executive in 2002. She is Company Secretary, heads the Risk function and reports to the Chief Risk Officer. Erika is a graduate with the Certificate and Diploma in Mortgage Advice and Practice.

Melanie Mildenhall
Head of Customer Service

Melanie joined the Society in 1994 as a graduate and was appointed an Executive in January 2019. She is responsible for leading, developing and implementing the Society's Customer Service strategy. Melanie also heads the Branch and Customer Support functions and reports to the Operations and Sales Director.

Corporate Governance Report

The current UK Corporate Governance Code was introduced in April 2016. An updated Corporate Governance Code will come into effect for the Society for the reporting period ending 31 October 2020 and will be reflected in the accounts for that reporting year. This report explains how the Society applies the principles in the Code so far as its provisions are relevant to building societies.

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 Society's performance over recent years demonstrates the effectiveness of the Board. The Board is effective because of its focus on strategy and risk management in an environment where constructive challenge is encouraged. There is a schedule of matters reserved for Board decision and the Board meets usually eleven times a year, together with a day focused on strategy, to discharge these duties effectively. The Non-Executive Directors meet without the Executive Directors present at least once a year.

The Board is responsible for establishing the Society's purpose and values and creating a culture which delivers a sustainable long-term strategy. In so doing the Board approves the corporate plan, ensures appropriate funding plans are in place, sets limits on delegated expenditure, and 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 Society Secretary. The Board approves major business developments as well as changes in lending policy and higher level mandates. The Board is responsible for reporting annually on the performance of the Society.

The Society's governance structure includes both Non-Executive and Executive led committees. The Executive led committees comprise the Credit, ALCO, Sales Marketing and Product, Customer, Health & Safety, Regulatory Reporting and Business Change committees. The Executive Directors who chair these committees provide feedback to the main Board, or a Board committee, following each meeting. The Non-Executive led committees are described in more detail below:

Risk Committee

The Committee is responsible for setting the Society's risk appetite, for risk monitoring, and for oversight of the capital management framework. The Committee currently comprises all the Non-Executive Directors, with the Executive Directors and the Head of Risk and Company Secretary attending by invitation. The Committee was introduced three years ago and, now that it is in a mature state, the membership will be reduced to a subset of the Board during the next year, in accordance with best governance practice.

Over the course of the past year the Society has continued to review and strengthen its risk and controls environment with the Committee playing a crucial role in shaping the Risk Management Framework (RMF). During the year the Operational Risk policy has been updated to specifically incorporate Operational Resilience and includes identification of the key business services and associated impact tolerances. Operational Resilience key risk indicators were introduced and are reviewed by the Committee quarterly. During the year the Committee reviewed the Society's principal risk policies relating to treasury and lending and reviewed the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), the Stress and Scenario testing policy and plan, and the Recovery Plan, in each case recommending the documents to the Board for approval.

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. The Committee comprises three Non-Executive Directors who are currently Ron Simms (Chair), Will Roberts and Piers Williamson. The Executive Directors, the Head of Risk and Company Secretary and the Compliance Manager, as well as representatives from the internal and external auditors, attend by invitation. The Committee members have specialist expertise including financial, legal and risk management experience, including Will Roberts who is a Chartered Accountant with financial experience relevant to the remit of the Committee. The Audit Committee as a whole has competence relevant to the financial services industry.

During the reporting period the Committee reviewed:

- the accuracy and completeness of the annual accounts,
- reports from the internal auditor and satisfied itself as to the independence and objectivity of the assurance provided,
- the second and third line assurance plans,
- the outcomes of assurance work,
- the security of the Society's IT framework, and,
- the Society's whistleblowing controls.

Nomination Committee

The Committee is responsible for succession planning for both Executive and Non-Executive Director positions. The Committee comprises four Non-Executive Directors who are currently Peter Brickley (Chair), Ron Simms, Sarah Hordern and Piers Williamson. The Chief Executive, the Chief Risk Officer and the Head of HR and People Development attend by invitation.

During the reporting period the Committee assessed the balance and diversity of skills, knowledge and experience of the Board. It decided to appoint Chris Brown as a new Non-Executive Director with effect from June 2019. It also reviewed the Modern Slavery policy, the Management Responsibilities Map, and the HR Policy Statement. In addition, the requirements of the new Corporate Governance Code, which applies to the Society from the reporting year ending 31 October 2020, were considered.

The Committee pays due regard to the need for progressive refreshing of the Board and has appropriate succession plans in place. During the year it agreed to appoint Piers Williamson to the Nomination and Remuneration committees. The Committee also reviewed the performance of Directors individually and collectively, and has recommended the re-election of Peter Brickley and Piers Williamson as Non-Executive Directors, Lee Bambridge as Chief Risk Officer and the election of Chris Brown as a non-Executive Director. After nine years' service, Ron Simms will be retiring from the Board at the 2020 AGM and the Board thanks him for his contribution to the Society. The Board ratified the Committee's recommendations and there will be four vacancies at the 2020 AGM with four candidates standing.

Remuneration Committee

The Committee is responsible for setting and monitoring adherence to the Society's remuneration policy. The Committee comprises four Non-Executive Directors who are currently Ron Simms (Chair), Peter Brickley, Sarah Hordern and Piers Williamson. The Chief Executive, the Chief Risk Officer and the Head of HR and People Development attend by invitation.

During the year the Committee reviewed the Society's remuneration policy and approved the Directors' Remuneration Report. The Committee also considered the structure of remuneration across the Society, including pay levels and differentials, reviewed director expenses, and set and approved the performance related pay of the Executives, including the consideration of relevant risks.

The terms of reference for these Committees are available on the Society's website, at the AGM or by writing to the Company Secretary. Proceedings of all Committees are formally minuted, minutes are distributed to all Board members and the Chair of each Committee reports on the key matters covered at the following Board meeting. The Society maintains liability insurance cover for Directors and Officers. Attendance records for the year to 31 October 2019 are set out on page 22.

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 Society's business and has been granted delegated powers by the Board which include creating new products, dealing with the regulators, initiating legal proceedings within the normal course of business, negotiating the Society's insurance cover and granting discretionary salary increases within limits. The Chief Executive cannot grant salary increases to their direct reports. 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 was elected by the other members of the Board to become Chairman on 23 February 2015. Peter has served for more than nine years as a non-Executive Director and is due to retire from the Board in February 2021.

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 Board spends a considerable proportion of its time on strategic matters. In particular the first part of each Board meeting is devoted to strategy related topics or to training on topics that will help Directors make more informed strategic decisions. In addition, during the year, the Board held its annual strategy day which provided the Non-Executive Directors with the opportunity to understand and challenge the Executive Directors' views about the strategic options available to the Society. Following the strategy day, the Executive Directors produced a rolling four year corporate plan which the Non-Executive Directors scrutinised and approved, offering constructive challenge to ensure the Society has a robust and sustainable strategy 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 Society to enable them to discharge their respective duties and responsibilities effectively.

Board Comment:

The Board currently comprises the Chairman, six Independent Non-Executive Directors and four Executive Directors, who together provide a balance of skills and experience appropriate for the requirements of the business. Committee membership is reviewed annually to ensure there is appropriate expertise in each Committee to discharge its terms of reference. All Non-Executive Directors are considered by the Board to be independent in character and judgement and the Chairman has confirmed, following the formal performance evaluation process, that each individual's performance continues to be effective and to demonstrate commitment to the role.

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:

There was one new Non-Executive Director selected for appointment during the year with Chris Brown taking up her appointment in June 2019. The Board's policy on diversity is to appoint individuals on merit using objective selection criteria but to try to maintain a Board where no more than two thirds of its Directors are of the same gender by attracting applicants with as wide and diverse range of backgrounds, skills and experience as possible. The Nomination Committee has reviewed the process for appointing new Directors and believes it demonstrates an intent to maintain a balanced Board in line with the stated diversity policy. The terms and conditions of Non-Executive Director appointments are available for inspection at the AGM or at the Society's registered address.

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 information provided by referees, and once appointed there is a formal process in place for approving new requests to take up roles elsewhere. 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 Directors at Board and Committee meetings is set out on page 22.

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 new 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 reviews and agrees each Director's training needs on a regular basis and ensures that Non-Executive Directors are provided with internal briefings, on-line training modules, and attend industry seminars and conferences in order to continually update their skills and knowledge. In addition, prior to their appointment, all new Senior Managers go through a comprehensive handover process to ensure they are fully aware of the specific responsibilities relating to their individual role.

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 sufficient information to enable it to discharge its responsibilities. The Society continuously improves management information to assist its Committees in discharging their terms of reference. Internal Audit reviews the adequacy of the information provided to the Board. The Company Secretary provides support on corporate governance matters and individual members of the Board have 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's performance is evaluated by the Non-Executive Directors facilitated by the Senior Independent Director 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 to inform the decision whether to submit a Director for re-election. The evaluation of Board effectiveness is externally facilitated at least every three years and the outcome of the most recent evaluation is due in early 2020.

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 comparatively small financial institution such as the 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 needs of an effective Board. The Board's policy is that Non-Executive Directors will not usually serve more than three terms unless they become Chairman in which case they will be subject to re-election every three years with the expectation that they serve no more than an additional six years. An effective Chairman benefits from having spent time as a NED at the Society to gain experience of the business and culture. This means that they may be some way into a 9 year tenure before becoming Chair. Therefore the total Board tenure for the Chair can be longer than other NEDs. The Nomination Committee considers whether members are independent in character and judgement, are able to commit sufficient time and demonstrate capability and knowledge, and 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 24. The Audit Committee Report on page 21 describes the main areas of accounting judgement exercised.

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 and uncertainties that could 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 11. The Board, assisted by the Risk Committee, is collectively responsible for determining risk appetites, strategies for risk management and control as described in the Society's Risk Management Framework. Senior management is responsible for designing, operating and monitoring risk management systems and controls and the Executive Directors hold quarterly meetings to review the risk and control environment in their respective areas. The Risk Committee assesses the adequacy of the risk related output of this process and the Society's internal auditor, provides independent and objective assurance regarding the design and performance of risk management systems and controls.

Audit Committee and Auditors

The Audit Committee Report on page 21 explains how the Society applies the Code Principles relating to corporate reporting and internal control.

Remuneration

The Directors' Remuneration Report on page 23 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 such as the AGM 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, Ron Simms, who can be contacted on ron.simms@newbury.co.uk should members or staff have any concerns that cannot be raised through normal channels.

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 approval of the Report & Accounts, 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 Executive Directors and Chairs of the Committees are therefore available to answer questions raised by the Society's members.

Peter Brickley
Chairman
18 December 2019

Audit Committee Report

This report explains how the Society applies the principles of the UK Corporate Governance Code April 2016 (the Code) relating to the operation of the Audit Committee and the system of internal control.

The report details how the Committee discharged its responsibilities in line with the provisions of the April 2016 version of the Financial Reporting Council's 'Guidance on Audit Committees'. In particular it details the significant issues reviewed and concluded during the year including the Committee's assessment of those areas on which accounting judgement was exercised. The Audit Committee met four times during the year and in addition met with the external and internal auditors without the Executive Directors present.

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.

Comment:

The Directors are responsible for preparing the Annual Report and Accounts. At the request of the Board, the Committee considered whether the 2019 Annual Report is fair, balanced and understandable and whether it provides the necessary information for members, and other stakeholders, to assess the Society's position and performance, business model and strategy. In order to do this, the Committee considered the information published in the Annual Report and Accounts and the accounting policies adopted by the Society, the presentation and disclosure of financial information and, in particular, the key judgements made by management in preparing the financial statements.

In evaluating this year's financial reporting process, the Committee noted that senior members of the Board and executive management team are involved at an early stage in agreeing the overall tone and content of the Annual Report and Accounts, and that members of the Executive Committee and the Board review, comment on and challenge various drafts of the Annual Report and Accounts as part of a robust verification process.

The Committee also paid particular attention during the year to the following matters which are important by virtue of their potential impact on the Society's results, particularly because they involve a high level of complexity, judgement or estimation by management:

Provisioning for loan impairment

The Committee monitored loan impairment provisions and considered the impact of the approach to forbearance adopted when managing the Society's mortgage portfolio. It also considered other key assumptions contained in the Society's provisioning model on the level of provisions made and the relevant disclosure in the Accounts. In particular the Committee examined and challenged the assumptions adopted and is satisfied with the level of impairment provisions made for the mortgage portfolio.

Effective Interest Rate

Interest income on the Society's mortgages is measured under the effective interest method, as explained in the Accounts. This method includes an estimation of mortgage product lives which is based on observed historical data and Directors' judgement. During the year, the Society's estimate of mortgage lives has been updated to reflect changes in market conditions and customer behaviours. The Committee has examined the above changes, including the revised mortgage life estimates, and is satisfied that the estimates and accounting treatment are appropriate.

Hedging

The Society issues fixed rate mortgage products which are mainly funded from variable rate savings. To mitigate the risk of a rise in funding costs the Society enters into interest rate swaps (derivatives) and uses hedge accounting to offset a change in the fair value of swaps against changes in the fair value of the corresponding fixed rate mortgages. During the year the Committee reviewed management's process to manage hedge accounting including the fair valuing of hedges and the underlying hedged items, as well as the processes for identifying and designating derivatives as effective.

As a result of its enquiries the Committee is satisfied that hedge accounting has been applied in accordance with IAS 39.

Going Concern

This involves rigorous consideration, based on reports as requested by the Committee, of the Society's current and projected liquidity and capital positions, together with the potential risks (for example strategic (including Brexit), credit risk, liquidity risk, operational risk and conduct risk) which could also impact the business, as well as consideration of potential stress scenarios. Based on its review, the Committee concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate.

Statutory Audit

The Committee considered matters raised during the statutory external audit, through discussion with senior management of the business and the external auditor, and concluded that there were no adjustments required that were material to the financial statements.

In light of the enquiries above, the Committee is satisfied that, taken as a whole, the 2019 Annual Report and Accounts is fair, balanced and understandable and provides a clear and accurate presentation of the Society's position and prospects.

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.

Comment:

The Society recognises the importance of good systems of internal control in the achievement of its objectives and the safeguarding of its assets. Good internal controls also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations. Management is responsible for designing an appropriate internal control framework whereas the Audit Committee is responsible for ensuring that the Board receives appropriate assurance over the effective operation of this framework. In order to achieve this the Audit Committee reviews the effectiveness of the Internal Audit and Compliance functions, approves their annual plans and reviews performance against these plans on a quarterly basis.

The Committee also reviews their material findings and instigates plans to remedy any shortcomings. Consistent with these responsibilities, the Committee undertook the following activities during 2019 to satisfy itself over the robustness of the internal control framework:

Compliance assurance

The Society's Compliance function provides second line assurance on activities across the Society. The outputs of the Compliance function's activities are reported to the Committee, together with progress updates on management's implementation of any findings. During the year the Committee approved the Compliance function's annual plan of work which sets out the reviews the function intends to perform and the associated scopes of those reviews. The Committee also satisfied itself that the Compliance function remained adequately resourced to provide appropriate levels of assurance.

Internal Audit

The Society's Internal Audit function provides independent assurance to the Board, via the Audit Committee, on the effectiveness of the internal control framework. The information received and considered by the Committee during 2019 provided assurance that there were no material breaches of control and that the Society maintained an adequate internal control framework that met the principles of the UK Corporate Governance Code. The Audit Committee is also responsible for agreeing the annual budget for Internal Audit and for approving its annual risk based plan of work. Internal Audit provides the Committee with reports on material findings and recommendations as well as updates on the progress made by management in addressing these findings, including verification that actions have been accurately reported as complete. The Committee is satisfied that, over the course of 2019, Internal Audit had an appropriate level of resources in order to deliver its plan of work and that it discharged its responsibilities effectively.

External Audit

The Audit Committee is responsible for providing oversight of the external audit process by monitoring the relationship with the External Auditor, agreeing its remuneration and terms of engagement, and making recommendations to the Board on the appointment, re-appointment or removal. As part of the external audit process, Deloitte provides the Society with internal control reports on matters which have come to its attention during the audit. No material control weaknesses were included in such reports. The Committee is also responsible for monitoring the performance, objectivity and independence of the External Auditor, ensuring that the policy to provide non-audit services is appropriately applied.

During the year the External Auditor did not undertake any non-audit services. In order to retain independence and objectivity, the Society's policy is to tender for audit services on a regular basis and at least every 10 years. The external auditors are required to rotate every 20 years. The current auditors are Deloitte LLP who have held the role since February 2018.

Other activities

During the year the Committee also satisfied itself that the Society's 'whistle blowing' arrangements are operating effectively and reassured itself as to the effectiveness of the Society's IT controls.

Ron Simms
Chair of the Audit Committee
18 December 2019

Directors' Attendance Record

Board member	Board	Audit	Risk	Remuneration	Nomination
Non-Executive					
Peter Brickley	10 (11)		4 (4)	4 (4)	3 (3)
Chris Brown[1]	4 (4)		2 (2)		
Sarah Hordern	11 (11)		4 (4)	4 (4)	3 (3)
Tracy Morshead	3 (3)		1 (1)		
William Roberts	10 (11)	4 (4)	4 (4)		
Zoe Shaw	10 (11)		3 (4)		
Ron Simms	11 (11)	4 (4)	4 (4)	4 (4)	3 (3)
Piers Williamson	11 (11)	4 (4)	4 (4)	3 (3)	3 (3)
Executive					
Roland Gardner	11 (11)	4 (4) *A*	4 (4) *A*	4 (4) *A*	3 (3) *A*
Lee Bambridge	11 (11)	4 (4) *A*	4 (4) *A*	4 (4) *A*	3 (3) *A*
Kieron Blackburn	11 (11)	3 (4) *A*	4 (4) *A*		
Phillippa Cardno	11 (11)	4 (4) *A*	4 (4) *A*		

( ) = number of meetings eligible to attend

A attendee

[1] appointed 1 June 2019

Directors' Remuneration Report

This report explains how the Society applies the principles of the UK Corporate Governance Code April 2016 (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 2019, all seven of the current Non-Executive Directors and the four Executive Directors, as well as three other members of senior management reporting directly to the Executive Directors, were classified as Material Risk Takers (MRTs) and subject to the Remuneration Code. The Remuneration Committee does not consider that any employees who are not members of the Board or the Executive management team should be classified as MRTs.

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.

Comment:

The Society's objective when setting remuneration is to ensure that it is in line with the Society's business strategy, risk appetite and long-term objectives, by being consistent with the interests of our members. 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 8 on page 44. 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 and benchmarked annually in line with comparable organisations across location, industry and job function.

Performance Related Pay Scheme

The performance related pay scheme is based on the Society's key performance measures of profitability, control of costs, growth in mortgages and increases in savings. A maximum of 11.5% of salary (prior to any salary sacrifice) can be earned for achievement of these targets together with a maximum 3.5% of salary based on personal contribution. Performance related payments are not pensionable and are paid in cash through payroll.

As a mutual, the Society has no share option scheme, and none of the Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of, any connected undertaking of the Society.

Benefits

The Society makes a contribution of up to 20.25% of salary (before salary sacrifice where applicable) to Executive Directors' private pension arrangements. Executive Directors receive other benefits comprising private healthcare (which 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

Roland Gardner, Lee Bambridge, Phillippa Cardno and Kieron Blackburn each have a service contract with the Society, terminable by either party giving twelve months notice. The Society meets contractual obligations for loss of office. Whilst the Remuneration Committee has discretion to provide better terms, this is disclosed to Members if used. An Executive Director is permitted to take on a role as a Non-Executive Director with another firm provided that firm is not a competitor and the associated time commitment can be accommodated. Any such arrangements have to be agreed in advance by the Nomination Committee. There were no new arrangements of this nature entered into during the year.

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 of the Board and the other Non-Executive Directors classified as Senior Managers 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 and these are available for inspection prior to the AGM or at the Society's registered address.

Other Material Risk Takers

The Remuneration Committee is also responsible for determining the terms and conditions of other members of senior management in consultation with the Chief Executive. These are the Head of Customer Service, the Head of Risk & Society Secretary, the Head of HR & People Development and the Head of IT & Business Change who is due to commence employment on 6 January 2020. These individuals are subject to the same variable pay performance targets and rewards as the Executive Directors and they also receive pension contributions from the Society of up to 15.25% of salary (prior to any salary sacrifice).

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.

Comment:

The remuneration of the Non-Executive Directors, Executive Directors and other members of senior management is overseen by the Remuneration Committee, which consists of four Non-Executive Directors and which meets four times a year. During the reporting period the composition of the Committee satisfied the Code provisions regarding independence. The Chief Executive, the Chief Risk Officer and the Head of HR & People Development attend by invitation but take no part in the discussion of their own salaries. Minutes of the Committee's meetings are distributed to all Board members.

The Remuneration Committee reviews the Society's Remuneration Policy annually and maintains a list of the Society's MRTs detailing the composition of their respective remuneration. In setting remuneration, the Committee takes account of fees and salaries payable and other benefits provided to Non-Executive Directors, Executive 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 the Risk and Compliance functions.

Non-Executive Directors:

The fees payable to Non-Executive Directors are proposed by the Chief Executive, taking into consideration the views of the other Executive Directors. The proposed fees are then approved or otherwise by the Remuneration Committee with the Chairman's fees being considered by the Committee in the absence of the Chairman. During the year the Chief Executive's recommendations regarding Non-Executive Director fees were accepted in full.

Executive Directors

The performance related pay scheme is designed to encourage the achievement of key business objectives relating to a balance of financial performance, customer service and sustainable growth over a multi-year timeframe. In setting variable remuneration targets the Committee considers the balance between the fixed and variable components of remuneration to ensure that the ratio is appropriately balanced and in line with the risk profile of the Society. The Committee believes that the performance related targets set for 2019 were suitably balanced and hence risk adjusted.

The Remuneration Committee assesses whether any performance related payments should be made taking into account reports, where applicable, from the Risk and Compliance functions. Whilst it is not required to do so, the Committee also defers a proportion of the performance related payment to Executive Directors in order to discourage inappropriate risk taking. This is not considered necessary for the remaining members of the senior management team given that they report to the Executive Directors.

AGM Vote

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

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

R Simms
Chair of the Remuneration Committee
18 December 2019

Directors' Responsibilities

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

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

The Building Societies Act ("the Act") requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard as it applies to the UK.

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

In preparing the Society's 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 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 Society.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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 Society 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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Newbury Building Society (the 'Society'):

- **give a true and fair view of the state of the Society's affairs as at 31 October 2019 and of the Society's income and expenditure for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland";**
- **have been prepared in accordance with the requirements of the Building Societies Act 1986.**

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in members' interests;
- the cash flow statement; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition of interest receivable and similar income; and • Loan loss provisioning Within this report, the key audit matters identified are the same as the prior year with the exception of hedge accounting. The prior year was a first year audit and we have now gained a detailed understanding of the Society's approach and sensitivity of key judgements applied in hedge accounting, it is therefore no longer considered a key audit matter.
Materiality	The materiality that we used in the Society's financial statements was £273k which was determined on the basis of 5% of profit before tax.

Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes in our audit approach.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition of interest receivable and similar income

Key audit matter description	The main revenue stream within the Society is interest receivable and similar income primarily derived from loans and advances to customers. The interest receivable and similar income recognised during the year was £29.9m (2018: £28.5m). The directors elect to apply the recognition and measurement criteria in line with IAS 39 as part of their adoption of FRS 102 to recognise interest income using the Effective Interest Rate ('EIR') method for loans and advances to customers. The EIR method requires the modelling of all cash flows, including directly attributable fees and costs, over the shorter of the behavioural and contractual life. The key assumption in the EIR models is the estimation of redemption rates used in the calculation of the behavioural lives of the mortgages and thus timing of the expected future cash flows.

	There is therefore judgement involved in the determination of interest receivable and similar income using the EIR method. We identified a key audit matter that the interest income may be inappropriately recognised whether due to fraud or error. Management's accounting policies are detailed in note 1.2 and 1.4 to the financial statements while the significant judgements involved in the revenue recognition process are outlined in note 1.14, with note 2 quantifying the interest receivable and similar income recognised during the year. The area of significant judgement is discussed by the Audit Committee as detailed in the Committee's report on page 21.
How the scope of our audit responded to the key audit matter	We first obtained an understanding of the Society's process and key controls around revenue recognition as well as reviewing management's judgement paper. Following identification of the key controls we assessed the design and implementation of controls that the Society has in place to manage the risk of inappropriate behavioural life assumptions being used within the EIR model. In conjunction with our internal IT specialists we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the EIR balance. We challenged the appropriateness of the behavioural lives adopted by management by reference to historical customer redemptions, over which we performed accuracy and completeness testing over the underlying data on a sample basis. Additionally we challenged any amendments made to the behavioural lives by management during the course of the year, based on recent customer redemption activity. As part of our wider assessment of the key audit matter we independently recalculated a sample of EIRs and tested the adjustment posted to recognise revenue over the behavioural life on a sample of loans. We also reviewed the treatment of fees and charges arising on loans and advances to customers and the appropriateness of their inclusion or exclusion in the Society's EIR models. We verified the inputs which are used to determine revenue by agreeing a sample of customer loans back to underlying source data.
Key observations	We concluded that the behavioural lives used within management's revenue recognition process were reasonable and the models to be working as intended. We determined the accounting for revenue to be appropriate, acceptable and materially in line with the requirements of IAS 39.

Loan loss provisioning

Key audit matter description	Under IAS 39, the directors are required to assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, management should recognise an impairment loss within the income statement immediately. The Society holds £958.4m (2018: £894.9m) of loans and advances to customers on which a loan loss provision of £1.2m (2018: £0.9m) has been provided for at year end. The provision comprises a collective provision for losses incurred but not reported and a specific provision for loans where there has been an observable impairment trigger. Key assumptions in determining the collective provision include the use of probability of default ("PD") and forced sale discount ("FSD") assumptions. Given the high level of Management judgement required coupled with historically low levels of arrears we identified our key audit matter in relation to the valuation of the collective provision and in particular the PD and FSD assumptions adopted, including the possibility of management bias, on the basis that amendments to these assumptions could give rise to a material misstatement due to fraud or error. Management's accounting policies are detailed in note 1.5 to the financial statements while the significant judgements involved in loan loss provisioning are outlined in note 1.14, with note 12 quantifying the loan loss provision at year end. The area of significant judgement is discussed by the Audit Committee as detailed in the Committee's report on page 21.
How the scope of our audit responded to the key audit matter	We first obtained an understanding of the Society's process and key controls around loan loss provisioning as well as reviewing management's judgement paper. Following identification of the key controls we assessed the design and implementation of controls that the Society has in place to manage the risk of inappropriate assumptions being used in the loan loss provisioning model. In conjunction with our internal IT specialists we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the provision. We challenged the appropriateness of the key assumptions used within the collective provision, in particular the PD and FSD by reference to the Society's historical loss rate data and benchmarking to a range of peer groups and third party ratings agency data. Additionally we determined whether the provision held is commensurate with the loan book size and inherent risk using coverage ratios obtained from peer group benchmarking. As part of our wider assessment of the key audit matter, we independently recalculated the loan loss provision for a sample of customer loans and compared the output to the amount provided by Management.

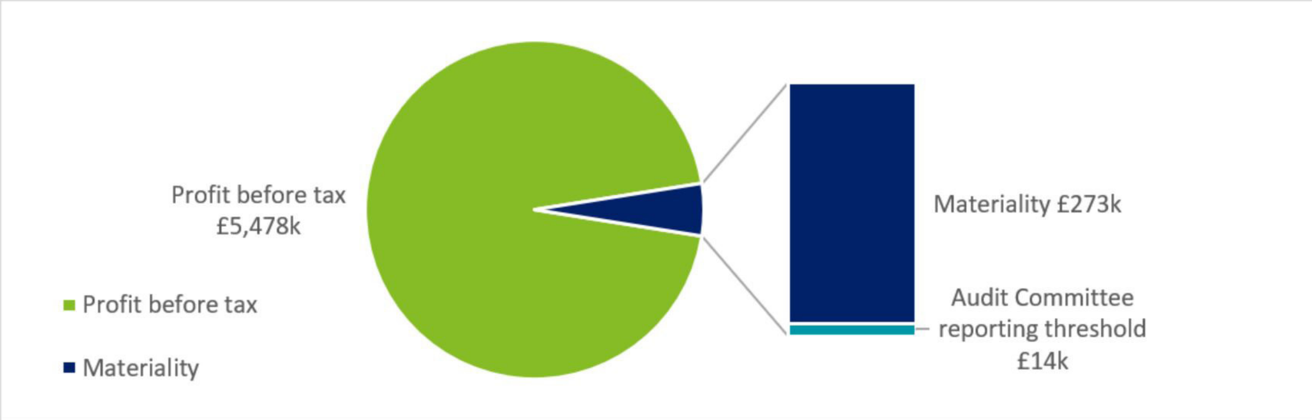
	We also tested the accuracy and completeness of the inputs which were used to determine the loan loss provision back to underlying source data. We tested the completeness of the loan population identified by Management as having incurred an impairment event by testing a sample of loans that were not in arrears for other indicators of financial distress. We also considered if any overlays were required to recognise impairment provisions held by the Society for impairment events that are not captured in its impairment model. We challenged the appropriateness of other assumptions used within the loan loss provision such as impairment triggers, expected future cash flows, time horizons to sale, expected costs to sell and house price indexation. Procedures performed included benchmarking to peers and performing independent recalculations. We also considered the appropriateness of the overall provision on the basis of the changing macro-economic environment, in particular in relation to the level of uncertainty surrounding Brexit.
Key observations	We concluded that Management's view in regards to the loan loss provision was appropriate, albeit note that the provision itself was at the conservative end of an acceptable range in comparison to other peer groups with similar loan book size and inherent risk. We determined the impairment events used by Management in its impairment model to be appropriate and consider that this is placed appropriately to identify customers for which a specific provision may be required. Overall, we found the loan loss provision model to be working as intended and consider the loan loss provision to be recorded in line with the requirements of IAS 39.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£273k (2018: £408k)
Basis for determining materiality	5% of profit before tax (2018: 5% of profit before tax).
Rationale for the benchmark applied	The accumulation of profits is critical to maintaining and building capital for regulatory purposes and allowing the Society to invest in activities for its members. This was a key factor in why we determined that profit before tax was the most appropriate benchmark for determining materiality.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £14k (2018: £20k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Society and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Society's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, financial instruments and information technology specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the complexity and estimation of redemption rates in
etermining interest receivable and the judgement involved in relation to the provision for loan loss estimates; and
- obtaining an understanding of the legal and regulatory framework that the Society operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Society. The key laws and regulations we
considered in this context included the legislation imposed by the Financial Conduct Authority (FCA), Prudential Regulation authority (PRA), the Building Societies Act 1986 and tax legislations.

Audit response to risks identified
As a result of performing the above, we identified revenue recognition and loan loss provisioning as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the FCA and PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- the annual business statement and the directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; 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.

In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 67 for the financial year ended 31 October 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements 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.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of directors on 26 February 2018 to audit the financial statements for the year ending 31 October 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 October 2018 to 31 October 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Kieren Cooper FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
18 December 2019

Income Statements for the year ended 31 October 2019

	Notes	2019 £000	2018 £000
Interest receivable and similar income	2	29,866	28,525
Interest payable and similar charges	3	(12,940)	(10,831)
Net interest income		16,926	17,694
Fees and commissions receivable		124	28
Fees and commissions payable		(213)	(108)
Other operating income		26	13
Total operating income		16,863	17,627
Net (loss) / gain from derivatives	4	(512)	163
Total Net Income		16,351	17,790
Administrative expenses	5	(9,970)	(9,019)
Depreciation and amortisation	13/14	(605)	(670)
Operating profit before impairment and provisions		5,776	8,101
Impairment of loans and advances	12	(298)	(49)
Provision for FSCS levy	18	-	122
Profit before Tax		5,478	8,174
Taxation	6	(1,068)	(1,582)
Profit for the Financial Year	19	4,410	6,592

Statement of Comprehensive Income

Profit for the financial year		4,410	6,592
Property Revaluation	13	(379)	-
Total Comprehensive income for the financial year		4,031	6,592

There is no tax impact of the property valuation.

No income has been reclassified to the income statement.

The notes on pages 38 to 67 form part of these accounts.

Statement of Financial Position at 31 October 2019

	Notes	2019 £000	2018 £000
Assets			
Liquid assets			
Cash in hand and balances with the Bank of England		189,542	177,114
Loans and advances to credit institutions	9	27,686	35,004
		217,228	212,118
Derivative financial instruments	10	70	572
Loans and advances to customers			
Loans fully secured on residential property	11	952,591	888,850
Other loans	11	6,757	7,523
Fair value adjustment for hedged risk	11	1,167	(483)
		960,515	895,890
Tangible fixed assets	13	5,122	5,620
Intangible fixed assets	14	374	657
Other assets	15	3,520	-
Prepayments and accrued income		1,067	648
Total Assets		1,187,896	1,115,505
Liabilities			
Shares	16/24	938,630	876,556
Amounts owed to credit institutions	24	128,263	124,511
Amounts owed to other customers	24	37,361	36,339
Derivative financial instruments	10	1,920	260
Other liabilities	17	45	181
Tax liabilities	17	764	1,000
Accruals and deferred income		1,369	1,072
Provisions for liabilities	18	100	173
Total Liabilities		1,108,452	1,040,092
Reserves			
Revaluation reserve	19	2,140	2,519
Reserves - general reserves	19	77,304	72,894
Total Reserves	19	79,444	75,413
Total Reserves and Liabilities		1,187,896	1,115,505

The notes on pages 38 to 67 form part of these accounts.

These accounts were approved by the Board of Directors on 18 December 2019
Peter Brickley - Chairman
Roland Gardner - Chief Executive
Kieron Blackburn - Finance Director

Statement of Changes in Members' Interest for the year ended 31 October 2019

	General reserves £000	Revaluation reserve £000	Total
Balance at 1 November 2018	72,894	2,519	75,413
Profit for the financial year	4,410	-	4,410
Other comprehensive income for the year	-	(379)	(379)
Total comprehensive income	4,410	(379)	4,031
Balance at 31 October 2019	77,304	2,140	79,444
Balance at 1 November 2017	66,302	2,519	68,821
Profit for the financial year	6,592	-	6,592
Other comprehensive income for the year	-	-	-
Total comprehensive income	6,592	-	6,592
Balance at 31 October 2018	72,894	2,519	75,413

Cash Flow Statements

	Notes	2019 £000	2018 £000
Cash flows from Operating Activities			
Profit before tax		5,478	8,174
Depreciation and amortisation	13,14	605	669
Profit on disposal of property, plant and equipment		-	17
Increase in impairment of loans and advances	12	298	49
Total		6,381	8,909
Changes in Operating Assets and Liabilities			
(Increase)/Decrease in prepayments, accrued income and other assets		(3,417)	928
Increase/(Decrease) in accruals, deferred income and other liabilities		2,034	(197)
Increase in loans and advances to customers	11	(64,924)	(52,536)
Increase in shares		62,051	37,182
Decrease/(Increase) in loans and advances to credit institutions		3,500	(3,500)
Increase in amounts owed to other credit institutions and other customers		4,722	63,338
Taxation paid		(1,514)	(1,650)
Net Cash Generated by Operating Activities		2,452	43,565
Cash flows from Investing Activities			
Purchase of property, plant and equipment	13	(143)	(177)
Disposal of property, plant and equipment		-	192
Purchase of intangible assets	14	(61)	(163)
Net Cash used in Investing Activities		(204)	(148)
Net Increase in Cash and Cash Equivalents		8,629	52,326
Cash and cash equivalents at 1 November		208,562	156,236
Cash and Cash Equivalents at 31 October	20	217,191	208,562

1. Accounting Policies

The principal accounting policies applied consistently in the preparation of these Annual Accounts are set out below.

1.1 Basis of Preparation

The Annual Accounts of the Society have been prepared:

- in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The Society has also chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).
- on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments classified at fair value through the profit or loss ("FVTPL") and property which is measured using the revaluation model and carried at fair value.

The Annual Accounts are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest thousand.

Going concern

The Directors have prepared forecasts for the Society, including its capital position, for a period in excess of 12 months from the date of approval of these financial statements. The Directors have also considered the effect upon the Society's business, financial position, liquidity and capital of more pessimistic, but plausible, trends in its business using stress testing and scenario analysis techniques. The resultant forecasts and projections show that the Society will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements. The Society has considered the impact of Brexit on page 5 and it does not impact this going concern assumption.

New and amended accounting standards

The FRC has issued Amendments to FRS 102 – Interest rate benchmark reform.

Interest rate benchmarks such as the London Interbank Offered Rate (LIBOR) are being reformed, and it is anticipated that LIBOR will not be available after 2021. There is increasing uncertainty about the long-term viability of some interest rate benchmarks and this gives rise to issues affecting financial reporting in the period before the reform, particularly in relation to hedge accounting.

These amendments to specific hedge accounting requirements in FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland provide relief that will avoid unnecessary discontinuation of hedge accounting during the period of uncertainty. Entities will apply specific hedge accounting requirements assuming that the interest rate benchmark relevant to the hedge accounting is not altered as a result of interest rate benchmark reform.

The amendments are effective for accounting periods beginning on or after 1 January 2020, with early application permitted. The Society has early adopted the amendments.

1.2 Interest

Interest receivable and expense are recognised in the Income Statement using the effective interest method. The effective interest method is the rate that exactly discounts estimated future cash flows to the net carrying amount on initial recognition. Expected lives are estimated using historic data and management judgment and the calculation is adjusted when actual experience differs from estimates, with changes being recognised immediately in the Income Statement. Effective interest rates are recalculated when the Society changes its Standard Variable Rate (SVR).

1.3 Fair value changes on derivatives

Fair value changes on derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net gain/(loss) from derivatives at fair value through profit or loss in the income statement.

1.4 Fees and commissions receivable and payable

Fees and commissions that are material and that are an integral part of the effective interest rate on financial assets and financial liabilities are included in the measurement of the effective interest rate. Other fees and commissions are recognised as the related services are performed.

1.5 Financial instruments

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the Statement of Financial Position and measured in accordance with their assigned category.

a) Financial assets

The Society allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its financial instruments at initial recognition. Purchases and sales of non-derivative financial assets are accounted for at settlement date.

Financial assets at fair value through profit or loss

This category comprises financial assets designated by the Society at fair value through profit or loss upon initial recognition. The Society uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational activities, mainly fixed rate mortgages.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any directly attributable transaction costs – and measured subsequently at amortised cost using the effective interest method.

Loans and receivables are reported in the Statement of Financial Position as loans and advances to credit institutions or customers. Interest on loans is included in the Income Statement and is reported as interest receivable and similar income. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the Income Statement as impairment losses on loans and advances.

b) Financial liabilities

The Society's financial liabilities are classified as follows:

- Shares held by individuals, others and amounts owed to other customers – Amortised cost which is usually the amount deposited plus any accrued interest
- Derivative financial instruments – Fair value through profit and loss

Other shares are shares held by corporate bodies and trusts.

c) Impairment of financial assets

Impairment of mortgage loans and advances

The Society assesses at each year end date whether there is objective evidence that a financial asset is impaired. Objective evidence of impairment can be defined as one or more events occurring after the initial recognition of the asset that have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The Society first assesses whether objective evidence of impairment exists for financial assets using the following criteria:

- Deterioration in payment status;
- Forbearance being applied;
- Expected future increase in arrears due to change in loan status; and any other information suggesting that a loss is likely in the short to medium term.

If there is objective evidence of an impairment of loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate. This calculation takes into account the Society's and the industry's experience of default rates, loss emergence periods, the effect of regional movements in house prices based upon a recognised index and adjustments to allow for ultimate forced sales values and realisation costs. The amount of the loss is recognised in the Income Statement.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

If the Society determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

A collective provision is made against a group of loans and advances where there is objective evidence that credit losses have been incurred but not identified at the reporting date.

d) Derecognition of financial assets and liabilities

The Society derecognises financial assets when the contractual right to the cash flows from the financial asset expires or when it transfers the asset to another party, provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership.

The Society derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

e) Determination of fair value

The Society determines fair values by the three tier valuation hierarchy as defined within IAS 39 and FRS102.34:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly;
- Level 3 - inputs for the asset or liability that are not based on observable market data. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Derivatives fall within level 2.

1.6 Hedge accounting

The Society documents, at the inception of any hedging transaction, the relationship between the hedging instrument and the hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions. The Society also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values of hedged items. This is done by measuring the correlation co-efficient between the hedged items and the derivatives. These must be within parameters to be deemed highly effective, which the Society's hedges are.

i) Fair value hedges – Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to profit or loss over the remaining expected life of the previously hedged item.

ii) Derivatives that do not qualify for hedge accounting – Certain derivative instruments do not qualify for hedge accounting.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

1.7 Intangible Assets

Computer software which is not an integral part of the related hardware is recorded as an intangible asset. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Society, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Intangible assets are held at amortised cost, with amortisation charged to the Income Statement on a straight line basis over the estimated useful life of between 3-5 years; they are subject to regular impairment reviews. Costs associated with maintaining software are recognised as an expense when incurred.

1.8 Property, plant and equipment

Property, plant and equipment are initially stated at cost. All property is revalued to fair value less any subsequent accumulated depreciation and impairment losses. The last valuation was on 15 March 2019 .

Gains on revaluation are recognised in the statement of other comprehensive income and accumulated in the revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease previously recognised in the profit or loss.

Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in profit or loss.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method (unless otherwise stated) to allocate their cost less their residual values over their estimated useful lives, as follows:

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

Building		50 years
Short leasehold properties		Straight line over the period of the lease or over 50 years, whichever is shorter.
Equipment, fixtures and fittings and motor vehicles		
• Office equipment	Straight line	3 to 8 years
• Computer equipment	Straight line	3 to 8 years
• Motor vehicles	Straight line	3 to 8 years

1.9 Leases

The leases entered into by the Society are operating leases. The total payments made under operating leases are charged to the Income Statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1.10 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash in hand and loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with maturities of 90 days or less. There are no cash and cash equivalent balances held by the Society that are not avaliable for use by the Society.

1.11 Taxation

Tax on the profit for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income within the Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable expense for the year, using the tax rate which applies to the accounting period ending at the date of the Statement of Financial Position, and any adjustment to tax payable in respect of previous years. Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is determined using tax rates (and laws) that have been substantively enacted by the year end date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

1.12 Provisions and contingent liabilities

Provisions are recognised when the Society has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events, not wholly within the control of the Society is a contingent liability. A contingent liability is disclosed but not recognised in the Statement of Financial Position.

1.13 Employee benefits

For defined contribution plans, the contributions are recognised as an employee benefit expense in the Income Statement when they are due, in accordance with the rules of the scheme. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1.14 Judgements in Applying Accounting Policies and Critical Accounting Estimates

The Society makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Where the application of the Society's accounting policies require elements of both judgement and estimation, the Society considers these assessments to be accounting estimates. No material judgements, that do not rely on uncertain estimates, have been made in the year.

Impairment Provision on Loans and Advances

The Society reviews its loans to assess impairment. This requires the exercise of a significant degree of judgement. Provisions require judgement to be exercised in predicting future economic conditions such as house price movements and the length of time before impairments are identified (i.e. emergence period). Accounting estimates relate to default rates and forced sale discounts. The accuracy of the provision is dependent on the assumptions regarding probability of default. A 10% variation in the assumption regarding probability of default would increase the impairment provision on loans and advances by £119k (2018: £90k). 10% is considered appropriate as this may reflect the impact of an economic downturn and is consistent with the Society's stress testing. An increase in the forced sale discount of 5% would result in a movement in the provision of £798k (2018: £575k). 5% is considered a large swing, particularly given the discount already applied to house prices when calculating the provision, and in total would be greater than the last significant fall in 2009 when the house price index reduced by 14%. The impact of Brexit on property values is considered on page 5.

Effective Interest Rate (EIR)

Under IAS 39, financial instruments carried at amortised cost are accounted for using the EIR method. The EIR method requires the Society to make assumptions regarding the expected lives of financial instruments and the anticipated level of early repayment fees. These assumptions are regularly reviewed to ensure they reflect actual performance. The Society assesses which mortgage products have similar characteristics to then be grouped to calculate their respective average behavioural lives. Average lives are then estimated based on behavioural repayment data. Average lives can increase or decrease by a month or more depending on economic and interest rate conditions. If the average lives of the mortgages were to increase by one month, the carrying value of mortgages would change by £481k (2018: £494k) with a corresponding change to income. Average lives are recalculated routinally and usually vary between 0-2 months.

Fair Value of Derivatives

Derivative financial instruments are valued by discounted cash flow models using yield curves that are based on observable market data. The valuation requires estimates to be used to predict the prepayment rate to be applied to mortgages. These prepayment rates are based on the Society's historical experience.

Hedge Accounting

The Society has implemented hedge accounting in line with IAS 39. The designated macro hedges are complex and require a number of assumptions.

This involves matching and applying fair value measurements to both the hedged instrument and the underlying hedged item.

Notes to the Accounts

	2019 £000	2018 £000
2. Interest Receivable and Similar Income		
On loans fully secured on residential property	28,522	27,774
On other loans	203	237
On other liquid assets and debt securities	1,599	1,126
Net expense on financial instruments	(458)	(612)
	29,866	28,525

	2019 £000	2018 £000
3. Interest Payable and Similar Charges		
On shares held by individuals	11,503	9,792
On other shares	57	40
On amounts owed to other customers and credit institutions	1,380	999
	12,940	10,831

	2019 £000	2018 £000
4. Net Gain from Derivatives		
Derivatives in designated fair value hedge relationships	(1,967)	320
Adjustments to hedged items in fair value hedge accounting relationships	1,650	(299)
Derivatives not in designated fair value hedge accounting relationships	(195)	142
	(512)	163

	2019 £000	2018 £000
5. Administrative Expenses		
Employee costs		
• Wages and salaries	4,898	4,447
• Social security costs	499	455
• Other pension costs	683	584
	6,080	5,486
Loss on disposal of fixed assets	-	17
Other administrative expenses	3,890	3,516
	9,970	9,019
• Remuneration of auditor and its associates (excluding VAT)		
- audit of annual accounts	102	80
• Operating lease costs	138	138

6. Taxation

	2019 £000	2018 £000
The taxation charge for the year comprises:		
UK corporation tax on profits in the year	1,140	1,646
Adjustment in respect of previous year	-	-
Total current tax	1,140	1,646
Deferred taxation:		
Origination and reversal of timing differences	(72)	(64)
Prior year adjustment	-	-
Total deferred tax	(72)	(64)
Tax on profit on ordinary activities	1,068	1,582
Factors affecting the tax charge for the year are:		
Profit on ordinary activities before tax	5,478	8,174
Profit on ordinary activities multiplied by 19% (2018: 19%)	1,041	1,553
Effects of:		
Difference between opening and closing tax rates	8	8
Depreciation on non-qualifying assets	14	19
Exempt dividend income	-	-
Adjustment in respect of previous year	-	-
Disallowable expenses	5	2
Total tax	1,068	1,582

UK corporation tax has been calculated at the applicable provailing rate.

7. Employees

	Full time 2019	Part time 2019	Full time 2018	Part time 2018
The average number of people employed during the year was as follows:				
Head Office	72	26	67	24
Branches	51	22	50	20
	123	48	117	44

8. Directors' Remuneration and Transactions

The emoluments for both Executive and Non-Executive Directors totalled £1,007,000 for the year (2018: £936,000).

Executive Directors' Emoluments

2019	Salary £000	Performance Related Pay £000	Taxable Benefits £000	Pension Contribution £000	TOTAL £000
Roland Gardner	239	31	4	-	274
Kieron Blackburn	120	18	-	33	171
Lee Bambridge	147	19	4	-	170
Phillippa Cardno	131	21	3	27	182
TOTAL	637	89	11	60	797
2018					
Roland Gardner	229	28	3	-	260
Kieron Blackburn (appointed 12/2/18)	89	12	1	17	119
Lee Bambridge	153	18	3	-	174
Phillippa Cardno	121	18	2	25	166
TOTAL	592	76	9	42	719

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 Phillippa Cardno and Kieron Blackburn took advantage of this option. Roland Gardner and Lee Bambridge, with agreement from the Society, took their pension contributions as salary.

Lee Bambridge also received £18,000 from Sovereign Housing Association, for his services as a Non-Executive Director. The only individuals of the society who are considered to be the key management personnel are the Executive Directors.

Further details on the components of Directors' emoluments can be found in the Directors' Remuneration Report on page 23.

Non-Executive Directors' Emoluments (comprising fees only)	2019 £000	2018 £000
Peter Brickley (Chairman)	44	43
John Parker (Vice Chairman) (retired 28 February 2018)	-	11
Sarah Hordern	28	27
Tracy Morshead (retired 21 February 2019)	9	27
William Roberts	28	27
Zoe Shaw	28	27
Ron Simms	33	32
Piers Williamson	28	23
Chris Brown (appointed 1 June 2019)	12	-
TOTAL	210	217

Loans to Directors and connected persons:

The aggregate outstanding balance at the end of the financial year in respect of loans from the Society to Directors and connected persons was £314,831 (2018: £221,892) representing loans to one (2018: one) person. There are no arrears or provisions relating to this loan. The terms and conditions are in line with standard mortgage lending and the loan is secured on residential property with the nature of any final settlement being on a cash basis. There are no guarantees given or received. 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.

9. Loans and Advances to Credit Institutions

	2019 £000	2018 £000
Accrued interest	37	56
Repayable on demand	6,649	13,948
Other loans and advances by residual maturity repayable:		
In no more than three months	21,000	17,500
In more than three months but not more than six months	-	3,500
	27,686	35,004

10. Derivative Financial Instruments

	Contract/notional amount £000	Fair values Assets £000	Fair values Liabilities £000
At 31 October 2019			
a) Unmatched derivatives - Interest rate swaps	57,075	26	(217)
b) Derivatives designated as fair value hedges - Interest rate swaps	255,363	44	(1,703)
Total recognised derivative assets/(liabilities)	312,438	70	(1,920)

At 31 October 2018			
a) Unmatched derivatives - Interest rate swaps	28,856	20	(16)
b) Derivatives designated as fair value hedges - Interest rate swaps	220,098	552	(244)
Total recognised derivative assets/(liabilities)	248,954	572	(260)

The Society determines fair values by the three tier valuation hierarchy as set out in the accounting policies (note 1). All of the Society's derivative financial instruments are valued using level 2 methodology.

11. Loans and Advances to Customers

	2019 £000	2018 £000
Loans fully secured on residential property before adjustments	951,649	887,353
Other loans: fully secured on land before adjustments	6,757	7,523
Total loans before adjustments	958,406	894,876
Effective interest rate adjustment	2,167	2,424
Provision for impairment losses on loans and advances	(1,225)	(927)
Per note 23	959,348	896,373
Fair value adjustment for hedged risk	1,167	(483)
	960,515	895,890

The remaining maturity of loans and advances to customers from the reporting date is as follows:

Repayable:

	2019 £000	2018 £000
In not more than three months	1,681	2,508
In more than three months but not more than one year	9,033	7,136
In more than one year but not more than five years	66,343	55,411
In more than five years	884,683	831,762
	961,740	896,817
Less allowance for impairment (refer to note 12)	(1,225)	(927)
	960,515	895,890

The maturity analysis above is based on contractual maturity; not behavioural or expected maturity.

At 31st October 2019 the Society had pledged £148.5m of mortgage assets to the Bank of England under the Term Funding Scheme (2018: £174.9m).

12. Allowances for losses on loans and advances

	Loans fully secured on residential property £000
At 1 November 2018	
Collective provision	817
Individual provision	110
	927
Charge for the year	
Collective provision	220
Individual provision	78
	298
At 31 October 2019	
Collective provision	1,037
Individual provision	188
	1,225

13. Tangible Fixed Assets

	Land and Buildings £000	Equipment, fixtures, fittings & vehicles £000	Total £000
Cost / valuation			
At 1 November 2018	5,366	2,177	7,543
Additions	-	143	143
Revaluation	(515)	-	(515)
Disposals	-	(70)	(70)
Reallocation	-	(32)	(32)
At 31 October 2019	4,851	2,218	7,069
Depreciation			
At 1 November 2018	207	1,717	1,924
Charge for the year	68	163	231
Elimination in respect of revaluation	(136)	-	(136)
Elimination in respect of Disposal	-	(70)	(70)
Reallocation	-	(2)	(2)
At 31 October 2019	139	1,808	1,947
Net book value			
At 31 October 2018	5,159	460	5,620
At 31 October 2019	4,712	410	5,122

Land and buildings consist of £2.4m of freehold property, £1.9m non-depreciable land and £0.4m of leasehold property. The net book value occupied for own activities at 31 October was £4.3m (2018: £4.4m).

If the freehold properties had been held under the historical cost basis their net book value as at 31 October 2019 would have been £2.9m (2018: £3.0m).

The Society's freehold properties were last revalued on 15 March 2019 on a market value and vacant possession basis by Quintons, Chartered Surveyors, who are considered to be independent of the Society. Based on a review of the market between 15 March 2019 and 31 October 2019 the valuation of two branches was reduced at year end. Other tangible fixed assets are included at cost.

Reallocation is movement between intangible assets and tangible assets.

14. Intangible Assets

	Software £000
Cost / valuation	
At 1 November 2018	2,081
Additions	61
Reallocation	32
At 31 October 2019	2,174
Depreciation	
At 1 November 2018	1,424
Charge for the year	374
Reallocation	2
At 31 October 2019	1,800
Net book value	
At 31 October 2018	657
At 31 October 2019	374

The above includes £nil (2018: £238k) of software costs for the servicing platform which has now been fully amortised.

15. Other Assets

	2019 £000	2018 £000
Cash collateral pledged against hedging contracts	2,690	-
Bank of England cash ratio deposit	830	-
	3,520	-

Bank of England cash ratio deposit has been recognised within other assets due to having a maturity which exceeds 90 days.

16. Shares

	2019 £000	2018 £000
Held by individuals	938,423	876,343
Other shares	207	213
	938,630	876,556

17. Other Liabilities

	2019 £000	2018 £000
Amounts falling due within one year:		
Corporation tax	627	1,000
Social security	137	-
Other creditors	45	181
	809	1,181

18. Provisions for Liabilities

Deferred tax

At 1 November	(173)	(237)
Deferred tax charge (see note 6)	73	64
At 31 October	(100)	(173)

Comprising:

Accelerated capital allowances	(29)	(56)
Pre-paid pension costs	-	-
FRS102 transition adjustment	(126)	(147)
Head office project costs	45	17
Collective loss provision	10	13
At 31 October	(100)	(173)

19. Reserves

	£000
General Reserves	
At 1 November 2018	72,894
Profit for the financial year	4,410
At 31 October 2019	77,304
Revaluation Reserve	
As at 1 November 2018	2,519
Property revaluation	(379)
As at 31 October 2019	2,140

20. Cash and Cash Equivalents

	2019 £000	2018 £000
Cash in hand and balances with the Bank of England repayable on demand	189,542	177,114
Loans and advances to credit institutions	27,649	31,448
As at 31 October	217,191	208,562

Loans and advances to credit institutions excludes accrued intrest and amounts repayable in more than three months.

21. Capital and Other Financial Commitments

	2019 £000	2018 £000
a. Capital commitments		
Capital expenditure contracted but not yet provided for in the accounts	-	12
b. Leasing commitments		
Total rental commitments on leases with a remaining term of	148	148
• Not later than one year	-	-
• Later than one year but not later than five years	48	-
• Later than five years	100	148

All above capital commitment relate to tangible fixed assets.

22. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset or financial liability. Newbury Building Society sells financial instruments, namely mortgages and savings products. The Society uses derivative instruments in the form of interest rate swaps to manage the risk arising from its exposure to financial instruments. These are used to protect the Society from exposures arising principally from fixed rate mortgage lending. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swaps is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities. The objective of the Society in using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which the Society will be affected by changes in interest rates. Derivatives are not used in trading activity or for speculative purposes.

The following table sets out the activities that cause interest rate risk and how they are managed:

Activity	Risk	Managed by
Fixed rate mortgage lending and other assets	Sensitivity to rises in interest rates	Pay fixed rate interest rate swaps to match against fixed rate receipts
Fixed rate savings products and funding	Sensitivity to falls in interest rates	Matching longer terms products against fixed rate mortgages

The Society has a formal governance structure for managing financial and other risks, including an established risk appetite, risk limits, reporting lines, mandates and other control procedures. The Assets and Liabilities Committee monitors the financial risks (including the use of derivative financial instruments), funding and liquidity in line with the Society's policy statements and reports any significant matters at each Board meeting.

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost as shown in the following table.

Financial Instrument	Terms and Conditions	Accounting Policy
Loans and advances to credit institutions	Fixed or LIBOR linked interest rates Fixed term Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard contractual term of 25 years Fixed or variable rate interest	Loans and receivables at amortised cost Accounted for from the date of advance
Shares	Variable term Fixed or variable interest rates	Amortised cost Accounted for from the date of deposit
Amounts owed to credit institutions	Fixed or LIBOR linked interest rates Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or LIBOR linked interest rates Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/received Based on notional value of the derivative	Fair value through profit and loss Accounted for at trade date

The Society's accounting policies set out in note 1 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Society's assets and liabilities by financial classification:

Carrying values by category 31 October 2019	**Held at amortised cost**		**Held at fair value**		
	Loans and receivables £000	Financial assets and liabilities £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Total £000
Financial assets					
Cash in hand and balances with the Bank of England	189,542	-	-	-	189,542
Loans and advances to credit institutions	27,686	-	-	-	27,686
Derivative financial instruments	-	-	44	26	70
Loans and advances to customers	960,515	-	-	-	960,515
Total assets	1,177,743	-	44	26	1,177,813
Financial liabilities					
Shares	-	938,630	-	-	938,630
Amounts owed to credit institutions	-	128,263	-	-	128,263
Amounts owed to other customers	-	37,361	-	-	37,361
Derivative financial instruments	-	-	1,703	217	1,920
Total liabilities	-	1,104,254	1,703	217	1,106,174

The amounts owed to credit institutions are borrowings from the Bank of England under the Term Funding Scheme and from Local Authority funding.

Carrying values by category
31 October 2018

	Held at amortised cost		Held at fair value		
	Loans and receivables £000	Financial assets and liabilities £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Total £000
Financial assets					
Cash in hand and balances with the Bank of England	177,114	-	-	-	177,114
Loans and advances to credit institutions	35,004	-	-	-	35,004
Derivative financial instruments	-	-	552	20	572
Loans and advances to customers	895,890	-	-	-	895,890
Total assets	1,108,008	-	552	20	1,108,580
Financial liabilities					
Shares	-	876,556	-	-	876,556
Amounts owed to credit institutions	-	124,511	-	-	124,511
Amounts owed to other customers	-	36,339	-	-	36,339
Derivative financial instruments	-	-	244	16	260
Total liabilities	-	1,037,406	244	16	1,037,666

There have been no reclassifications during either year.

23. Credit Risk

Credit risk is the risk that the Society incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Society controls the level of credit risk it undertakes by maintaining a credit governance framework involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain asset portfolios of high quality.

The Society's maximum credit risk exposure is detailed in the table below:

	2019 £000	2018 £000
Credit risk exposure		
Cash in hand	189,542	177,114
Loans and advances to credit institutions	27,686	35,004
Derivative financial instruments	70	572
Loans and advances to customers	959,348	896,372
Total statement of financial position exposure	1,176,646	1,109,062
Off balance sheet exposure - mortgage offers and retentions	41,701	39,494
Total	1,218,347	1,148,556

Loans and advances to customers are shown as gross of effective interest rate adjustment and net of provisions (see note 11).

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property £951.6m (2018: £887.4m), split between residential, buy-to-let and commercial owner occupier loans, and £6.8m (2018: £7.5m) being secured on commercial property.

The Society operates throughout England and Wales with the portfolio mainly concentrated in the South East and South West.

Residential Assets

Loans fully secured on residential property are split between residential, buy to let and commercial owner occupied.

	2019 £000	2018 £000
Concentration by loan type		
Prime owner occupied	812,343	748,186
Buy to let and commercial owner occupied	139,306	139,166
Gross balance	951,649	887,352
Impairment provisions	(1,225)	(927)
Fair value adjustments	1,167	(483)
	951,591	885,942

	2019 £m	2019 %	2018 £m	2018 %
Geographical analysis				
East Anglia	16.7	1.8	13.2	1.5
East Midlands	16.9	1.8	15.5	1.7
Greater London	120.0	12.6	102.9	11.6
North	2.8	0.3	2.4	0.3
North West	11.6	1.2	10.2	1.1
South East	600.8	63.1	571.5	64.4
South West	150.7	15.8	144.4	16.3
Wales	6.7	0.7	5.9	0.7
West Midlands	18.7	2.0	14.6	1.6
Yorkshire & Humberside	6.7	0.7	6.8	0.8
Total	951.6	100	887.4	100

The following table analyses the loan to value (LTV) of the residential portfolio:-

	2019 £m	2019 %	2018 £m	2018 %
LTV analysis				
0% - 50%	631.1	66.3	593.6	66.9
50.01% - 75%	284.0	29.8	265.5	29.9
75.01% - 80%	9.1	1.0	7.8	0.9
80.01% - 85%	11.7	1.2	9.7	1.1
85.01% - 90%	11.5	1.2	8.7	1.0
90.01% - 95%	3.4	0.4	2.1	0.2
95.01% - 100%	0.8	0.1	-	-
	951.6	100	887.4	100
Average loan to value of residential mortgage loans		33		32.3

The average LTV of 33.0% (2018: 32.3%) is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of the collateral held adjusted by a house price index.

The quality of the Society's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.48% (2018: 0.29%) of loans are three months or more in arrears and by value it is 0.35% (2018: 0.20%).

The main factor for loans moving into arrears is due to a change in the borrower's circumstances e.g. unemployment, illness, relationship breakdown.

The table below provides information on residential loans by payment due status:

Arrears analysis	**2019 £m**	**2019 %**	**2018 £m**	**2018 %**
Not impaired:				
Neither past due or impaired	939.6	98.8	872.6	98.3
Past due under 3 months but not impaired	5.0	0.6	10.2	1.2
Past due over 3 months and over but not impaired	2.6	0.2	1.3	0.1
Possessions	0.2	-	-	-
Impaired:				
Not past due	3.1	0.3	2.4	0.3
Past due under 3 months	0.6	0.1	0.7	0.1
Past due 3 to 5 months	0.5	-	0.2	0.0
Past due 6 to 12 months	0.1	-	-	-
Total	951.7	100	887.4	100

The status 'past due up to three months but not impaired' and 'past due over three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount.

Possession balances represent those loans where the Society has taken ownership of the underlying security pending its sale. The Society has various forbearance options to support customers who may find themselves in financial difficulty. These include temporary interest only concessions, payment plans, and reduced payment concessions. Possession is a last resort.

The following table sets out the value of collateral on a indexed and unindexed basis for the residential portfolio.

	Indexed 2019 £m	**Unindexed 2019 £m**	**Indexed 2018 £m**	**Unindexed 2018 £m**
Value of collateral held:				
Neither past due or impaired	2,856.1	2,465.7	2,707.2	2,228.9
Past due but not impaired	26.4	19.8	37.9	27.9
Impaired	6.0	5.8	4.8	4.5
Total	2,888.5	2,491.3	2,749.9	2,261.3

The collateral consists of residential property. Collateral values are adjusted by an average of the Nationwide and HM Land Registry price indices on a quarterly basis.

The value of collateral held against loans 'Past due but not impaired' at 31 October 2019 is £26.4m (2018: £37.9m) against outstanding debt of £7.7m (2018: £11.4m). In addition, the value of collateral held against 'Impaired' assets at 31 October 2019 is £6.0m (2018: £4.8m) against outstanding debt of £4.3m (2018: £3.4m).

Mortgage indemnity insurance acts as additional security. It is taken out for residential loans where the borrowing exceeds 75% LTV at inception.

Commercial Assets

Concentration by loan type	2019 £m	2018 £m
Loans secured on commercial property	6.8	6.4
Loans to housing associations	-	1.1
	6.8	7.5

The analysis of loans secured on commercial property by industry type is as follows:

	2019 £m	2019 %	2018 £m	2018 %
Club/social	0.2	2.5	0.2	3.4
Education	0.2	2.2	0.2	2.0
Industrial unit	1.3	19.6	1.0	13.9
Office	1.5	22.7	1.6	20.8
Shops	2.9	43.1	3.1	41.0
Other	0.7	9.9	1.4	18.9
	6.8	100	7.5	100

There are no impairments or fair value adjustments on the commercial assets above.

	2019 £m	2019 %	2018 £m	2018 %
Geographical analysis				
South East	6.4	93.9	7.3	97.7
South West	0.1	1.7	0.2	2.3
West Midlands	0.3	4.4	-	-
Total	6.8	100	7.5	100

The following table analyses the loan to value (LTV) of the commercial portfolio using the valuation of the property carried out at inception of the mortgage:

	2019 £m	2019 %	2018 £m	2018 %
LTV analysis				
0% - 50%	4.3	62.8	4.3	57.7
50.01% - 75%	1.7	25.8	2.4	32.0
75.01% - 80%	0.8	11.4	0.8	10.3
	6.8	100	7.5	100
Average loan to value of commercial mortgage loans		27.8		32.6

The quality of the Society's commercial mortgage book is reflected in the number and value of accounts in arrears. By volume 3.13% (2018: 3.03%) of loans are three months or more in arrears and by value it is 1.51% (2018: 1.21%).

The main factor for loans moving into arrears is the condition of the general economic environment and its impact on business performance or commercial rents.

The table below provides information on retail loans by payment due status:

Arrears analysis	**2019 £m**	**2019 %**	**2018 £m**	**2018 %**
Not impaired:				
Neither past due or impaired	6.6	98.3	7.4	98.5
Past due up to 3 months but not impaired	-	0.2	0.02	0.3
Past due over 3 months but not impaired	0.1	1.5	0.09	1.2
Possessions	-	-	-	-
Impaired:				
Not past due	-	-	-	-
Past due up to 3 months	-	-	-	-
Past due 3 to 6 months	-	-	-	-
Past due 6 to 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Possessions	-	-	-	-
	6.7	100	7.5	100

The status 'past due up to three months but not impaired' and 'past due over three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount.

The following table sets out the value of unindexed collateral for the commercial portfolio.

	Unindexed 2019 £m	**Unindexed 2018 £m**
Value of Collateral held:		
Neither past due or impaired	23.8	22.5
Past due but not impaired	0.6	0.6
Impaired		-
Total	24.4	23.1

The collateral consists of commercial property.

The value of collateral held against loans 'Past due but not impaired' at 31 October is £0.6m (2018: £0.6m) against outstanding debt of £0.1m (2018: £0.1m).

Forbearance

Possession balances represent those loans where the Society has taken possession of the underlying security pending its sale. The Society has various forbearance options to support customers who may find themselves in financial difficulty:

- Temporary conversion from capital and interest to interest only repayment (interest only concessions)
- Temporary extension of mortgage term to reduce monthly repayments (term extensions)
- Reduced payment concessions, where the customer makes an agreed underpayment for a period
- Arrangements to make part payments to repay arrears over an agreed period (payment plans)
- Payment holidays where previous overpayments have accrued
- Change of repayment date to better suit customer's income and expenditure profile
- Change of method by which payments are made
- Capitalisation of arrears where borrower has maintained repayments for an agreed period

In some cases, more than one forbearance solution is offered, for example where a customer can afford to pay more than just interest only and combines with a part repayment. Capitalisation is an exception and is approved by Credit Committee.

All forbearance arrangements are formally discussed with the customer and agreed by an authorised member of the arrears management team. By offering customers in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

Regular monitoring of the level of forbearance activity is reported to Credit Committee on a quarterly basis. In addition all forbearance arrangements are reviewed and discussed with the customer on a regular basis to assess the ongoing suitability for the customer and potential risk to the Society.

In addition to loans in forbearance, the Society also monitors loans that, by way of a specific event or conversation with the customer, may likely be subject to future forbearance. These 'potential forbearance indicators' include:

- Appointment of an Attorney or Officer of the Court of Protection
- Declined further advance applications for debt consolidation
- Receipt of application for mortgage interest relief from the Department of Work and Pensions
- Receipt of repayment plan from a debt management company
- Admission into residential care/nursing home
- Registration of a second charge where total indebtedness appears unsustainable
- Notification from customer or guarantor that future income is likely to reduce
- Lapsed or surrendered endowment policies
- Notification of money judgement through the Court
- Request for payment holiday or other forbearance method when not in arrears

The table below details the number of forbearance cases within the 'not impaired' category:

Type of forbearance	**2019 Number**	**2018 Number**
Interest only concessions	34	21
Payment plans	18	16
Term extensions	3	-
Reduced payment concessions	2	-
Cases with more than one form of forbearance	(5)	-
Total	52	37

In total £2.3m (2018: £1.6m) of loans that are past due are subject to forbearance. Balance not past due subject to forbearance £3.3m (2018: £2m).

An additional £0.7m (2018: £0.9m) of loans that one past due one considered likely subject to future forbearance. Balance not past due £9.6m (2018: £3.9m).

24. Liquidity Risk

Liquidity risk is the risk that the Society will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment. It is the Society's policy that a significant amount of its total assets are carried in the form of cash and other readily realisable assets in order to:

- meet day-to-day business needs;
- meet any unexpected cash needs;
- maintain public confidence; and
- ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Society's liquidity policy, is performed daily. Compliance with the policy is reported to the Assets and Liabilities Committee (ALCO).

The Society's liquidity policy is designed to ensure the Society has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests have been developed as part of the Internal Liquidity Adequacy Assessment Process (ILAAP). They include scenarios that fulfil the specific requirements of the PRA (the idiosyncratic, market-wide and combination stress tests) and scenarios identified by the Society which are specific to its business model. The stress tests are performed quarterly and reported to ALCO to confirm that liquidity levels remain appropriate. The Society maintains a liquidity funding plan to ensure that it has so far as possible, sufficient liquid financial resources are available to meet liabilities as they fall due under each of the scenarios.

The Society's liquid resources comprise high quality liquid assets, including deposits in a Bank of England reserve account and time deposits. At the end of the year the ratio of liquid assets to shares and deposits was 19.7% compared to 20.4% at the end of 2018.

The table below analyses the Society's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the statement of financial position date. This is not representative of the Society's management of liquidity. The actual repayment profile is likely to be significantly different from that shown in the analysis as while most mortgages have a contractual maturity of around 25 years they are generally repaid much sooner. Conversely, retail deposits repayable on demand or with notice periods generally remain on balance sheet much longer.

Residual maturity as at 31 October 2019	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	No specific maturity £000	Total £000
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	189,542	-	-	-	-	-	189,542
Loans and advances to credit institutions	6,649	21,000	-	-	-	37	27,686
Total liquid assets	196,191	21,000	-	-	-	37	217,228
Derivative financial instruments	-	7	17	46	-	-	70
Loans and advances to customers	-	1,681	9,033	66,343	884,683	(1,225)	960,515
Other assets	-	-	-	-	-	10,083	10,083
	196,191	22,688	9,050	66,389	884,683	8,895	1,187,896
Financial liabilities and reserves							
Shares	819,199	87,650	18,905	12,665	-	211	938,630
Amounts owed to credit institutions	-	-	13,700	114,400	-	163	128,263
Amounts owed to other customers	19,022	18,339	-	-	-	-	37,361
Derivative financial instruments	-	5	70	1,845	-	-	1,920
Other liabilities	-	-	-	-	-	2,278	2,278
Reserves	-	-	-	-	-	79,444	79,444
	838,221	105,994	32,675	128,910	-	82,096	1,187,896
Net Liquidity gap	(642,030)	(83,306)	(23,625)	(62,521)	884,683	(73,201)	

All Society liquid assets are unencumbered as at the balance sheet date.

Included in the amounts above for 2019 is £114.4m borrowed from the Bank of England under the Term Funding Scheme.

Residual maturity as at 31 October 2018	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	No specific maturity £000	Total £000
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	177,114	-	-	-	-	-	177,114
Loans and advances to credit institutions	13,948	17,500	3,500	-	-	56	35,004
Total liquid assets	191,062	17,500	3,500	-	-	56	212,118
Derivative financial instruments	-	2	83	487	-	-	572
Loans and advances to customers	-	2,509	7,136	55,411	831,761	(927)	895,890
Other assets	-	-	-	-	-	6,925	6,925
	191,062	20,011	10,719	55,898	831,761	6,054	1,115,505
Financial liabilities and reserves							
Shares	756,136	90,412	18,063	11,757	-	188	876,556
Amounts owed to credit institutions	-	-	-	124,400	-	111	124,511
Amounts owed to other customers	14,261	22,078	-	-	-	-	36,339
Derivative financial instruments	-	3	-	257	-	-	260
Other liabilities	-	-	-	-	-	2,426	2,426
Reserves	-	-	-	-	-	75,413	75,413
	770,397	112,493	18,063	136,414	-	78,138	1,115,505
Net Liquidity gap	(579,335)	(92,482)	(7,344)	(80,516)	831,761	(72,084)	

The following is an analysis of gross contractual cash flows payable under financial liabilities:

	Repayable on demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
31 October 2019						
Shares	819,199	87,974	19,056	13,068	-	939,297
Amounts owed to credit institutions	-	-	13,842	114,622	-	128,464
Amounts owed to other customers	19,022	18,339	-	-	-	37,361
Derivative financial instruments	-	120	574	1,243	-	1,937
Total liabilities	838,221	106,433	33,472	128,933	-	1,107,059
31 October 2018						
Shares	756,136	90,745	18,207	12,047	-	877,135
Amounts owed to credit institutions	-	-	-	124,511	-	124,511
Amounts owed to other customers	14,261	22,078	-	-	-	36,339
Derivative financial instruments	-	95	192	11	-	298
Total liabilities	770,397	112,918	18,399	136,569	-	1,038,283

The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

25. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The principal element of market risk to which the Society is exposed is interest rate risk as a retailer of financial instruments, mainly in the form of mortgage and savings products and the holder of both liquid assets and wholesale borrowing. The risk can arise as a result of actual or market anticipation of changes in general interest rates, changes in the relationship between short and long term interest rates and divergence of rates on different bases across assets and liabilities (basis risk).

The Board has set a risk appetite for each element of interest rate risk. The Society ensures compliance with this risk appetite through the monitoring of interest rate risk exposure by the ALCO. In addition to this the Society undertakes a number of interest rate stresses, covering movements in both LIBOR and the Base Rate. Balance sheet composition is also monitored to determine the extent to which the Society maintains control over the level of interest rates across the balance sheet through administered rate mortgages and savings balances.

The following is the Society's sensitivity to an increase or decrease in market rates at 31 October 2019 assuming a parallel movement of 200bps in yield curves and a constant financial position. 200bps is considered to be an industry standard and therefore appropriate.

	+200bps Parallel	
	Increase	**Decrease**
2019	£'000	£'000
Net interest income impact	(772)	846

	+200bps Parallel	
	Increase	**Decrease**
2018	£'000	£'000
Net interest income impact	(1,189)	1,295

Financial Instruments

The Society does not have any financial assets or liabilities that are offset, with the net amount presented in the statement of financial position as FRS102.11.38A requires both an enforceable right to set off and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions are met by the Society, therefore all financial assets and liabilities are presented on a gross basis in the statement of financial position.

The Society has entered into Credit Support Annexes (CSAs) for its derivative instruments which typically provide for the exchange of collateral to mitigate mark to market credit exposure. The CSAs are subject to a minimum transfer threshold. Collateral is only posted once the threshold is reached at which point the whole amount would be posted.

The fair value of derivatives designated as fair value hedges is set out in note 10 above.

26. 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 £683,000 (2018: £584,000). There were pension contributions payable at the year end of £51,000 (2018: £41,000). There was a prepayment at the year end of £27,000 (2018: £24,000) for the Society Death in Service Scheme.

27. Capital Structure

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The formal annual ICAAP process (Internal Capital Adequacy Assessment Process) assists the Society with its management of capital. Through its regular updates the Board monitors the Society's capital position to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. The Society's actual and expected capital position are reviewed against a stated risk appetite which aims to maintain capital at a minimum level above the Internal Capital Guidance (ICG) provided by the PRA.

The Board manages the Society's capital and risk exposures to maintain capital in excess of regulatory requirements which includes monitoring of:

a) Lending Decisions - The Society's lending policy is closely monitored by the Credit Committee to ensure it aligns with the Society's risk appetite.

b) Pricing - Pricing models are utilised for all residential mortgage products. The model includes expected return and capital utilisation enabling the calculation of a return on capital.

c) Concentration risk - The design of both retail and mortgage products takes into account the overall mix of products to ensure that concentration levels are maintained within the Society's risk appetite.

d) Counterparty risk - Deposits are only placed with approved counterparties in line with the Society's treasury policy and are subject to a range of limits. The limits are monitored daily to ensure the Society remains within risk appetite.

There were no breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year.

Under Basel III Pillar 3 the Society is required to publish further information regarding its capital position and exposures. The Society's Pillar 3 disclosures are available by writing to the Company Secretary at our Head Office.

	2019 £000	2018 £000
Common Equity Tier 1 Capital		
General reserve	77,304	72,894
Revaluation reserve	2,140	2,519
Intangible assets	(374)	(657)
Total common equity tier 1 capital	79,070	74,756
Tier 2 Capital		
Collective provision	1,037	817
Total tier 2 capital	1,037	817
Total regulatory capital	80,107	75,573

28. 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 Society has three dormant subsidiaries and was incorporated and operates only in the United Kingdom. Given the dormant status of these subsidaries they are not required to be consolidated. The Society has no ultimate controlling party or parent. The principal activities of the Society are noted in the Strategic report on pages 4 to 6.
- Average number of employees: as disclosed in Note 7 to the accounts.
- Annual turnover is equivalent to total operating income and along with profit before tax is as disclosed in the Income Statement account on page 34.
- Corporation Tax paid: as noted in the Cash Flow Statements on page 37.
- Public subsidies: there were none received in the year.

Glossary of Terms

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears
A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue. Such a customer can also be said to be in a state of delinquency.

Basis point
One hundredth of a percent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

Contractual maturity
The final payment date of a loan or other financial instrument.

Effective interest rate method (EIR)
The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense to produce a level yield over the relevant period.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

Forbearance strategies
Strategies to assist borrowers in financial difficulty, such as interest only concessions, payment plans and reduced payment concessions.

General reserves
The accumulation of the Society's post-tax profit since inception. It is the Society's main component of Tier 1 which is a measure of strength and stability.

Impaired loans
Loans where there is objective evidence that an impairment event has occurred, meaning that the Group does not expect to collect all the contractual cash flows or expect to collect them when they are contractually due.

Individually/collectively assessed
Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be realised.

Interest Margin
Represents net interest income divided by mean total assets.

Internal capital adequacy assessment process (ICAAP)
The Group's own assessment of the level of capital that it needs to hold for risks it faces under a business-as-usual scenario and a variety of stress scenarios.

Liquid assets
Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, and investment securities.

Liquidity risk
The risk that the Group is not able to meet its financial obligations as they fall due, or will have to do so at an excessive cost. This risk arises from timing mismatches of cash inflows and outflows.

Loan to value ratio (LTV)
A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index).

Loans past due/past due loans
Loans are past due when a counterparty has failed to make a payment when contractually due.

Management expenses
Management expenses represent the aggregate of administrative expenses, depreciation and amortisation. The management expense ratio is management expenses expressed as a percentage of total mean assets.

Market risk
The risk that movements in market risk factors, including interest rates, credit spreads and customer-driven factors will create losses or decrease portfolio values.

Mean total assets
Represents the average of the total assets at the beginning and end of the financial year.

Member
A person who has a share investment or a mortgage loan with the Society.

Net interest income
The difference between interest receivable on assets and similar income and interest payable on liabilities and similar charges.

Replacement cost
The amount the Society would need to replace derivative contracts that are favourable to the Society, if the counterparty with whom the contract was held, were unable to honour their obligation.

Risk appetite
The articulation of the level of risk that the Society is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.

Residential loans
Residential mortgage loans secured against residential property.

Shares
Money deposited by a person in a savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings
Represents the total of shares, amounts owed to credit institutions and amounts owed to other customers.

Total capital ratio
Measures the Society's reserves (after required adjustments) as a proportion of its risk weighted assets.

Tier 1 capital
A measure of financial strength as defined by the PRA. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. The book value of intangible assets is deducted from Common Equity Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy.

Annual Business Statement as at 31 October 2019

	2019 %	Statutory Limit %
1. Statutory Percentages		
Lending limit	1.2	25
Funding limit	15.0	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 Society plus provisions for bad and doubtful debts less liquid assets and tangible fixed assets as shown in the Society 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.

	2019 %	2018 %
2. Other Percentages		
Gross capital as a percentage of shares and borrowings	7.19	7.27
Free capital as a percentage of shares and borrowings	6.79	6.74
Liquid assets as a percentage of shares and borrowings	19.67	20.45
Profit after tax as a percentage of mean total assets	0.38	0.62
Management expenses as a percentage of mean total assets	0.92	0.91
Leverage ratio	6.62	6.67
Risk weighted assets	£400,432	£370,217
Capital ratios		
Common equity tier 1 (CET 1) ratio CET1 as a percentage of risk weighted assets	19.75%	20.2%
Capital ratio as a percentage of risk weighted assets	20.0%	20.4%

The above percentages have been prepared from the Society 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 collective impairment for losses on loans and advances less intangible and 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 Balance Sheet;
- 'Management Expenses' represents the aggregate of administrative expenses and depreciation shown in the Income and Expenditure Account;
- 'Leverage Ratio' represents tier 1 capital divided by total exposure;
- 'Common Equity tier 1' represents core capital built from accumulated profits;
- 'Capital Ratio' represents total Capital as a percentage of Risk weighted assets.

3. Directors and Other Officers as at 31 October 2019

Name	Year of Birth	Business occupation	Date first appointed	Other directorships
Peter Brickley BSc (Hons)	1960	Chief Information Officer	01/07/08	Newbury Mortgages Services Ltd
Lee Bambridge BA (Hons), ACA, AMCT	1963	Building Society Chief Risk Officer	23/07/07	Sovereign Housing Association; Sovereign Housing Capital Plc
Kieron Blackburn TD, BSc (Hons), ACA, ACIB	1962	Building Society Finance Director	12/02/18	
Chris Brown BA (Hons), Eng, Oxon	1961	Group IT Director	01/06/19	
Phillippa Cardno PGCert, CeMap	1969	Building Society Operations and Sales Director	19/02/15	Temptings Ltd
Roland Gardner MA (Hons)	1960	Building Society Chief Executive	01/09/06	Newbury Mortgage Services Ltd; Newbury Financial Services Ltd; Newbury Insurance Services Ltd
Sarah Hordern BA (Hons), ACA	1972	Director	19/02/15	Perspicio Limited Oxford University Hospitals NHS Trust
William Roberts BSc (Hons), ACA	1970	Finance Director	19/02/15	Hastoe Capital Plc; Hastoe Homes Ltd; Lowen Homes Ltd
Zoe Shaw BA (Hons)	1960	Managing Director	01/09/17	Promethion Ltd
Ron Simms BA (Hons)	1965	Solicitor	28/06/10	Simms Consulting Ltd
John Piers Williamson BA (Hons), FCT, ACIB	1961	Chief Executive	01/01/18	THFC Group Companies: The Housing Finance Corporation Limited*; T.H.F.C. (Indexed) Limited*; T.H.F.C. (Indexed 2) Limited*; T.H.F.C. (First Variable) Limited*; T.H.F.C. (Services) Limited; T.H.F.C. (Social Housing Finance) Limited*; T.H.F.C. (Capital) PLC; UK Rents (No.1) PLC; UK Rents (Holdings) Limited; UK Rents Trustee Limited; HFP 2019 Limited THFC Managed Companies: T.H.F.C. (Funding No.1) PLC; T.H.F.C. (Funding No.2) PLC; T.H.F.C. (Funding No. 3) PLC; T.H.F.C. (Funding No.3 Holdings) Limited; Haven Funding PLC; Haven Funding (32) PLC; Harbour Funding PLC; Sunderland (SHG) Finance PLC; Affordable Housing Finance PLC; Blend Funding PLC *Community Benefit Society

Roland Gardner, Lee Bambridge, Phillippa Cardno and Kieron Blackburn each have a service contract with the Society terminable by either party giving 12 months notice. The agreements were signed on 30 July 2018.

Other Officers

Gorse Burrett BA (Hons), FCIPD - Head of HR and People Development

Erika Neves BSc (Hons), DIMA - Head of Risk and Society Secretary

Melanie Mildenhall - Head of Customer Service

Auditor

Deloitte LLP
Four Brindley Place
Birmingham
B1 2H2

Bankers

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

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	Gemma Ellis • Julie Harris • Catherine Newitt • Michele Willis
Alton	Ian Bligdon • Julie Harness • Julie Pink • Becky Reynolds • Caroline Seymour • Clare Taylor
Andover	Alice Champion • Charlotte Couch • Tracie Kidd • Cliff Osborne • Dawn Ross • Sheila Sandham Charlotte Wood
Basingstoke	Ken Anderson • Adam Brown • Ana Clarke • Lynne Corallo • Ellen Harmon • Gladys Iredale Neha Khamkar • Molly Powers • Isabel Tavares • Lisa Wedge
Didcot	Eileen Clark • Samantha James • Tina Maughan • Hannah Tame
Hungerford	Naomi Hague • Laura Nash • Paula Wheeler
Newbury	Jane Bosher • Ella Bright • Gillian Fry • Matt Harris • Rachel Hawkins • Gemma Johnson Stacey Kemp • Nicola King-Head • Maricel Munar • Chloe Somerville • Georgie Taylor Alice Wood
Thatcham	Louise Davies • Chelsea Ford • Karen Griffin • Ryan Marcham • Karen Royal • Georgia Stewart
Winchester	Rob Angus • Louise Morgan • Will Simpson • Subhashini Venkatesan
Wokingham	Alastair Boyd-Smith • Debbie Gadd • Charlotte Hall • Madeleine Hammond • Sue Murgatroyd Justine Ransom • Keryn Rosolemos • Holly Webster

Head Office

Compliance and Risk	Kelly Carter • Shingai Chipfupa • Xania Harden • Andy Ransom • Beth Roden • Tash Stacey Gemma Williams
Customer Service	Sammy Forrester • Diane Long
Customer Support Mortgages	Katy Briggs • Sue Corp • Claire Gale • Kim Giles • Linda Kite • Courtney Lewington Metcalfe Sue Newcombe • Katie Rocks • Lynn Small • Alison Thompson
Customer Support Savings	Gabby Bako • Julie English • Maria Hernanz-Lillo • Bartosz Jutrzonka • Jane Mason • Sarah Nation Stefanie Oates • Danielle Paal • Hannah Passmore • Laura Toogood • Kay Walker • Val Wheeler
Mortgage Underwriting	Lucy Amore • Hannah Auger • Jill Bennett • Vicky Boyles • Nathan Bryan • Charlotte Courtenay Kirsty Cowan • Ann Davidson • Jac Goddard • Diana Lewis • Becky Pearson • Kim Smyth Lauren Troy • Craig Turner • Hannah Westlake
Executives	Gorse Burrett • Melanie Mildenhall • Erika Neves
Finance	Suzanne Allen • Ruth Bowden • Cheryl Bowers • Louise Brookes • Laura Chisling • Pete Hawkins Alex Murrell • Jo Paul • Debbie Springer • Elliot Walker • Ben Weatherill
Human Resources	Anne-Marie Goldsmith • Cara Holley • Sarah Pearce • Jacky Reenan • Hannah Rees Helen Sowersby • Tina Stephens
Information Communication Technology	Tom Baker • Ben Ellard • Amba Garlick • Laurence Gough • Piotr Jaworski Rory Oakley • Shiv Stacey • Mariusz Sztabinski • David Ward • Hayley Watt
Marketing	Subah Akhtar • Alice Dearlove • Sian Dennis • Emma Lavers • Emma Simms • Bronwyn Tucker
Premises, Health and Safety	Michael Goodall • Chris Rice • Jessica Stacey • Ricky Walker
Project	Bella Duke •Zach Hazelton • Rich Newport • Michelle Rolfe • Traci Sharp
Personal Assistant to the Directors	Sarah Rouault
Sales	Angela Bradshaw • Lauren Dearlove • Kerri Dobie • Emma Evans • Rose Hallett • Roger Knight Matt Long • Eve McDowell • Dave Murray • Alice Pocock • Luke Pummell • Kate Rockall Jordan Sharpe • Karen Smith • Kayleigh Tingle • Jack Whiting • Martin Yates
Valuer	Ann Davidson

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Newbury Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register number 206077). 7757