NEWBURY
building society

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 OCTOBER 2017

Contents

Our Highlights

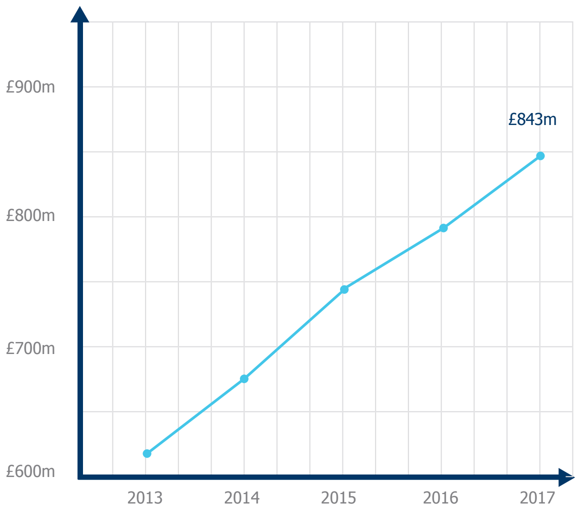
Mortgages

- Our mortgage book increased £62m to £843m (8%)
- We lent £192m to mortgage customers (2016: £187m)
- Strong demand for our residential, first time buyer and buy to let products supported this growth
- As a result of the mortgage growth the Total Assets of the Society exceeded £1bn for the first time

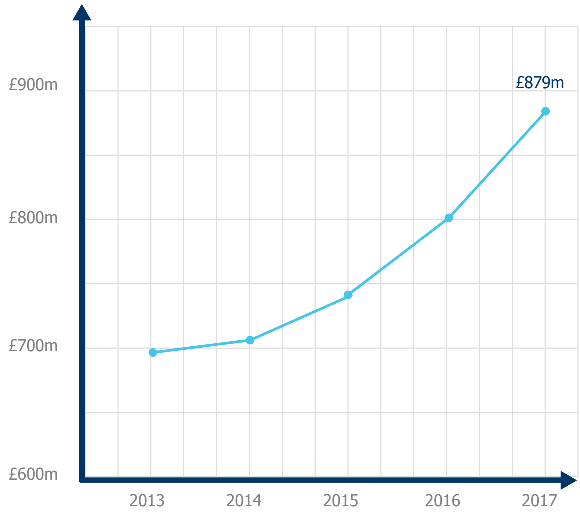
Savings & Funding

- Savings balances increased £71m to £879m (9%)
- The performance of our Senior Saver, Existing Member and ISA accounts were significant factors in the growth
- We had funding of £58m from the Bank of England Term Funding Scheme at year-end

Mortgage Balances



Savings Balances



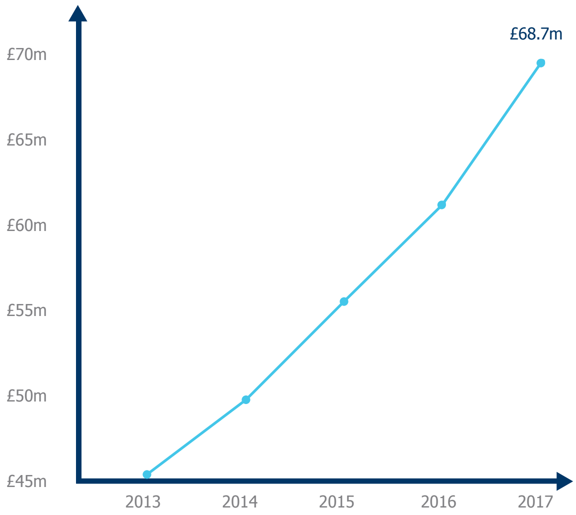
Financial strength

- Our regulatory capital grew £7m to £68.7m (11%)
- Our Total Capital Ratio improved to 19.8%
- Our profit after tax was £5.9m (2016: £5.6m)
- We held £156m of liquidity at year end

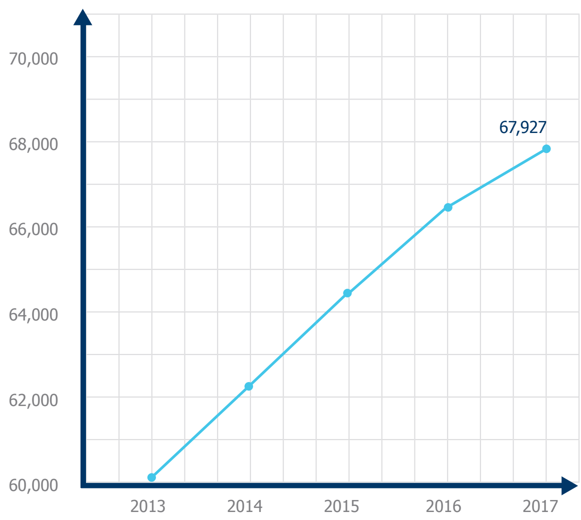
Members

- Our member numbers increased by nearly 1,500 to 67,927
- Our mystery shopping scores averaged 93%
- Complaints as a percentage of members were less than 0.11%

Capital



Member Numbers



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 2017.

Key Performance Indicators*

		2017	2016
Balance sheet	**Loans to Customers**	£843m	£781m
	Retail Shares and Deposits	£879m	£808m
Operating performance	**Management Expenses** as a % of Mean Total Assets	0.90	0.92
	Interest Margin as a % of Mean Total Assets	1.63	1.76
	Mortgage Arrears - on accounts two months or more in arrears	£0.12m	£0.13m
	Society Profit After Tax	£5.9m	£5.6m
Financial strength	**Regulatory Capital**	£68.7m	£61.7m
	Total Capital Ratio	19.8%	18.6%
	Liquid Assets as a % of Shares and Borrowings	16.7%	17.2%
Members	**Members -** numbers	67,927	66,469
	Mystery Shopping - % score achieved	93.0%	92.8%
	Complaints - as a % of members	<0.11%	<0.10%

* Further information on the definitions is included in the glossary on page 60.

Business Review

This has been an exceptional year for the Society and has been the fourth successive year of concerted growth and profitability, which culminated in the achievement of the notable landmark of £1bn assets at the end of the year.

In the year, mortgage balances rose by 8% and profit after tax rose to £5.9m, both figures improving on the strong performance of 2016 and continuing the top-quartile performance of each of the last four years. The mortgage growth in 2017 has been achieved against a background of greater competition and declining market transaction numbers. The six biggest lenders have largely completed their recapitalisation after the Banking crisis a decade ago and have therefore collectively sought greater market share than in recent years. Many new challengers have also entered the residential mortgage market and specialise in the type of niche lending which has been the hallmark of the Society's offering in recent years. Despite this, the Society has utilised a combination of competitive pricing, appropriate lending criteria and high quality service to achieve growth, but without any diminution in lending quality. The level of profitability is required not only to support the lending growth, but also to reflect the Society's ongoing need to boost its capital strength in response to the higher capital levels needed under the Capital Requirements Directive.

The key element to the Society's performance is the fact that the Society is managing simultaneously not only to achieve consistent levels of balance sheet growth, but also to do this whilst strengthening its capital position. Growth and profitability have been achieved in appropriate equilibrium in the last four years, with the result that the Society's total capital ratio has continued to increase. With growth and profit ahead of our targets, the Board is delighted to report on such a positive year.

> "With growth and profit ahead of our targets, the Board is delighted to report on such a positive year."

Savings balances increased by £71m during the year, reflecting the popularity of several of our accounts, which have continued to be priced very favourably against the market. There have been no downward changes made to savings interest rates throughout the year, although several competitors moved their interest rates downwards during 2017. Following the Bank of England announcement two days after year end that the Bank Base Rate (BBR) had been increased from 0.25% to 0.50%, the Board reviewed the Society's savings rates, but decided to keep them unchanged, with the intention of bringing about a better balance in demand between savings and mortgages. Setting interest rates, which are fair for both savers and borrowers, is a delicate balancing act. Ultimately it is competition in the mortgage market that has been the overriding factor in determining the savings rates we are able to offer to new and existing members. It was the decision not to increase mortgage rates following the BBR rise in November 2017 that gave rise to the decision to make no change to savers rates at that time.

One reason that the savings market is subdued is because lenders, including the Society, have had continued access to low cost funding through the Funding for Lending Scheme (FLS) and latterly the Term Funding Scheme (TFS). The availability of this funding means larger savings balance inflows were not actively sought during the year and indeed since the onset of FLS in 2012, our policy for savings in this unusual environment has been to prioritise and protect the interests of existing members. This has been achieved by restricting new customers from accessing our higher-paying savings accounts, thus enabling us to maintain interest rates ahead of the market average for our existing members.

The Society's interest margin declined as expected, falling 0.13% as a result of savings accounts being held at above market levels while lower mortgage rates were offered to borrowers as a result of market competition. The Board anticipates the margin will continue to reduce next year as the impact of lower mortgage pricing continues to reduce our income but whilst competitive savings rates are maintained.

The Board recognises that controlling costs is vital for the Society's competitive position in the market place and is therefore pleased to report that the Society's management expenses ratio has reduced for a third successive year, from 0.92 last year to 0.90 this year. The fact that the ratio reduced demonstrates that balance sheet growth, coupled with careful management of expenses, does bring about the economies of scale, which makes the business stronger in the long term. This will continue to be a major area of focus for us as we seek an appropriate balance between investment in the business and providing high quality and value products and services for members. In addition to salaries, cost management is particularly relevant to both technology and our branch network. With the rapid advances in banking technology in recent years, the Society continues to develop its online capabilities for both savers and mortgage intermediaries and we anticipate further enhancements next year, as described below. With the branch network, the provision of the quality and comfort of facilities for members needs to be balanced with the costs of maintenance and improvements to our estate. As some members are aware, a number of our branches are situated in older buildings, something that provides management with significant challenges in achieving this balance, but where we are committed to a programme of continuous improvements in coming years.

“The Board recognises that as a membership organisation the service to our members is of paramount importance.”

The Board recognises that as a membership organisation the service to our members is of paramount importance. It is therefore pleasing that independently assessed mystery shopping scores have remained above 90% for the fourth successive year and that we received complaints from fewer than 0.11% of our members. In addition, the number of members in the Society grew by nearly 1,500 in the year to more than 67,900, many enjoying the benefits of the Welcome to Newbury account as their introduction to membership of the Society, thus re-enforcing the fact that the combination of a strong service proposition with competitive interest rates is an effective strategy for the Society to follow.

The Society's performance in 2017 has been assisted by the strength of the central southern England housing market, where house prices continued to rise well ahead of inflation in reaction to the shortage of stock and to an overall lack of transactions. However, as we approached our year-end, prices in London started reducing as the effects of a hung parliament, the unknown outcome of Brexit negotiations and rising inflation affected confidence levels. The Board is mindful of the uncertainties in the market and recognises the overarching need for prudence in all mortgage lending. Despite these challenges the Society has thrived and against this backdrop, your Board is pleased to be able to present such a solid business and financial performance.

Mortgages (Loans to Customers)

The Society lent a record £192m in the year, exceeding last year's total of £187m, and with reduced repayment levels, the net lending figure increased to £62m, an increase of £14m over that achieved last year. As a result the total mortgage book for the Society grew by 8% to £843m. This growth was achieved against the backdrop of a market where competition continues to intensify and transaction levels are reducing. A 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 in central southern England.

The Society's SVR remained at 4.2% during the year. Following the Bank of England's decision to revert to a 0.5% base rate in November 2017, the Board decided not to change the SVR, thereby presenting variable rate mortgage customers with a genuine reduction against the market compared to before August 2016. 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 BTL landlords. With competition in residential lending proving intense, the Society not only operates in the low margin mainstream market, it also operates in areas of the residential market where appropriate returns for risk can be made, such as the first-time buyer products in the Help To Buy range, to customers with credible repayment plans who require interest only mortgages, to self-builders and custom builders who wish to build their own home and to those seeking mortgages beyond normal retirement dates.

It was expected that the Buy To Let (BTL) market would decrease significantly following the second property stamp duty change and the new fiscal measures relating to mortgage interest announced in 2015/16. With further legislation on affordability impacting the market for the first time in 2017 too, BTL was £11m down on 2016, although new lending held up well in a market where increasingly transactions are 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 living overseas.

The Society's mortgage book comprises 82.5% residential owner-occupied loans, 16.3% BTL, and 1.2% commercial lending. The Society's book remains of the highest quality with an average indexed loan to value at 32% on our residential mortgages. Furthermore less than 2% of the balances in the book are more than 80% of the current value of the properties on which their mortgages are secured, and 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 £10m on mortgages where the loan to value was over 80%, down from £14.6m in 2016.

Our loans are all individually underwritten by an experienced team, based in Head Office, who have the authority to exercise some flexibility with our lending criteria in appropriate cases. Responsible lending and decision-making 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 Society's arrears and possession statistics remain low both for the building society sector and for the industry as a whole. The value of arrears for cases more than two months in arrears decreased from £0.13m to £0.12m although the number of members in this category increased by one from 37 to 38 accounts. There were seven cases in serious arrears of twelve months or more at our year-end (2016: four cases). The total amount of arrears outstanding on these accounts was £57,000 (2016: £23,000) and the aggregate capital balance was £476,000 (2016: £210,000). As at 31 October 2017, the Society pleasingly had no properties in possession (2016: two). The Society has incurred no mortgage losses during the year (2016: no losses), thus maintaining our enviable position of total mortgage losses under £50,000 since the Banking crisis of 2007-8, a record of which the Board is particularly proud. The Society shows forbearance to borrowers where appropriate, and there were 45 accounts at 31 October 2017 (2016: 51) where clients were benefitting from a forbearance action such as temporary interest only concessions, payment plans and reduced payment concessions. These figures continue to demonstrate the quality of the Society's mortgage book and the quality of underwriting processes over many years. The Board is pleased to report that the Society's overall position in both arrears cases and those where forbearance is being deployed are materially unchanged from one year ago.

Retail Shares and Deposits

The Society aims to generate the necessary level of savings to meet its mortgage funding and liquidity requirements and the Society's retail balances therefore increased by 9% during the year, which represented an increase of £71m. This was an appropriate amount given the Society's mortgage balance growth, but as the Society also had access to low cost funding through the Term Funding Scheme, it was ahead of the planned budget. In fact, the Society could undoubtedly have achieved higher levels of growth in savings balances this year, had it been necessary, as the marketplace for retail savings remained benign. In order to control saving inflows we continued to restrict new members to a narrow range of accounts throughout the year in order to allow existing members to benefit from higher rates than would otherwise have been the case.

This policy of protecting our higher paying accounts for existing members meant that in July the Senior Saver account was withdrawn from sale and throughout the year the Society restricted its one year fixed rate bonds to those members with maturing bonds only. No new corporate accounts were opened during the year either, as we concentrated on servicing our existing depositors. The decision to continue to suspend the majority of our product range from new investors was taken not only to protect interest rates for existing members, but also to prevent the Society from being overwhelmed by demand from customers experiencing interest rate cuts and low interest rates elsewhere.

The Society's highest paying account, the Existing Members Account, demonstrated its popularity again by introducing a net £28m to the Society during the year, and that occurred despite each member being restricted to a maximum subscription of £4,000 per tax year. Our ISA range also brought in net subscriptions of £23.5m despite the restrictions to product availability and a bar on transfer-ins in the latter part of the year. Membership increased by 1,458 during the year, with the Welcome To Newbury account representing more than 1,000 of this increase.

> “the Board believes that savings members have been well served by our pricing policy”

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 actually experienced better terms and conditions than new members, as the Society has maintained above average rates for savers. Even after the Bank of England base rate increase to 0.5% in November 2017, after which we left savings rates unchanged, 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.

Capital and Liquidity

The Board is conscious that both members and the Regulator require the Society to be financially secure. Financial strength protects the Society against its principal risks and uncertainties (see below) and safeguards member funds. The Board therefore sets a strategy to ensure that both capital and liquidity are maintained at appropriate levels. The continuing emphasis on high quality capital by world banking authorities has meant that the level of profitability this year was necessary for two reasons: firstly, to continue the process of building our reserves for the Capital Requirements Directive and, secondly, to reflect the 8% increase in mortgage balances. The reserves now stand at a record level.

This strategy has resulted in the following position as at 31 October 2017:-

- Capital

	2017	**2016**
	£000s	**£000s**
Tier 1 Capital	67,932	60,928
Tier 2 Capital	730	765
Capital Resources	68,662	61,693
Total Capital Ratio	19.8%	18.6%

- Liquidity: Liquid assets (which comprise cash and investments as shown on the statement of financial position) increased to £156m (2016: £150m). Liquid assets as a percentage of Shares and Borrowings decreased to 16.7% (2016: 17.2%).

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

Governance

The only change to the Board this year was the appointment of Zoe Shaw as a non-executive director at the beginning of September 2017. Zoe's appointment brings treasury and banking skills and experience to the Board and she replaces John Parker, who will retire from the Board after ten years service, following the AGM in February 2018. John has made an immensely valuable contribution to the Society's success during a period in which his expertise and experience have been regularly called upon to help the Society navigate through the most turbulent era in Financial Services history. The Board places on record its thanks to John for his distinguished service and wishes him a long and happy retirement.

Although there has only been one change to the Board during the year under review, the Society has been preparing for a significant change in the executive director structure and a further strengthening of the non-executive team to take effect from February 2018:

a) After ten years as the Society's Finance Director, Lee Bambridge has been appointed, subject to PRA approval, to the new Executive Director role of Chief Risk Officer. As the Society has grown in size, the

Board's and the Regulator's expectations have evolved and Lee's appointment strengthens the Society's risk management capabilities within a centralised framework befitting of a £1bn asset building society. As Chief Risk Officer, Lee will remain an Executive member of the Board and will attend all the Board Committee meetings, advising the Board on risk matters.

b) The Board has appointed Kieron Blackburn as the Society's new Finance Director. Kieron has been the Finance Director at Ipswich Building Society for the last nine years and therefore brings a proven track record in finance in the Building Society sector. He is due to join the Society in mid-February. As Finance Director, Kieron will be an Executive member of the Board and will attend the Audit and Risk committee meetings and chair the Executive Asset & Liabilities committee. He will be responsible for providing direction to the finance, treasury and prudential functions of the Society.

c) The Board has appointed Piers Williamson as a non-executive director, effective from 1 January 2018. Piers brings a number of skills to the board in treasury, insurance, credit and housing association finance and he provides a further strengthening to the non-executive element of the Board at this time of change.

The Board is committed to best practice in Corporate Governance. The report on pages 16 to 19 explains how the Society applies the principles contained in the UK Corporate Governance Code as well as setting out the Committee changes 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.

Finally, I am sorry to report the premature death of our former chairman, Adrian Rann, at the beginning of December. Adrian served on the Board of the Society for 19 years, the last six as chairman, until his retirement in February 2015. Adrian provided valuable and distinguished service to the Society and oversaw much change in the wake of the global banking crisis. He made a significant contribution to the Society's success during his time on the Board, including the decisions to open branches in Basingstoke and Winchester. We send our condolences to his family.

The Communities We Serve

The communities in which our branch network operates form the heart of the Society. We continue to give something back to the communities where our members and employees live and work, by supporting local projects, undertaking fundraising activities, taking part in community events and offering sponsorships. The Society continues to offer every member of staff the opportunity to take two days paid leave to support community projects or local charities of their choosing.

Our branches and head office staff support eight charities, which were selected by staff and members. The events and activities undertaken included:-

- Newbury and Thatcham branch teams completed static cycle challenges to raise funds for Newbury & District Cancer Care Trust.
- Wokingham branch staff completed a sponsored Forget-Me-Not Walk and raised more than £375 for the Sue Ryder Duchess of Kent Hospice.
- Our head office staff held cake bakes, Halloween competitions and a Christmas event to raise more than £1,000 for Alzheimer's UK.
- Abingdon and Didcot branch staff completed a gruelling 874-mile virtual cycle ride and raised £1,244 for Helen & Douglas House.

The Society created a charity savings account, in support of these eight charities, where the Society pays an additional amount of interest to the saver's chosen charity on an annual basis.

As part of the Junior Newbury Building Society scheme, Sherborne St John Church of England Primary School visited the Basingstoke branch for training on how to become a cashier.

Other events and activities undertaken in our communities included;

- Junior Newbury Building Society (JNBS), now in its ninth year, offers primary school children the opportunity to learn how to save and understand basic personal finance matters in a fun and interactive environment. We continue to receive positive feedback from the children and teachers involved, and look forward to celebrating its 10 year anniversary in 2018.
- Sponsorship of the Winchester Hat Fair and Woolly Hat Fair, supporting art in the community in Winchester.

- Donation of a cash award to the Swings & Smiles charity in Thatcham to enable a group of children and their families to attend a pantomime.
- Staff from Basingstoke volunteered at the Basingstoke Big Wheel event and provided a water station for cyclists.

We are the proud sponsors of Berkshire County Cricket who in 2017 did the 'double' by winning the Minor Counties championship and One Day cup.

- Alton staff and members collected a large number of Sainsbury's Active for Kids vouchers, which were presented to Alton Infant School to purchase new PE equipment.
- Sponsorship of the Play to Give Football Tournament in Oxford, supporting Oxford's Children's Hospital.
- Continued sponsorship of a number of local sport teams including Berkshire County Cricket team, Newbury Rugby Football Club and Eversley & California Football Club.

This year the Society has made donations totalling £25,950 in support of local charities and community organisations. No contributions were made for political purposes.

The Society has been recycling plastics, glasses, metal and cardboard for a number of years and over the last year installed energy efficient lighting as part of an office refurbishment. The Society is keen to do more to reduce its carbon emissions and in light of this the Society has engaged the services of an external organisation to assist in the identification of further potential energy savings.

The Future

Reaching £1bn assets has been a major achievement for the Society in an era when remaining independent and strong has been a significant challenge to building societies throughout the country. The fact the Society has achieved this milestone earlier than planned and with larger reserves than we anticipated gives us great confidence as we enter into the next era of our business. This new era is likely to be categorised as the Financial Technology (Fintech) era and it is important that we have the critical mass to be able to develop our services to meet the needs and desires of our members. The Board believes that growth and profitability of recent years has provided the foundations for the Society to invest further in its staffing and technological capabilities and members will therefore see changes in quick time as technological advances move apace. The key decision for the Board is to pick the right time and the right services to offer to members, thereby providing members with the services they want, but at an affordable price. For instance there is a strong likelihood that we will need to offer members a mobile app at some stage in the future, but feedback so far suggests that the time has not yet come, something we will continue to monitor closely. In the next year the Society does intend to invest in video-based advice services for both mortgages and savings, which means that members will have more options on how they transact with us and be able to do so more quickly than in a branch-based service alone.

This year the Society has developed a web portal for mortgage intermediaries to use, which went live in the last quarter of 2017, and we continue to work with our software providers to develop 'decision in principle' technology. This portal is a vital element of our new proposition to intermediaries, who provide introductions and advice on 70% of our mortgage business.

While technology 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 our Newbury brand to be instantly recognisable in our branch towns and synonymous with what differentiates us from banks: member focus, value and engagement; relevant attractive products; exceptional service; a safe, sustainable, but not excessive, profit-making business; and mutuality (best described as the benefit of being member-owned). We have updated our Purpose, Vision and Culture statement this year to reflect these sentiments and it is set out on page 12.

At the beginning of 2017, the Society became members of the Institute of Customer Service and we were delighted to receive a Customer Satisfaction rating of 89.1 from a survey of 557 members conducted by the ICS in the Spring. This survey confirmed the Society as the highest performing organisation against UKCSI data, which is clearly an excellent base from which to seek to improve service levels further. The most regularly quoted comments about our service are 'helpful', 'friendly' and 'efficient'.

In 2018, the Society intends to introduce a customer charter to inform members formally what service levels to expect as well as to conduct surveys to gain further insights from members. Coupled to internal changes in recruitment process, training and a business improvement programme, the Society is ultimately seeking the ICS ServiceMark accreditation and this will be a focus of our people development strategy in 2018.

There are many challenges ahead for the Society as large banks and a number of 'challengers' or 'disrupters' are looking to attract market share, which inevitably means competition is increasing. This can only 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. We will continue to provide advice in our branches and operate in niches where the wider market lacks capacity or capability. The Board is also aware that the housing market is currently subject to an abnormally high level of Governmental intervention, which means the Society will continue to pay particular regard to the appropriateness and quality of its mortgage lending, to ensure that there is a smooth transition when the level of Governmental support is unwound in future years.

The Board believes that a successful future lies ahead for the Society as an independent, branch-based, technologically-enabled and vibrant mutually-owned business.

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.

During the year the RMF has been updated to ensure it continues to remain appropriate given the Society's increased size and future planned growth. While a three lines of defence approach had previously been applied, the second line risk team has now been strengthened and a Chief Risk Officer, who is an Executive Director on the Board, has been appointed (from February 2018) to oversee the effective implementation of the RMF and to centralise the independent review of risks and uncertainties in the business.

Principal Risks and Uncertainties

The principal risks to which the Society is exposed, along with the risk governance framework and associated policies, are set out below.

In addition to these, the Society is at risk from uncertainty in the economic environment, including political changes and the potential implication 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 has a cautious risk appetite across all of its principal risks. The Risk Committee reviews the key risk indicators for each principal risk on a regular basis and monitors that appropriate action is being taken where risk doesn't align with appetite.

Strategic Risk

Strategic risk is the impact on the Society's business model as a result of the changing interest rate environment, competition and legislation. These have the potential to reduce the Society's profit levels and contribution to capital, thereby threatening the financial strength of the Society. Strategic risk is regularly considered by the Board.

Credit Risk

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

Mortgage credit risk is controlled in accordance with the Board-approved lending policy and by strict controls over lending mandates. Mortgage applications are approved by a central underwriting team in accordance with the lending policy. Quality control reports are regularly considered by the Credit Committee.

Counterparty credit risk is controlled through adherence to the Board-approved Liquidity and Financial Risk Management Policy, which includes prudent limits on credit exposures to individual and groups of counterparties.

Liquidity Risk

Liquidity risk is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties.

Liquidity risk is controlled through adherence to the Board-approved Liquidity & Financial Risk Management Policy, which ensures sufficient funds in liquid form are available at all times so the Society can meet its liabilities as they fall due.

Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows. The Liquidity & Financial Risk Management Policy is regularly reviewed by Assets & Liabilities Committee and is approved by the Board.

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.

Market risk is managed utilising financial instruments where appropriate in accordance with the Board-approved Liquidity & Financial Risk Management Policy. This is regularly reviewed by the Assets & Liabilities Committee.

A detailed analysis of the Society's interest rate sensitivity at 31 October 2017 can be found in note 24 on pages 55 to 58.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events.

The Society has robust processes and controls in place, for all operational areas, which are designed to mitigate this risk.

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 failing to interpret, implement and comply with the array of legal and regulatory requirements. This is regularly reviewed by the Risk Committee.

Conduct Risk

Conduct Risk is the risk of the Society providing poor outcomes to customers.

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.

The executive committees monitor conduct risk at an operational level.

Directors

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

- Peter Brickley
- John Parker
- Roland Gardner
- Lee Bambridge
- Ron Simms
- Tracy Morshead
- Phillippa Cardno
- Sarah Hordern
- William Roberts
- Zoe Shaw - Appointed 1/9/17

Biographies of the Directors appear on pages 14 and 15. 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.

The Directors retiring at the Annual General Meeting are Peter Brickley and Phillippa Cardno who, being eligible, offer themselves for re-election. Zoe Shaw and Piers Williamson who were both appointed to the Board since the last AGM, and being eligible, stand 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 2017 was 8 (2016:13).

Going Concern

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

Events since the Year-End

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

Auditor

Following a recent tender process, details of which can be found in the Audit Committee Report on page 20, the Board are recommending that Deloitte LLP are appointed as external auditors of the Society for the 2018 year-end. A resolution for their appointment will be proposed to the forthcoming Annual General Meeting of the Society.

Peter Brickley
Chairman
20 December 2017

Purpose, Vision and Culture

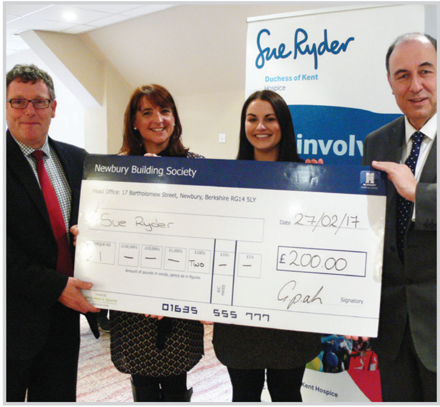
To be the trusted provider of mortgages and savings in our operating area.

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

The Year in Pictures

Newbury Building Society became a member of The Institute of Customer Service (ICS) to help further develop excellence in service delivery.

The Society continued to have a strong presence at a series of Help to Buy events in the South of England.



At the 160th AGM, a presentation was made to Sue Ryder, a hospice charity that provides compassionate care to people with end of life and long-term needs. Funds had been raised through calendar donations and a Christmas hamper prize draw.

Newbury Building Society is the proud sponsor of Cold Ash Football Club's Under 10s squad.

All branches had a busy year fundraising and volunteering in support of their individual charities, including a gruelling sponsored virtual cycle ride pictured here in the Hungerford branch in aid of Prior's Court School.

Newbury schoolchildren visited their local branch with their teachers for a fun-packed day of Junior Newbury Building Society (JNBS) training and learning.

The Society donated £380 from its Community Support scheme to give Thatcham-based charity Swings and Smiles the opportunity to attend this year's pantomime at the Hexagon, Reading.

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.

John Parker
Vice Chairman

John was appointed to the Board of Directors in April 2007. He is a Chartered Accountant and a member of the Chartered Institute of Bankers. He is Chairman of the Remuneration Committee and a member of the Audit, Risk and Nomination Committees. John retires at the AGM in February 2018.

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 Committee.

Tracy Morshead
Non-Executive Director

Tracy was appointed to the Board of Directors in June 2012. He is a fellow of the Chartered Institute of Marketing and a chartered marketer. Tracy is a member of the Risk Committee.

William Roberts
Non-Executive Director

William was appointed to the Board of Directors in February 2015. He is a Chartered Accountant and is Finance Director for a Housing Association. William has more than 20 years' experience in the property sector and 15 years' experience in the Housing Association sector. He 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.

Ron Simms
Non-Executive Director

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 Committee and a member of the Remuneration, Nomination and Risk Committees.

Piers Williamson
Non-Executive Director

Piers will join the Board in January 2018. He has more than 30 years' financial markets experience specialising in treasury risk management and he is currently Chief Executive of The Housing Finance Corporation, a mutual company that lends funds to Housing Associations. Piers will be a member of the Risk Committee.

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
Finance Director

Lee joined the Society and the Board of Directors in July 2007. He is a Chartered Accountant and a Corporate Treasurer and previously worked in the aerospace industry. Lee is responsible for the Society's capital, liquidity and funding position as well as for financial reporting and risk management.

Phillippa Cardno
Operations & Sales Director

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

Executives

Nigel Briggs
Head of Compliance & Company Secretary

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

Erika Neves
Head of Risk

Erika joined the Society in 1991 and became an Executive in 2002. She heads the Risk function and attends the Board Committees by invitation. Erika is a graduate with the Certificate and Diploma in Mortgage Advice and Practice and reports to the Chief Executive.

Ian Willson
Head of IT

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

Corporate Governance Report

The Financial Reporting Council updated the UK Corporate Governance Code in April 2016. Although the Code does not directly apply to mutual organisations, the Society has regard to its principles as they apply to a building society.

The Role of the Board

Code Principle:

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

Board Comment:

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

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

Following the Board Effectiveness Review in 2016, the Board put in place a revised governance framework which includes both Non-Executive and Executive led committees. The Executive led committees, which cover the same areas of responsibility as prior to the change, are Credit, ALCO, Sales Marketing and Product, Health & Safety and Project. The Executive Directors who chair these committees provide feedback to the main Board following each meeting of the committee. 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 risk management framework (RMF). The Committee comprises all the Non-Executive Directors, with the Executive Directors and the Head of Risk attending by invitation.

Over the course of the past year the Committee oversaw the introduction of an updated RMF designed to centralise the independent review of risks in the business. It also reviewed the Society's Stress and Scenario Policy, the Individual Capital Adequacy Assessment Process (ICAAP) and the Recovery and Resolution Plans, in each case recommending the documents to the Board for approval. The Committee also completed a review of the Society's Lending Policy and the Society's response to the PRA's revised approach towards the supervision of building societies' treasury and lending activities, again recommending both items 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 Mr Simms (Chair), Mr Parker and Mr Roberts. The Executive Directors, the Head of Compliance & Company Secretary, the Head of Risk and the Head of IT, 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, and both Mr Parker and Mr Roberts are Chartered Accountants with financial experience relevant to the remit of the Committee. The Audit Committee as a whole has competence relevant to the financial services industry.

The details of the activities undertaken by the Committee during the year can be found in the Audit Committee Report on pages 19 to 20.

Nomination Committee

The Committee is responsible for succession planning for both Executive and Non-Executive Director positions. During the year, the Committee comprised three Non-Executive Directors, these being Mr Brickley (Chair), Mr Parker and Mr Simms. The Chief Executive attends by invitation.

During the reporting period the Committee assessed the balance and diversity of skills, knowledge and experience of the Board and decided to increase the number of directors on the Board to eleven, comprising seven Non-Executive Directors, including the appointment of Piers Williamson with effect from January 2018, and four Executive Directors including a new Senior Manager position of Chief Risk Officer (CRO). Mr Bambridge, currently the Society's Finance Director, will take up the position of CRO, subject to PRA approval, with effect from February 2018. Kieron Blackburn will join the Society to replace Mr Bambridge as the Society's Finance Director.

The Committee pays due regard to the need for progressive refreshing of the Board and has appropriate succession plans in place. It also subjects the performance of any Non-Executive Director serving on the Board for more than six years to particularly rigorous reviews. During the year, the Committee reviewed the performance of Directors individually and collectively, and has recommended the re-election of Mr Brickley and Mrs Cardno. In addition the Committee agreed to put forward Zoe Shaw and Piers Williamson for election as Non-Executive Directors of the Board. The Board ratified the Committee's recommendations and there will be four vacancies at the 2018 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 three Non-Executive Directors who are currently Mr Parker (Chair), Mr Brickley and Mr Simms. The Chief Executive attends by invitation.

During the year the Committee reviewed the Society's remuneration policy in light of regulatory changes 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 can be obtained from the Company Secretary at the AGM, or by writing to the Society's head office, or by accessing them from the Society's website. 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 at Board and Committee meetings for the year to 31 October 2017 is set out on page 21.

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, negotiating the Society's insurance cover and granting discretionary salary increases within limits. The Chief Executive is also empowered to undertake capital expenditure and disposals and to set interest rates, again within limits. These powers are reviewed by the Board on an annual basis. The Chairman's responsibilities are outlined in the Board comment to A.3 below.

The Chairman

Code Principle:

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

Board Comment:

The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information.

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

Non-Executive Directors

Code Principle:

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

Board Comment:

As a result of the actions arising from the Board Effectiveness Review undertaken in 2016, the Board now devotes more of its time to strategic matters. 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 three year corporate plan which the Non-Executive Directors scrutinised and approved, offering constructive challenge to ensure the Society has a robust and viable 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 seven Non-Executive and three Executive Directors who provide a balance of skills and experience appropriate for the requirements of the business. Following the decision to appoint a CRO the number of Executive Directors on the Board will increase to four in February 2018, thereby strengthening the Society's senior management team. 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. Having served more than ten years on the Board, Mr Parker is retiring at the next AGM and is not standing for re-election.

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 were two new Non-Executive Directors selected for appointment during the year with Zoe Shaw taking up her appointment in September 2017 and Piers Williamson due to take up his appointment in January 2018. In addition, subject to regulatory approval, Kieron Blackburn will join as the Society's new Finance Director, an Executive Director position, in February 2018. All three appointments were made with the assistance of an external search consultancy, Morrison Consult, which has no connections to the Society. The Board's policy on diversity is to appoint individuals with a diverse range of backgrounds, skills and experience. In so doing it looks to maintain a Board where no more than two thirds of its Directors are of the same gender, although it will always base any decisions to appoint foremost on merit. The Nomination Committee has reviewed the recent appointments to the Board and believes they demonstrate 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 18.

Development

Code Principle:

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

Board Comment:

The Society provides a formal induction for 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 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 the 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. During the year the Society invested in a new portal which provides Directors with remote electronic access to Board papers.

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. No concerns were identified as a result of these processes. The evaluation of Board effectiveness is externally facilitated at least every three years.

Re-election

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

Board Comment:

The Society's Rules require that all Directors be submitted for election within a maximum of 16 months of, or at the AGM following, their appointment to the Board. Directors are appointed for a three-year term, subject to satisfactory performance. The Board does not believe it is appropriate for a building society to subject Directors to annual re-election (unless they are Non-Executive Directors other than the Chairman who have served three terms) because of the continuity 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. 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 22. The Audit Committee Report on pages 19 to 20 describes the main areas of accounting judgement considered by the Audit Committee.

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 8. The Board is collectively responsible for determining risk appetites, strategies for risk management and control as described in the Society's new 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, Deloitte LLP, 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 pages 19 to 20 explains how the Society applies the Code Principles relating to corporate reporting and internal control.

Remuneration

The Directors' Remuneration Report on pages 21 to 22 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, Mr Simms, who can be contacted on ron.simms@newbury.co.uk should members or staff have any concerns that cannot be raised through other 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
20 December 2017

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 on including the Committee's assessment of those areas on which accounting judgement was exercised. The Audit Committee met four times last 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 2017 Report and Accounts are fair, balanced and understandable and whether it provided 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 accounting policies adopted by the Society, the presentation and disclosure of financial information and, in particular, the key judgements made by management.

In evaluating this year's financial reporting process, the Committee noted that senior members of the Board are involved at an early stage in agreeing the overall tone and content of the Report and Accounts and that members of the Executive Committee and the Board review, comment on and challenge various drafts 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 by considering key assumptions contained in the Society's provisioning model and the relevant disclosure in the Report and Accounts. In particular, the Committee examined and challenged the assumptions adopted and the impact of the low level of impairment data, and has satisfied itself 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. This method includes an estimation of mortgage product lives which is based on observed customer behaviour and management's judgement. The Committee has examined the approach taken including the revised mortgage product lives, and has satisfied itself that the estimates and accounting treatment are 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 its enquiries above, the Committee is satisfied that, taken as a whole, the 2017 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. Consistent with these responsibilities, the Committee undertook the following activities during 2017 to satisfy itself over the robustness of the internal control framework:

Compliance

The Society's Compliance function provides second line assurance on activities across the Society. The outputs of Compliance activities are reported to the Committee, together with progress updates on management's implementation of the findings. During the year the Committee approved the Compliance annual plan of work and it also approved an overarching Compliance Approach document setting out how the Compliance function remains independent of the areas it reviews.

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 2017 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 of Internal Audit and for approving its annual risk based plan of work. Internal Audit provides the Committee with reports on its 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, throughout 2017, Internal Audit had an appropriate level of resource 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 of the external auditor as appropriate. As part of the external audit process, KPMG highlights any material control weaknesses that come to its attention. During this year's audit no such points were raised.

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. Both the external and internal audits were put out to tender in November 2017 and presentations from four audit firms were received by a panel consisting of four Executive and Non-Executive Directors. As a result of the tender, Ernst & Young LLP have been appointed as internal auditor and Deloitte LLP are being recommended for appointment as external auditor at the 2018 AGM.

Ron Simms
Chair of the Audit Committee
20 December 2017

Directors' Attendance Record

( ) = number of meetings required to attend

Director	Board	Audit	Risk	Remuneration	Nomination
Peter Brickley	11 (11)		4 (4)	2 (2)	2 (2)
John Parker	10 (11)	4 (4)	4 (4)	2 (2)	2 (2)
Lee Bambridge	11 (11)				
Phillippa Cardno	11 (11)				
Roland Gardner	11 (11)				
Sarah Hordern	10 (11)		3 (4)		
Tracy Morshead	11 (11)		4 (4)		
William Roberts	11 (11)	4 (4)	4 (4)		
Ron Simms	10 (11)	4 (4)	4 (4)	1 (2)	1 (2)
Zoe Shaw*	2 (2)		1 (1)		

* Appointed 1 September 2017

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 2017, all seven of the current Non-Executive Directors and the three Executive Directors, as well as three other members of senior management reporting directly to the Executive Directors, are classified as Material Risk Takers (MRTs) and subject to the Remuneration Code. The Remuneration Committee does not consider that any members of staff 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 its business strategy, risk appetite and long term objectives, and that it is consistent with the interests of members as a whole. Remuneration is set at a level to retain and attract individuals of the calibre necessary to operate and meet the Society's objectives.

Executive Directors Emoluments

The remuneration of the individual Directors is detailed in note 8 on page 37. The remuneration reflects the Directors' specific responsibilities and comprises basic salary, annual performance related pay and various benefits detailed below.

Basic Salaries

Basic salaries are reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations and in the light of market conditions generally.

Annual Performance Related Pay Scheme

The annual scheme is based on the Society's key financial measures of profitability, control of costs, growth in mortgages, and increases in member numbers and total assets. A maximum of 5% of salary (prior to any salary sacrifice) can be earned for achievement of these targets together with a maximum 5% of salary based on personal contribution.

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. Performance related payments are not pensionable and are paid in cash through payroll.

Benefits

The Society makes a contribution of up to 20.25% of salary (before salary sacrifice where applicable) to Executive Directors' private pension arrangements. Executive Directors receive other benefits comprising private healthcare scheme (covers the Directors and their families), death in service and income protection insurance. The Society does not provide concessionary home loans to Directors.

Executive Directors Contractual Terms

Mr Gardner, Mr Bambridge and Mrs Cardno 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 instead of service contracts 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 after consultation with the Chief Executive. These are the Head of IT, the Head of Compliance & Company Secretary, and the Head of Risk. These individuals are subject to the same variable pay performance targets as the Executive Directors and they 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 three Non-Executive Directors and which meets as required. During the reporting period the composition of the Committee satisfied the Code provisions regarding independence. The Chief Executive attends by invitation but takes no part in the discussion of his own salary. Minutes of the Committee's meetings are distributed to all Board members.

The Remuneration Committee reviews the Society's Remuneration Policy annually 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 did not use the services of an external consultant during the reporting period. 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 2017 were suitably balanced and hence risk adjusted.

Whilst it is not required to do so, the Committee 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 in to the Executive Directors.

The Remuneration Committee assesses whether any performance related payments should be made taking into account reports, where applicable, from the risk and compliance functions. Variable remuneration is not guaranteed and can be withheld due to material underperformance and serious compliance failings or in other circumstances, for instance in the case of misconduct.

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

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

John Parker
Chair of the Remuneration Committee
20 December 2017

Directors' Responsibilities

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

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

The Building Societies Act ("the Act") requires the Directors to prepare 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 FRS102 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 Societyand 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

1. Our opinion is unmodified

We have audited the annual accounts of Newbury Building Society for the year ended 31 October 2017 which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in members' interests, cash flow statement, and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the Society as at 31 October 2017 and of the income and expenditure of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the members for the year ended 31 October 1995. The period of total uninterrupted engagement is for the twenty-three financial years ended 31 October 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Society annual accounts		£310k, (2016:£590k)
Risks of material misstatement		**vs 2016**
Recurring risks	Revenue recognition (effective interest rate method)	◄►
	Impairment of loans and advances to customers	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Revenue recognition (effective interest rate method) *EIR Asset* *£1.55m (2016:£1.61m)* *Refer to page 19 (Audit Committee Report), note 1.2 (accounting policy) and note 2 (financial disclosures).*	**Subjective estimate:** Using a spreadsheet model, interest earned on loans is recognised using the effective interest rate ('EIR') method that spreads directly attributable expected cash flows over the expected lives of the loans. The directors apply judgement in deciding on and assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This exercise is performed by product type and is informed by historic customer repayment behaviour.	Our procedures included: **Historical comparison:** We assessed the reasonableness of the model's expected repayment profiles, assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance. **Sensitivity analysis:** We assessed the model for its sensitivity to changes in the key assumptions by considering different profiles to help us assess the reasonableness of the assumptions used and identify areas of potential additional focus. **Assessing transparency:** We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the interest income recognised. **Our results:** We found the resulting estimate of the interest income to be acceptable (2016: acceptable).

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	The risk	Our response
Impairment of loans and advances to customers *Provision for impairment of loans and advances to customer* *£878k, (2016:£887k)* *Refer to page 19 (Audit Committee Report), note 1.4 (c) (accounting policy) and note 12 (financial disclosures).*	**Subjective estimate:** Impairment provisions cover loans specifically identified as impaired and a collective impairment provision for all other loans for those impairments incurred but not yet specifically identified. The directors judge individual impairments by reference to loans that have suffered significant financial difficulty of the borrower, a borrower entering into arrears, the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, and observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The collective impairment provision is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In particular, judgement is required on the key assumptions of probability of default and forced sale discounts against collateral. The individual and collective impairment models is most sensitive to movements in the forced sale discount assumption.	Our procedures included: **Benchmarking assumptions:** We compared the key assumptions used in the model of probability of default and forced sale discounts with externally available data, including KPMG's building society database. **Our sector experience:** We challenged the key impairment assumptions used in the model of probability of default and forced sale discount using our knowledge of recent impairment experience in this industry, including that of the Society. **Sensitivity analysis:** We assessed the model for its sensitivity to changes in the key assumptions of probability of default and forced sale discount by performing stress testing to help us assess the reasonableness of the assumptions. **Assessing transparency:** We assessed the adequacy of the Society's disclosures in respect of the degree of estimation involved in arriving at the provision. **Our results** We found the resulting estimate of the impairment provision in respect of loans and advances to customers to be acceptable (2016: acceptable)

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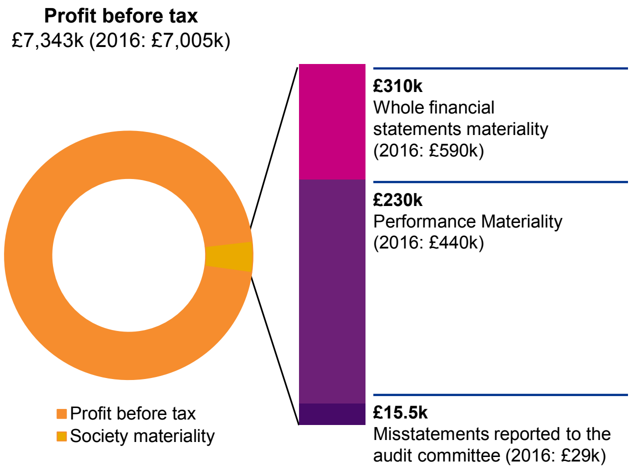

3. Our application of materiality and an overview of the scope of our audit

Materiality for the annual accounts as a whole was set at £310,000 (2016: £590,000), determined with reference to a benchmark of profit before tax, of which it represents 4.2% (2016: 8%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £16,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

4. We have nothing to report on going concern

We are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in the annual accounts on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Society's use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

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

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 22, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so..

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Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the annual accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Peter Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
20 December 2017

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Income Statements for the year ended 31 October 2017

	Notes	2017 £000s	2016 £000s
Interest receivable and similar income	2	25,380	26,638
Interest payable and similar charges	3	(9,468)	(10,696)
Net interest income		15,912	15,942
Fees and commissions receivable		35	46
Fees and commissions payable		(95)	(59)
Income from investments in subsidiary undertaking		-	12
Other operating income		17	26
Total operating income		15,869	15,967
Net gain/(loss) from derivatives	4	133	(447)
Total Net Income		16,002	15,520
Administrative expenses	5	(8,207)	(7,808)
Depreciation and amortisation	13/14	(570)	(484)
Operating profit before impairment and provisions		7,225	7,228
Impairment of loans and advances	12	9	(28)
Provision for FSCS levy	18	109	(195)
Profit before Tax		7,343	7,005
Taxation	6	(1,425)	(1,387)
Profit for the Financial Year	19	5,918	5,618

Statement of Comprehensive Income

Profit for the financial year	5,918	5,618
Property Revaluation	1,094	-
Total Comprehensive income for the financial year	7,012	5,618

The notes on pages 32 to 61 form part of these accounts.

Statement of Financial Position at 31 October 2017

	Notes	2017 £000s	2016 £000s
Assets			
Liquid assets			
Cash in hand and balances with the Bank of England		150,914	134,780
Loans and advances to credit institutions	9	5,326	15,228
		156,240	150,008
Derivative financial instruments	10	373	80
Loans and advances to customers			
Loans fully secured on residential property	11	833,052	770,056
Other loans	11	10,350	10,731
		843,402	780,787
Tangible fixed assets	13	5,925	4,895
Intangible fixed assets	14	889	881
Other assets	15	1,310	2,230
Prepayments and accrued income		518	457
Total Assets		1,008,657	939,338
Liabilities			
Shares	16/24	839,296	767,617
Amounts owed to credit institutions	24	57,609	65,008
Amounts owed to other customers	24	39,901	40,726
Derivative financial instruments	10	523	1,554
Other liabilities	17	1,291	1,028
Accruals and deferred income		1,066	1,216
Provisions for liabilities	18	150	380
Total Liabilities		939,836	877,529
Reserves			
Revaluation reserve	19	2,519	1,425
Reserves - general reserves	19	66,302	60,384
Total Reserves	19	68,821	61,809
Total Reserves and Liabilities		1,008,657	939,338

The notes on pages 32 to 61 form part of these accounts.

These accounts were approved by the Board of Directors on 20 December 2017
***Peter Brickley** - Chairman*
***John Parker** - Vice Chairman*
***Roland Gardner** - Chief Executive*
***Lee Bambridge** - Finance Director*

Statement of Changes in Members' Interest for the year ended 31 October 2017

	General reserves £000s	Revaluation reserve £000s	Total
At 1 November 2016	60,384	1,425	61,809
Profit for the financial year	5,918	1,094	7,012
At 31 October 2017	66,302	2,519	68,821
At 1 November 2015	54,766	1,425	56,191
Profit for the financial year	5,618	-	5,618
At 31 October 2016	60,384	1,425	61,809

Cash Flow Statements

	2017 £000s	2016 £000s
Cash flows from Operating Activities		
Profit before tax	7,343	6,992
Depreciation and amortisation	570	484
Profit on disposal of property, plant and equipment	-	(30)
(Decrease)/increase in impairment of loans and advances	(9)	28
Total	7,904	7,474
Changes in Operating Assets and Liabilities		
Decrease/(increase) in prepayments, accrued income and other assets	575	(2,377)
(Decrease)/increase in accruals, deferred income and other liabilities	(1,554)	466
Increase in loans and advances to customers	(62,606)	(49,039)
Increase in shares	71,811	75,831
Decrease/(increase) in loans and advances to credit institutions	7,000	(7,000)
Decrease in amounts owed to other credit institutions and other customers	(8,215)	(13,313)
Taxation paid	(1,160)	(1,438)
Net Cash Generated by Operating Activities	5,851	3,130
Cash flows from Investing Activities		
Purchase of property, plant and equipment	(198)	(249)
Disposal of property, plant and equipment	-	187
Purchase of intangible assets	(316)	(192)
Net Cash used in Investing Activities	(514)	(254)
Net Increase in Cash and Cash Equivalents	13,241	10,350
Cash and cash equivalents at 1 November	142,995	132,645
Cash and Cash Equivalents at 31 October	156,236	142,995

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. As the last operational subsidiary became dormant in 2016 the Annual Accounts for 2017 are presented on a Society basis.

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.

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 cash flows to zero, through the expected life of the instrument. 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.

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.

1.3 Fees and commissions receivable and payable

Fees and commissions that are material to 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.

1.4 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.

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 highly effective in offsetting changes in fair values of hedged items.

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.

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:

- Deposits – Amortised cost which is usually the amount deposited
- Hedging Derivative – Fair value through profit and loss

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 original 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.

f) Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them. Where substantially all of the risks and rewards of ownership remain with the Society, the securities are retained on the Statement of Financial

Position. The counterparty liability is recognised separately in the Statement of Financial Position as appropriate. The difference between the sale and repurchase price is accrued over the life of the agreements.

1.5 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, amortisation is 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.

1.6 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.

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:

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	Straightline	3 to 8 years
•	Computer equipment	Straightline	3 to 8 years
•	Motor vehicles	Straightline	3 to 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date. Assets that are subject to amortisation 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.

1.7 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.

1.8 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.

1.9 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.

1.10 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.

1.11 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.

1.12 Critical accounting estimates and judgments in applying accounting policies

The Society makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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.

- Impairment losses on loans and advances
  The Society reviews the portfolio of mortgages regularly during the year to assess for impairment. Impairment provisions are calculated as outlined in note 1.4 above. 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 £84K (2016:£148k).

- Effective interest rate
  The calculation of an effective interest rate requires the Society to make assumptions around the expected lives of mortgages and the likely levels of early repayment fees to be received. Management regularly reviews these assumptions and compares with actual results. If the average lives of the mortgages were to increase by one month, the carrying value of mortgages would change by £584k with a corresponding change to income.

Notes to the Accounts

	2017 £000s	2016 £000s
2. Interest Receivable and Similar Income		
On loans fully secured on residential property	25,863	26,831
On other loans	323	375
On debt Securities:	4	3
On other liquid assets:	234	383
Net expense on financial instruments	(1,044)	(954)
	25,380	26,638

3. Interest Payable and Similar Charges		
On shares held by individuals	8,836	9,950
On other shares	38	44
On deposits and other borrowings	594	702
	9,468	10,696

4. Net Gain/(Loss) from Derivatives		
Derivatives in designated fair value hedge relationships	1,200	(354)
Adjustments to hedged items in fair value hedge accounting relationships	(1,192)	358
Derivatives not in designated fair value hedge accounting relationships	125	(451)
	133	(447)

5. Administrative Expenses		
Employee costs		
• Wages and salaries	4,130	3,888
• Social security costs	438	396
• Other pension costs	559	529
	5,127	4,813
Profit on disposal of fixed assets	-	(30)
Other administrative expenses	3,080	3,025
	8,207	7,808
• Remuneration of auditor and its associates (excluding VAT)		
- audit of annual accounts	75	93
• Operating lease costs	133	137

6. Taxation

	2017 £000s	2016 £000s
The taxation charge for the year comprises:		
UK corporation tax on profits in the year	1,504	1,482
Adjustment in respect of previous year	(199)	-
Total current tax	1,305	1,482
Deferred taxation:		
Origination and reversal of timing differences	(48)	(95)
Prior year adjustment	168	-
Total deferred tax	120	(95)
Tax on profit on ordinary activities	1,425	1,387
Factors affecting the tax charge for the year are:		
Profit on ordinary activities before tax	7,343	7,005
Profit on ordinary activities multiplied by 19.4% (2016: 20%)	1,425	1,401
Effects of:		
Difference between opening and closing tax rates	7	-
Depreciation on non-qualifying assets	16	7
Exempt dividend income	-	(2)
Adjustment in respect of previous year	(30)	(21)
Disallowable expenses	7	2
Current tax charge for the year	1,425	1,387

7. Employees

The average number of people employed during the year was as follows:

	Full time 2017	Part time 2017	Full time 2016	Part time 2016
Head Office	70	14	67	15
Branches	47	20	49	19
	117	34	116	34

8. Directors' Remuneration and Transactions

The emoluments for both Executive and Non-Executive Directors totalled £768,000 for the year (2016: £736,000).

Executive Directors' Emoluments

2017	Salary £000s	Performance Related Pay £000s	Taxable Benefits £000s	Pension Contribution £000s	TOTAL £000s
Roland Gardner	218	19	2	-	239
Lee Bambridge	174	15	2	-	191
Phillippa Cardno	111	12	2	23	148
TOTAL	503	46	6	23	578
2016					
Roland Gardner	195	18	2	19	234
Lee Bambridge	169	15	1	-	185
Phillippa Cardno	103	11	1	21	136
TOTAL	467	44	4	40	555

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 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.

Further details on the components of Directors' emoluments can be found in the Directors' Remuneration Report on page 21.

Non-Executive Directors' Emoluments (comprising fees only)	2017 £000s	2016 £000s
Peter Brickley (Chairman)	42	40
John Parker (Vice Chairman)	31	30
Abigail Gammie (resigned 31/12/15)	-	4
Sarah Hordern	27	26
Tracy Morshead	27	26
William Roberts	27	25
Zoe Shaw (appointed 1 September 2017)	5	-
Ron Simms	31	30
TOTAL	190	181

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 £376,310 (2016: £395,678) representing loans to two (2016: two) persons. A register of loans to and transactions with Directors and connected persons is maintained. It is available for inspection by members at the Society's Head Office for the period of fifteen days prior to the Annual General Meeting and at the Annual General Meeting.

9. Loans and Advances to Credit Institutions

	2017 £000s	2016 £000s
Accrued interest	4	13
Repayable on demand	3,322	5,715
Other loans and advances by residual maturity repayable:		
In not more than three months	2,000	2,500
More than three months but not more than one year	-	7,000
	5,326	15,228

10. Derivative Financial Instruments

	Contract/ notional amount £000s	Fair values Assets £000s	Fair values Liabilities £000s
At 31 October 2017			
a) Unmatched derivatives - Interest rate swaps	15,856	-	(26)
b) Derivatives designated as fair value hedges - Interest rate swaps	172,178	373	(497)
Total recognised derivative assets/(liabilities)	188,034	373	(523)
At 31 October 2016			
a) Unmatched derivatives - Interest rate swaps	21,756	34	(86)
b) Derivatives designated as fair value hedges - Interest rate swaps	150,272	46	(1,468)
Total recognised derivative assets/(liabilities)	172,028	80	(1,554)

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	2017 £000s	2016 £000s
Loans fully secured on residential property before adjustments	832,562	768,322
Other loans: fully secured on land before adjustments	10,350	10,731
Total loans before adjustments	842,912	779,053
Effective interest rate adjustment	1,551	1,613
Provision for impairment losses on loans and advances	(878)	(887)
Per note 23	843,585	779,779
Fair value adjustment for hedged risk	(183)	1,008
	843,402	780,787

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

Repayable:	2017 £000s	2016 £000s
In not more than three months	2,612	3,354
In more than three months but not more than one year	6,703	6,915
In more than one year but not more than five years	55,847	51,066
In more than five years	779,118	720,339
	844,280	781,674
Less allowance for impairment (refer to note 12)	(878)	(887)
	843,402	780,787

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

At 31st October 2017 the Society had pledged £95.9m of mortgage assets to the Bank of England under the Term Funding Scheme (2016: £90.6m pledged under the Funding for Lending Scheme).

12. Allowances for losses on loans and advances	Loans fully secured on residential property £000s
At 1 November 2016	
Collective provision	765
Individual provision	122
	887
(Credit) / charge for the year	
Collective provision	(35)
Individual provision	26
	(9)
At 31 October 2017	
Collective provision	730
Individual provision	148
	878

13. Tangible Fixed Assets

	Land and Buildings £000s	Equipment, fixtures, fittings & vehicles £000s	Total £000s
Cost / valuation			
At 1 November 2016	4,650	2,344	6,994
Additions	-	198	198
Revaluation	938	-	938
Disposals	-	(430)	(430)
At 31 October 2017	5,588	2,112	7,700
Depreciation			
At 1 November 2016	227	1,872	2,099
Charge for the year	72	190	262
Elimination in respect of Revaluation	(155)	-	(155)
Elimination in respect of Disposal	-	(430)	(430)
At 31 October 2017	144	1,632	1,776
Net book value			
At 31 October 2016	4,423	472	4,895
At 31 October 2017	5,444	480	5,925

Land and buildings consist of £3.54m of freehold property, £1.5m non-depreciable land and £0.4m of leasehold property. The net book value occupied for own activities at 31 October was £4.7m (2016: £3.9m).

The Society's freehold properties were last revalued on 23 March 2017 on a vacant possession basis by Quintons, Chartered Surveyors. Other tangible fixed assets are included at cost.

14. Intangible Assets

	Software £000s
Cost / valuation	
At 1 November 2016	1,602
Additions	316
At 31 October 2017	1,918
Depreciation	
At 1 November 2016	721
Charge for the year	308
At 31 October 2017	1,029
Net book value	
At 31 October 2016	881
At 31 October 2017	889

15. Other Assets

	2017 £000s	2016 £000s
Cash collateral pledged against hedging contracts	1,310	2,230
	1,310	2,230

16. Shares

	2017 £000s	2016 £000s
Held by individuals	839,100	767,414
Other shares	196	203
	839,296	767,617

17. Other Liabilities

	2017 £000s	2016 £000s
Amounts falling due within one year:		
Corporation tax	1,004	859
Other creditors	50	52
	1.054	911
Amount falling due in more than one year:		
Deferred tax	237	117
	1,291	1,028

	2017 £000s	2016 £000s
Movement on deferred tax liability:		
At 1 November	(117)	(212)
Deferred tax charge (see note 6)	(120)	95
At 31 October	(237)	(117)
Comprising:		
Accelerated capital allowances	(85)	(111)
Pre-paid pension costs	-	(7)
FRS102 transition adjustment	(168)	(150)
Collective loss provision	16	151
At 31 October	(237)	(117)

18. Provisions for liabilities

	£000s
Financial Services Compensation Scheme (FSCS)	
At 1 November 2016	380
Paid in year	(121)
Income and Expenditure account:	
Decrease in Provision	(109)
At 31 October 2017	150

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

The FSCS meets these current claims by way of loans received from HM Treasury. The FSCS seeks to recover the interest cost of these loans, together with ongoing management expenses to cover the costs of running the scheme, by way of annual levies on members, including Newbury Building Society.

The provision at 31 October 2017 includes an estimate of the interest levy for the scheme year 2017/18.

19. Reserves

	£000s
General Reserves	
At 1 November 2016	60,384
Profit for the financial year	5,918
At 31 October 2017	66,302
Revaluation Reserve	
As at 1 November 2016	1,425
Increase	1,094
As at 31 October 2017	2,519

20. Cash and Cash Equivalents

	2017 £000s	2016 £000s
Cash in hand and balances with the Bank of England repayable on demand	150,914	134,780
Loans and advances to credit institutions	5,322	8,215
As at 31 October	156,236	142,995

21. Capital and Other Financial Commitments

	2017 £000s	2016 £000s
a. Capital commitments		
Capital expenditure contracted but not yet provided for in the accounts	66	259
b. Leasing commitments		
Total commitments under non-cancellable leases	148	148
Rental commitments arising		
• Not later than one year	24	-
• Later than one year but not later than five years	-	24
• Later than five years	124	124

The Society has a commitment to repurchase treasury bills amounting to Nil (2016: £64.9m).

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 2017	**Held at amortised cost**		**Held at fair value**		
	Loans and receivables £000s	Financial assets and liabilities £000s	Derivatives designated as fair value hedges £000s	Unmatched derivatives £000s	Total £000s
Financial assets					
Cash in hand and balances with the Bank of England	150,914	-	-	-	150,914
Loans and advances to credit institutions	5,326	-	-	-	5,326
Derivative financial instruments	-	-	373	-	373
Loans and advances to customers	843,402	-	-	-	843,402
Total assets	999,642	-	373	-	1,000,015
Financial liabilities					
Shares	-	839,296	-	-	839,296
Amounts owed to credit institutions	-	57,609	-	-	57,609
Amounts owed to other customers	-	39,901	-	-	39,901
Derivative financial instruments	-	-	497	26	523
Total liabilities	-	936,806	497	26	937,329

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

Carrying values by category 31 October 2016	Held at amortised cost		Held at fair value		
	Loans and receivables £000s	Financial assets and liabilities £000s	Derivatives designated as fair value hedges £000s	Unmatched derivatives £000s	Total £000s
Financial assets					
Cash in hand and balances with the Bank of England	134,780	-	-	-	134,780
Loans and advances to credit institutions	15,228	-	-	-	15,228
Derivative financial instruments	-	-	46	34	80
Loans and advances to customers	780,787	-	-	-	780,787
Total assets	930,795	-	46	34	930,875
Financial liabilities					
Shares	-	767,617	-	-	767,617
Amounts owed to credit institutions	-	65,008	-	-	65,008
Amounts owed to other customers	-	40,726	-	-	40,726
Derivative financial instruments	-	-	1,468	86	1,554
Total liabilities	-	873,351	1,468	86	874,905

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:

	2017 £000s	2016 £000s
Credit risk exposure		
Cash in hand	150,914	134,780
Loans and advances to credit institutions	5,326	15,228
Derivative financial instruments	373	80
Loans and advances to customers	843,585	779,779
Total statement of financial position exposure	1,000,198	929,867
Off balance sheet exposure - mortgage offers and retentions	36,933	41,661
Total	1,037,131	971,528

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 £832.6m (2016: £766.2m), split between residential, buy-to-let and commercial owner occupier loans, and £10.3m (2016: £14.5m) 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.

	2017 £000s	2016 £000s
Concentration by loan type		
Prime owner occupied	692,098	640,437
Buy to let and commercial owner occupied	140,463	125,762
Gross balance	832,561	766,199
Impairment provisions	(878)	(887)
Fair value adjustments	(183)	1,008
	831,500	766,320

	2017 £m	2017 %	2016 £m	2016 %
Geographical analysis				
East Anglia	10.6	1.3	9.4	1.2
East Midlands	12.9	1.6	9.5	1.2
Greater London	86.9	10.4	71.1	9.3
North	2.7	0.3	2.9	0.4
North West	8.1	1.0	8.9	1.2
South East	552.4	66.3	525.9	68.7
South West	136.5	16.4	116.6	15.2
Wales	5.6	0.7	5.4	0.7
West Midlands	10.7	1.3	10.8	1.4
Yorkshire & Humberside	6.2	0.7	5.7	0.7
Total	832.6	100.0	766.2	100.0

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

	2017 £m	2017 %	2016 £m	2016 %
LTV analysis				
0% - 50%	547.2	65.6	490.7	63.9
50.01% - 75%	259.6	31.2	251.2	32.9
75.01% - 80%	8.9	1.1	9.2	1.2
80.01% - 85%	7.1	0.9	6.9	0.9
85.01% - 90%	7.4	0.9	6.0	0.8
90.01% - 95%	2.4	0.3	2.2	0.3
	832.6	100.0	766.2	100.0
Average loan to value of residential mortgage loans		32.0		32.1

The average LTV of 32.0% (2016: 32.1%) 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 0.37% (2016: 0.46%) of loans are three months or more in arrears and by value it is 0.21% (2016: 0.29%).

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	**2017 £m**	**2017 %**	**2016 £m**	**2016 %**
Not impaired:				
Neither past due or impaired	818.7	98.4	749	97.8
Past due up to 3 months but not impaired	8.9	1.1	12.7	1.7
Past due over 3 months but not impaired	2.0	0.2	1.7	0.2
Possessions	-	-	0.1	-
Impaired:				
Not past due	1.1	0.1	-	-
Past due up to 3 months	1.6	0.2	2.6	0.3
Past due 3 to 6 months	0.2	-	-	-
Past due 6 to 12 months	-	-	0.1	-
Past due over 12 months	0.1	-	-	-
Possessions	-	-	-	-
Total	832.6	100	766.2	100.0

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 2017 £m	**Unindexed 2017 £m**	**Indexed 2016 £m**	**Unindexed 2016 £m**
Value of collateral held:				
Neither past due or impaired	2,554.4	2,040.8	2,324.6	1,821.8
Past due but not impaired	39.5	26.2	53.1	36.0
Impaired	4.3	4.0	4.0	3.7
Total	2,598.2	2,071.0	2,381.7	1,861.5

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 2017 is £39.5m (2016: £53.1m) against outstanding debt of £10.8m (2016: £14.5m). In addition, the value of collateral held against 'Impaired' assets at 31 October 2017 is £4.3m (2016: £4.0m) against outstanding debt of £3.0m (2016: £2.7m).

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	2017 £m	2016 £m
Loans secured on commercial property	9.2	13.2
Loans to housing associations	1.1	1.3
	10.3	14.5

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

	2017 £m	2017 %	2016 £m	2016 %
Catering	-	-	0.3	2.1
Club/social	0.3	3.1	0.4	2.8
Education	0.2	1.5	0.1	1.0
Guest house/hotel	-	-	0.1	0.6
Industrial unit	1.7	16.7	1.8	12.2
Nursing/residential home	-	-	0.2	1.4
Office	1.9	18.6	2.3	15.8
Post office	-	-	0.2	1.4
Professional	-	-	0.1	1.0
Shops	3.4	32.5	4.0	27.6
Other	2.8	27.6	5.0	34.1
	10.3	100.0	14.5	100.0

	2017 £m	2017 %	2016 £m	2016 %
Geographical analysis				
East Anglia	-	-	0.1	0.5
South East	9.4	91.5	12.9	89.2
South West	0.9	8.5	1.4	9.8
West Midlands	-	-	0.1	0.5
Total	10.3	100.0	14.5	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:

	2017 £m	2017 %	2016 £m	2016 %
LTV analysis				
0% - 50%	6.4	62.4	10.1	69.7
50.01% - 75%	3.7	35.4	4.2	28.7
75.01% - 80%	0.2	2.2	0.2	1.6
80.01% - 85%	-	-	-	-
85.01% - 90%	-	-	-	-
	10.3	100.0	14.5	100.0
Average loan to value of commercial mortgage loans		33.3		31.5

The quality of the Society's commercial mortgage book is reflected in the number and value of accounts in arrears. By volume 1.59% (2016: 1.41%) of loans are three months or more in arrears and by value it is 0.8% (2016: 0.59%).

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	**2017 £m**	**2017 %**	**2016 £m**	**2016 %**
Not impaired:				
Neither past due or impaired	10.0	97.1	13.6	93.8
Past due up to 3 months but not impaired	0.2	1.9	0.8	5.6
Past due over 3 months but not impaired	0.1	1.0	0.1	0.6
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	-	-	-	-
	10.3	100.0	14.5	100.0

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 2017 £m	**Unindexed 2016 £m**
Value of Collateral held:		
Neither past due or impaired	30.2	41.0
Past due but not impaired	0.9	1.9
Impaired	-	-
Total	31.1	42.9

The collateral consists of commercial property and in the case of housing associations, property occupied by social tenants.

The value of collateral held against loans 'Past due but not impaired' at 31 October is £0.9m (2016: £1.9m) against outstanding debt of £0.3m (2016: £0.9m).

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. These include temporary interest only concessions, payment plans and reduced payment concessions. Possession is a last resort.

- Interest only concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase. Where possible, an additional payment is made to reduce arrears.

- Payment plans (or arrangements) are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

- Reduced payment concessions allow a customer to make an agreed underpayment for a specific period of time with formal periodic review. The monthly underpaid amount accrues as arrears and agreement is reached at the end of the concession period on how the arrears will be repaid.

All forbearance arrangements are formally discussed with the customer and reviewed by management prior to acceptance. 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 and different types of forbearance activity is reported to the 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 potential risk to the Society and suitability of the arrangement for the customer.

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

Type of forbearance	2017 Number	2016 Number
Interest only concessions	28	28
Payment plans	16	22
Reduced payment concessions	2	2
Less: cases with more than one form of forbearance	(1)	(1)
Total	45	51

In total £2.2m (2016: £2.0m) of loans that are past due are subject to forbearance.

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 16.7% compared to 17.2% at the end of 2016.

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 2017	On demand £000s	Not more than three months £000s	More than three months but not more than one year £000s	More than one year but not more than five years £000s	More than five years £000s	No specific maturity £000s	Total £000s
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	150,914	-	-	-	-	-	150,914
Loans and advances to credit institutions	3,322	2,000	-	-	-	4	5,326
Total liquid assets	154,236	2,000	-	-	-	4	156,240
Derivative financial instruments	-	-	-	373	-	-	373
Loans and advances to customers	-	2,612	6,703	55,847	779,118	(878)	843,402
Other assets	-	-	-	-	-	8,642	8,642
	154,236	4,612	6,703	56,220	779,118	7,768	1,008,657
Financial liabilities and reserves							
Shares	715,462	92,061	19,654	12,009	-	110	839,296
Amounts owed to credit institutions	57,500	-	-	-	-	109	57,609
Amounts owed to other customers	18,408	21,493	-	-	-	-	39,901
Derivative financial instruments	-	10	67	446	-	-	523
Other liabilities	-	-	-	-	-	2,507	2,507
Reserves	-	-	-	-	-	68,821	68,821
	791,370	113,564	19,721	12,455	-	71,547	1,008,657
Net Liquidity gap	(637,134)	(108,952)	(13,018)	43,765	779,118	(63,779)	-

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

Included in the amounts above for 2017 is £57.5m borrowed from the Bank of England under the Term Funding Scheme.

Residual maturity as at 31 October 2016	On demand £000s	Not more than three months £000s	More than three months but not more than one year £000s	More than one year but not more than five years £000s	More than five years £000s	No specific maturity £000s	Total £000s
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	134,780	-	-	-	-	-	134,780
Loans and advances to credit institutions	5,715	2,500	7,000	-	-	13	15,228
Total liquid assets	140,495	2,500	7,000	-	-	13	150,008
Derivative financial instruments	-	-	-	80	-	-	80
Loans and advances to customers	-	3,354	6,915	51,066	720,339	(887)	780,787
Other assets	-	-	-	-	-	8,463	8,463
	140,495	5,854	13,915	51,146	720,339	7,589	939,338
Financial liabilities and reserves							
Shares	624,979	102,000	36,395	4,001	-	242	767,617
Amounts owed to credit institutions	64,892	-	-	-	-	116	65,008
Amounts owed to other customers	19,276	21,074	375	-	-	1	40,726
Derivative financial instruments	-	34	106	1,414	-	-	1,554
Other liabilities	-	-	-	-	-	2,624	2,624
Reserves	-	-	-	-	-	61,809	61,809
	709,147	123,108	36,876	5,415	-	64,792	939,338
Net Liquidity gap	(568,652)	(117,254)	(22,961)	45,731	720,339	(57,203)	-

Included in the amounts above for 2016 is £64.9m relating to a sale and repurchase agreement of treasury bills borrowed from the Bank of England under the Funding for Lending Scheme.

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

	Repayable on demand £000s	Not more than three months £000s	More than three months but not more than one year £000s	More than one year but not more than five years £000s	More than five years £000s	Total £000s
31 October 2017						
Shares	715,462	92,350	19,796	12,468	-	840,076
Amounts owed to credit institutions	57,609	-	-	-	-	57,609
Amounts owed to other customers	18,408	21,493	-	-	-	39,901
Derivative financial instruments	-	188	377	41	-	606
Total liabilities	791,479	114,031	20,173	12,509	-	938,192
31 October 2016						
Shares	624,979	102,392	36,819	4,246	-	768,436
Amounts owed to credit institutions	65,008	-	-	-	-	65,008
Amounts owed to other customers	19,276	21,074	376	-	-	40,726
Derivative financial instruments	-	274	555	823	-	1,652
Total liabilities	709,263	123,740	37,750	5,069	-	875,822

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 2017 assuming a parallel movement in yield curves and a constant financial position.

	+200bps Parallel	
	Increase	**Decrease**
	£'000	£'000
Net interest income impact	(940)	1,021

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 £558,000 (2016: £529,000). There were pension contributions payable at the year end of £35,000 (2016: £36,000). There was a prepayment at the year end of £23,000 (2016: £41,000) 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.

	2017 £000s	2016 £000s
Common Equity Tier 1 Capital		
General reserve	66,302	60,384
Revaluation reserve	2,519	1,425
Intangible assets	(889)	(881)
Total common equity tier 1 capital	67,932	60,928
Tier 2 Capital		
Collective provision	730	765
Total tier 2 capital	730	765
Total regulatory capital	68,662	61,693
Risk weighted assets	347,002	331,475
Capital ratios		
Common equity tier 1 (CET 1) ratio	19.6	18.4
Total Capital ratio	19.8	18.6
Leverage ratio	6.7	6.5

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 operates only in the United Kingdom. The principal activities of the Society are noted in the Directors' report on pages 4 to 11.
- 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 28.
- Corporation Tax paid: as noted in the Cash Flow Statements on page 31.
- Public subsidies: there were none received in the year.*

* Details of the Society's drawings under the Term Funding Scheme can be found in Note 22 above.

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 2017

1. Statutory Percentages	2017 %	Statutory Limit %
Lending limit	1.5	25
Funding limit	10.4	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.

2. Other Percentages	2017 %	2016 %
Gross capital as a percentage of shares and borrowings	7.35	7.08
Free capital as a percentage of shares and borrowings	6.70	6.50
Liquid assets as a percentage of shares and borrowings	16.68	17.18
Profit after tax as a percentage of mean total assets	0.61	0.62
Management expenses as a percentage of mean total assets	0.90	0.92

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.

3. Directors and Other Officers as at 31 October 2017

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
John Parker MA (Cantab), FCA, ACIB	1949	Company Director	17/04/07	Affordable Housing Finance Plc; THFC (Services) Ltd; THFC (Capital) Plc; Cobalt Health; UK Rents (No 1) Plc; UK Rents (Holdings) Ltd; UK Rents Trustee Ltd
Lee Bambridge BA (Hons), ACA, AMCT	1963	Building Society Finance Director	23/07/07	Sovereign Housing Association Ltd; Sovereign Capital Plc
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	Strategic Property Development Consultant	19/02/15	Perspicio Limited
Tracy Morshead FCIM	1956	Company Director	01/06/12	National Deposit Friendly Society Ltd; 425 Direct Ltd; Mortgage Brain Ltd; Mortgage Brain Holdings Ltd; The Mortgage Trading Exchange Ltd; MBL Financial Services Ltd; Morshead's Old Books Ltd
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

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

Other Officers

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

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

Ian Willson - Head of IT

Auditor
KPMG LLP
66 Queen Square, BS1 4BE. Bristol

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	Mike Butler • Gemma Ellis • Julie Harris • Becky Pearson • Michele Willis
Alton	Karlene Coles • Julie Harness • Dave Murray • Julie Pink • Caroline Seymour • Clare Taylor
Andover	Pippa Bracey • Alice Champion • Cliff Osborne • Becky Reynolds • Dawn Ross • Sheila Sandham Charlotte Wood
Basingstoke	Aish Breakspear • Kelly Carter • Charlotte Couch • Ellen Harmon • Maisy Knight • Lucy Parnell Beth Roden
Didcot	Angela Bradshaw • Hannah Tame • Jack Whiting
Hungerford	Naomi Hague • Courtney Lewington Metcalfe • Eve McDowell • Paula Wheeler
Newbury	Jane Bosher • Ella Bright • Agnes Frydel-Sapinska • Rachel Hawkins • Gemma Johnson Nicola King-Head • Sue Mason • Chloe Somerville • Alice Wood
Thatcham	Debbie Brockett • Louise Davies • Chelsea Ford • Claire Gale • Karen Griffin • Kayleigh Tingle
Winchester	Rob Angus • Louise Morgan • Will Simpson • Subhashini Venkatesan • Lisa Wedge
Wokingham	Molly Fennemore • Debbie Gadd • Jac Goddard • Charlotte Hall • Sue Murgatroyd Justine Ransom • Holly Webster
Sales	Lauren Dearlove • Kerri Dobie • Rose Hallett • Matt Long • Alice Pocock • Luke Pummell Kate Rockall • Jordan Sharpe • Karen Smith • Emma Trincas • Martin Yates

Head Office

Compliance and Risk	Shingai Chipfupa • Lynn Fiske • Xania Harden • Andy Ransom • Tash Stacey • Gemma Williams
Customer Services	Katy Briggs • Sarah Hubbard • Janet Jex • Anya Milner • Sue Newcombe • Gemma Robinson Katie Rocks • Lynn Small • Alison Thompson • Maureen Bevan • Lisa Dixon • Rose Fishlock Pete Hawkins • Laura Heal • Danielle Horton • Jane Mason • Sarah Nation
Mortgage Underwriting	Lucy Amore • Hannah Auger • Jill Bennett • Vicky Boyles • Nathan Bryan Charlotte Courtenay • Rowan Curtis • Diana Lewis • Kim Smyth • Tash Stacey • Lauren Troy Craig Turner • Hannah Westlake
Executives	Nigel Briggs • Erika Neves • Ian Willson
Finance	Suzanne Allen • Ruth Bowden • Cheryl Bowers • Louise Brookes • Laura Chisling • Lynda Ralph Debbie Springer
Human Resources	Anne-Marie Goldsmith • Cara Holley • Sarah Pearce • Jacky Reenan • Tina Stephens
ICT	Tom Baker • Tim Cooke • Ben Egan • Laurence Gough • Piotr Jaworski • Nicky Martin Shiv Stacey Katie Stubbs • David Ward • Hayley Watt
Lending	Roger Knight
Marketing	Gemma Adolph • Lewis Beasley • Sian Dennis • Emma Lavers • Emma Simms • Bronwyn Tucker
Operations	Diane Long • Melanie Mildenhall • Elliot Walker
Premises, Health and Safety	Natalie Brothers • Michael Goodall • Ricky Walker
Project	Amba Goodall • Melissa Kenah • Hannah Kenison • Tom Reynolds • Traci Sharp
Personal Assistant to the Executives	Sarah Rouault
Treasury	Jay Ahmed • Michelle Seeber
Valuer	Ann Davidson

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