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NEWBURY

building society

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 OCTOBER 2016

Contents

Our Highlights

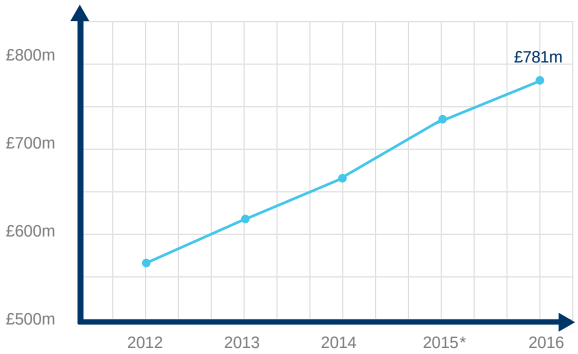
Mortgages*

- Our mortgage book increased £49m to £781m (7%)
- We lent £187m for mortgages to members (2015: £183m)
- Strong demand for our residential, first time buyer and buy to let products supported this growth

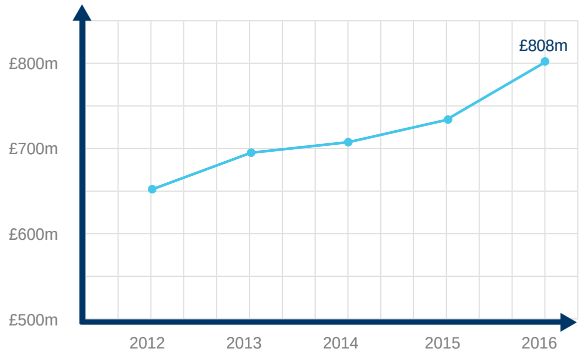
Savings & Funding

- Savings balances increased £71m to £808m (10%)
- The performance of our Existing Member, Treasure Plus and ISA accounts were significant factors in the growth
- We had funding of £65m from the Bank of England Funding for Lending Scheme at year-end

Mortgage Balances



Savings Balances



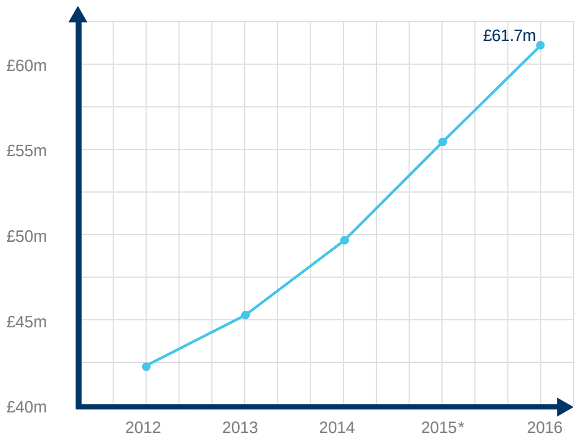
Financial strength*

- Our regulatory capital grew to £61.7m (2015: £55.9m)
- Our profit after tax was £5.6m (2015: £6.0m)
- We held £150m of liquidity at year end
- Our total capital ratio improved to 18.6%

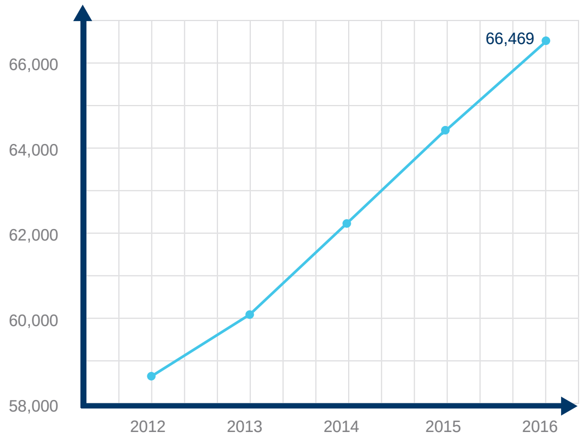
Members

- Our member numbers increased by 2,029 to 66,469
- Our mystery shopping scores averaged 92.8%
- Complaints as a percentage of members were less than 0.1%

Capital



Member Numbers



* The Society has adopted Financial Reporting Standard 102 for the first time in 2016 and this has resulted in the 2015 figures being restated on a comparable basis. Figures for earlier years are unchanged. Full details can be found in note 30.

Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Annual Accounts and Business Statement of the Group for the year ended 31 October 2016.

Key Performance Indicators

		2016*	2015*
Balance sheet	**Loans to Customers**	£781m	£732m
	Retail Shares and Deposits	£808m	£737m
Operating performance	**Management Expenses** as a % of Mean Total Assets	0.92	0.93
	Interest Margin as a % of Mean Total Assets	1.76	1.86
	Mortgage Arrears - on accounts two months or more in arrears	£0.13m	£0.16m
	Group Profit After Tax	£5.6m	£6.0m
Financial strength	**Regulatory Capital**	£61.7m	£55.9m
	Liquid Assets as a % of Shares and Borrowings	17.2%	16.4%
Members	**Members -** numbers	66,469	64,440
	Mystery Shopping - % score achieved	92.8%	95.0%
	Complaints - as a % of members	<0.1%	<0.1%

Business Review

The Society reached its 160th anniversary at the end of the year, a milestone the Board is proud to have achieved in the fast-changing world in which the Society operates. This has been another year of strong business growth for the Society, with mortgage balances rising by 7% and a profit after tax of £5.6m. This level of profitability is required not only to support the lending growth, it also reflects the Society's ongoing need to boost its capital strength in response to the higher capital levels and greater protection buffers needed under the Capital Requirements Directive. The size of the profit figure also reflects favourable trading conditions in the retail savings market, where interest rates have remained subdued, and the Society has therefore had to manage account availability and interest rates carefully, in order to ensure that appropriate levels of liquidity are maintained.

The key element to the success 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. With both growth and profit results ahead of our targets for the year, the Board is delighted to report on such a positive year.

The Society lowered many of its savings interest rates in February and again following the Bank of England Base Rate reduction in August, but despite this, savings balances have grown by 10%. The Society has also had continued access to low cost funding through the Funding for Lending Scheme (FLS), which means larger savings balance inflows were not actively sought during the year. 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. Ultimately it is competition in the mortgage market which has been the overriding factor in determining the savings rates we are able to offer to new and existing clients. The rate changes this year were made in order to maintain a fair balance for both savers and borrowers whilst generating sufficient profits to improve our capital strength. The interest margin fell in the year and the Board anticipates it will continue to reduce next year as we react to increased mortgage market competition whilst continuing to offer competitive savings rates, and therefore the profit levels of the last two years are unlikely to be repeated.

> "... the Board is delighted to report on such a positive year."

The Board is mindful that controlling costs is vital for the Society's competitive position in the market place and is therefore pleased to report that the Society's management expenses ratio has reduced for a second successive year, from 0.93 last year to 0.92 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 will make the business stronger in the long term. This will continue to be a major area of focus for us as we seek an appropriate balance between investment in the business and providing high quality and value products and services for members. This will be particularly relevant to our branch network where providing the quality and comfort of facilities for members needs to be balanced with the costs of maintenance and improvements to our estate. A number of our branches are situated in older buildings, something which provides management with significant challenges in achieving this balance but where we are committed to a programme of continuous improvements in coming years.

> “The Society’s lending proposition is based on the provision of a competitive range of fixed and discounted mortgages”

It is with some regret that the Society closed its Whitchurch branch this year. Whitchurch was the Society’s smallest branch, and for some time its ongoing business levels have not justified its retention. That said, we are confident in the sustainability of our remaining branches.

Whilst financial performance is very important, the Board recognises that as a membership organisation the service to our members is paramount. It is therefore pleasing that independently assessed mystery shopping scores have remained above 90% for the third successive year and that we received complaints from fewer than 0.1% of our members. In addition, the number of members in the Society has grown by over 2,000 in the year, 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 rates is an effective strategy for the Society to follow.

The Society’s performance in 2016 has mirrored the confidence in the central southern England housing market, where house prices continue to rise well ahead of inflation in reaction to the shortage of stock and to an overall lack of transactions. There was a brief concern for the market in the summer following the outcome of the EU referendum, but the downturn predicted by many has not manifested itself in any significant way, although it is clear that the so called ‘Brexit’ process still has a long way to go. The Buy To Let (BTL) market has also been subject to significant change with a number of measures introduced to cool demand in that market: 3% additional stamp duty from April, restrictions on mortgage interest tax relief to be phased in over the next four years, and new affordability regulations due to take effect in 2017. 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 achieved mortgage balance growth of £49m during the year, representing an increase in balances of 7% of the total book. Gross lending at £187m was a record, marginally exceeding last year’s total of £183m, but with higher repayment levels the net lending figure was lower than the £68m achieved last year. The growth was achieved against the backdrop of a market where competition continues to intensify and where a number of new challenger banks have entered the same sectors of the market as the Society operates in with aggressive lending targets. All borrowers not on fixed interest rates enjoyed a 0.25% interest rate reduction at the end of the year following the Bank of England cutting its Base Rate to 0.25%. This meant our Standard Variable Rate reduced from 4.45% to 4.20%, the first change since March 2009. 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 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 who need stage releases or to those seeking mortgages beyond normal retirement dates.

It was naturally anticipated that the BTL market would experience a surge in activity leading up to the second property stamp duty change, to be followed by a prolonged quiet period caused not only by the stamp duty change but also by the new fiscal measures announced in last year’s budget and Autumn statement. However the Society will continue to offer an inclusive service to the BTL community including limited company purchasers. With private sector renting representing its highest ever proportion of the housing market in total, the Society’s growth in BTL lending demonstrates our response to local demand.

The Society’s mortgage book comprises 82% residential owner-occupied loans, 16% BTL, and 2% commercial lending and lifetime mortgages. The Society does not actively seek to grow the commercial and lifetime books. The Society’s book remains of the highest quality with an average indexed loan to value at 32% on our residential mortgages. Furthermore only 2% of the balances in the book are over 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 covers the Society from losses incurred after a property is taken into possession during the first ten years of the loan. This year the Society advanced £14.6m on mortgages where the loan to value was over 80%.

The Society's arrears and possession statistics remain low both for the building society sector and for the industry as a whole and have reduced considerably during the year. There has been a notable decrease in the amount of arrears in cases over two months in arrears from £0.16m to £0.13m and the number of cases in this category has also decreased by almost a third from 49 to 34 accounts. There were four cases in serious arrears of twelve months or more at our year-end (2015: nine cases). The total amount of arrears outstanding on these accounts was £23,000 (2015: £65,000) and the aggregate capital balance was £210,000 (2015: £590,000). As at 31 October 2016 the Society had two properties in possession (2015: one). The Society has incurred no mortgage losses during the year (2015: no losses), thus maintaining our enviable record of total mortgage losses under £50,000 since the Banking crisis of 2007-8. The Society shows forbearance to as many borrowers as possible, where appropriate, and there were 51 accounts at 31 October 2016 (2015: 36) 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 your Society's mortgage book and the quality of underwriting processes over recent years. The Board is pleased to report that the Society's overall position in both arrears cases and those where forbearance is being deployed has improved during the year.

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

In March 2016, further regulation in the form of the European Mortgage Credit Directive was introduced, with prescribed rules on disclosure in mortgage illustrations, as well as a modest impact for the Society with new rules on binding offers and periods of reflection, and changes to the regulatory regime applying for some (consumer) BTL customers and for those with earnings or assets in non-sterling currencies. The Society was well prepared for these changes and was therefore able to maintain its normal service standards for borrowers throughout the transitional period.

Retail Shares and Deposits

The Society's retail balances increased by 10% during the year, a higher level of growth than originally budgeted but an appropriate level in view of the Society's mortgage growth levels. The Society seeks to achieve the right balance between its mortgage funding requirements and generating appropriate levels of savings and it could undoubtedly have achieved higher levels of growth in savings balances this year if desired. However, to achieve this balance we restricted new members to a narrow range of accounts throughout the year, thereby allowing existing members to benefit from higher rates than would otherwise have been the case. This also meant that the Society restricted its one year fixed rate bonds to those members with maturing bonds, and by the end of the year, following the reduction in the Bank of England base rate, the Society stopped issuing one year bonds too. 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 partially to protect interest rates for existing members and partially to prevent the Society from being overwhelmed by demand from customers experiencing interest rate cuts or low interest rates elsewhere. The average annual interest rate available to savers continues to reduce and by October the industry average had reached a record low of 0.91% (Source: Moneyfacts) whereas the Society's higher average of 1.12% demonstrates the Society's ongoing commitment to its savers. Our highest paying account, the Existing Members Account, paying 1.60% at year-end, demonstrated its popularity again during the year by introducing a net £22.3m to the Society, despite each member being restricted to a maximum subscription of £4,000 per tax year.

Despite the restrictions to product availability, membership increased by 2,029 during the year with both the Welcome To Newbury account (for adults) and the Barry Bear account (for children) proving popular. Our philosophy for our savers is to operate fairly, with simplicity in product design, competitive terms and conditions, and to ensure existing members are treated at least equally with new members. The reality in recent years has been that existing members have experienced better terms and conditions than new members, as the Society has maintained above average rates for savers.

> "...every single saver currently receives an interest rate level with or above the Bank of England base rate."

Given that the Bank of England base rate has reduced to a record low of 0.25%, we believe strongly that our savings members have been well served by our pricing policy, whereby, for the first time in our history, every single saver currently receives an interest rate level with or above the Bank of England base rate.

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 7% increase in mortgage balances. The reserves now stand at a record level.

This strategy has resulted in the following position as at 31 October 2016:-

- Capital

	2016 £000s	2015 Restated £000s
Tier 1 Capital	60,928	55,260
Tier 2 Capital	765	615
Capital Resources	61,693	55,875
Total Capital Ratio	18.6%	18.0%

- Liquidity: Liquid assets (which comprise cash and investments as shown on the balance sheet on page 22) increased to £150m (2015: £133m). Liquid assets as a percentage of Shares and Borrowings increased to 17.2% (2015: 16.4%).

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 Secretary at our Head Office.

Governance

The only change to the Board this year was occasioned by the resignation of Abigail Gammie at the end of December 2015. Abigail had accepted a new offer of full time employment and therefore did not feel able to give her role with the Society sufficient time for her to continue as a non-executive director. The Nomination Committee took the decision not to replace her in 2016 but to ask John Parker to apply for re-election to the Board for a further year, which he has agreed to do, thus postponing the search for a replacement non-executive director until 2017.

The Board is committed to best practice in Corporate Governance. The report on pages 14 to 17 explains how the Society applies the principles contained in the UK Corporate Governance Code as well as setting out the changes in Committee chairs and membership that have occurred in the year. As part of that commitment the Board commissioned an Effectiveness Review during the year and as a result in 2017 we will evolve our committee stucture to provide a more strategic emphasis.

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

The Communities We Serve

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

Events this year included:

- Ongoing support of the Pink Ribbon Foundation, the Society's nominated charity for 2016, personified by the tandem skydive undertaken by seven members of staff, which raised £2,705.
- Sponsorship of Berkshire County cricket club and Thatcham Town FC youth football team.
- Wokingham branch volunteers carried out a gardening day at Macmillan House, Wokingham.
- Alton branch staff did volunteer work at Alton foodbank, helping with the annual stocktake and sorting foods by weight and expiry dates.
- Head Office staff hosted two baking fundraisers: a Macmillan coffee morning bake-off event, and a cupcake baking competition for Alzheimers research, collectively raising £337.
- At Christmas, several branches supported the Christmas lights switch-on ceremonies in their towns and most branches also had giving trees where members donated presents, which were then given to disadvantaged children over the festive period.
- Andover branch staff spent two days at Dogs Trust in Salisbury, sorting donations for the rescue centre and preparing meals for an array of breeds.
- Winchester branch staff supported the Winchester Hat Fair by sponsorship of a show and by putting the branch to use as a change centre for the festival.

Didcot branch staff receiving their Didcot Business & Community Award.

- Didcot branch staff won the Best Volunteering Practice category in the Didcot First Business & Community Awards (BACA) as a result of conducting a number of fundraising activities during the year.

Our Junior Newbury Building Society programme now involves 24 primary schools in the Society's core operating area and this programme remains at the heart of the Society's Corporate Social Responsibility programme and offers primary schoolchildren the opportunity to run their own branch for their fellow pupils. The aim is to help the children learn how to save and understand basic personal finance matters. The Society's initiative was showcased in a national publication by MyBnk, a charity which provides financial education and enterprise programmes to young people from the age of 11.

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

This year the Society has made donations totalling £22,178 in support of local charities and community organisations. No contributions were made for political purposes.

The Future

The conspicuous levels of growth and profitability provide stronger foundations for the Society to invest further in its staffing and technological capabilities, thereby providing members with top quality products and service.

In the last eighteen months a number of senior appointments have been made to alleviate the strains put on the business by the combined effect of regulatory change, the Society's growth ambitions and its desire to improve its service delivery. The Society has recognised for some time the changing way consumers want to conduct their banking business, which is why the Society has invested heavily in a Front Office system which provides an enhanced online savings service as well as a direct interface for mortgage intermediaries. It is anticipated that these services will be available to members in early 2017. Simultaneously the Society has been overhauling its money transmission services and now provides members access to a free withdrawal service, whereby cleared funds are transferred to the member's nominated current account, typically within two hours.

A crucial element of interaction with clients is the Society's website. So in 2017 the Society will continue to improve our website in line with better practice to improve members' experience.

These technological improvements are ancillary services for members, not replacements. The Board is fully committed to its branch network, promoting a savings culture using fair and transparent products which offer good value in the short, medium and long term. We seek our Newbury brand to be instantly recognisable in our branch towns and synonymous with what differentiates us from banks: member value and engagement, relevant products and services, a sustainable but not excessive profit-making business, and mutuality (best described as the benefit of being member-owned).

There are challenges ahead for the Society as large banks and a number of new 'challengers' are looking to attract market share, which means competition is increasing. This can only be good for members and it will remain our intention to offer fair-priced products, to lend responsibly and to support borrowers achieve their housing aspirations. We will continue to provide advice in our branches and operate in niches where the wider market lacks capacity or capability. The Board is also aware that the housing market is currently subject to an abnormally high level of Governmental intervention, which means the Society will continue to pay particular regard to the appropriateness and quality of its mortgage lending, to ensure that there are no shocks 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.

Financial Risk Management Objectives and Policies

The Society operates in a business environment that contains financial risks. To mitigate these risks, the Board has implemented a clearly defined risk management framework that contains the following features:

- a risk focused governance structure
- risk policy statements and risk limits
- risk identification, monitoring and reporting processes, and
- an effective internal control framework.

The key policies that the Society has implemented to manage the risks that it faces include a Lending Policy and a Liquidity & Financial Risk Management Policy. These are reviewed, amended and approved by the Board on a regular basis.

Principal Risks and Uncertainties

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

In addition to these, the Society is also at risk from uncertainty in the economic environment including as a result of Brexit which could impact the markets in which we operate. For example, the strength of the UK economy and interest rate levels could impact the demand for our products and our customers ability to pay their mortgages.

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 prudent lending policy and 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 individuals 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 and approved by the Assets & Liabilities Committee.

Interest Rate Risk

Interest Rate Risk is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Society's assets and liabilities.

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

A detailed analysis of the Society's interest rate sensitivity at 31 October 2016 can be found in note 25 on pages 50 to 53.

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 controls in place, for all operational areas, which are designed to mitigate these risks.

The Audit Committee is responsible for assessing the effectiveness of the system of inspection and control. The Board regularly reviews strategy to ensure it is sustainable.

Financial Services Compensation Scheme (FSCS) Risk

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable claims to be met. The possibility therefore exists that the Society may be required to pay a higher level of levies if claims increase. A full explanation of the Society's current position in relation to this risk can be found in note 19 on page 37.

Regulatory Risk

Regulatory risk is the risk that specific market interventions, as well as the volume and complexity of regulatory issues, may distort the market and impact the Society's ability to compete and grow. This is regularly reviewed by the Audit 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 Audit Committee.

The Conduct Committee monitors conduct risk at an operational level.

Margin Risk

Margin risk is the risk the changing interest rate environment, competition and government involvement will reduce the Society's profit levels and contribution to capital, causing a deterioration in the solvency ratio thereby threatening the financial strength of the Society.

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
- Abigail Gammie - resigned 31/12/15

Biographies of the Directors appear on pages 12 and 13. None of the Directors has any beneficial interest in any connected undertaking of the Society as at the year-end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986.

The Directors retiring at the Annual General Meeting are John Parker, Ron Simms and Lee Bambridge who, being eligible, offer themselves for re-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 2016 was 13 (2015:15).

Going Concern

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

Events since the Year End

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

Auditor

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

Peter Brickley
Chairman
21 December 2016

Purpose, Vision and Culture

Our Business

1. Champion the merits of Newbury Building Society as an independent mutual, putting members' interests first
2. Develop an increasingly strong presence in the communities we serve in Central Southern England
3. Offer an attractive range of competitive products and services appropriate to our members' needs
4. Manage members' financial requirements with confidence demonstrating high quality of service and value
5. Maintain sufficient financial strength and the cost effectiveness to support, sustain and develop the Society's operations

Staff from our Alton branch spent the day at Alton Foodbank as part of the Society's Community programme.

Our Members

1. Treat our members fairly because we want to
2. Offer our members products that match their needs
3. Communicate clearly, openly and honestly
4. Give suitable advice
5. Meet our members' expectations of service and product performance
6. Not make it difficult for members to change their minds or complain

MUTUAL RESPECT SINCE 1856

160 NEWBURY building society

Our Staff

1. Encourage our staff to take responsibility and focus on outcomes
2. Create opportunities to learn and develop with progression gained on merit
3. Celebrate success and support colleagues
4. Communicate openly sharing our views in a positive way and respecting the views of others
5. Reward people who do their best at all times

The Society's Management and Leadership Course graduates.

The Year in Pictures

Staff of the Society offered free advice at the Help to Buy show in Bristol.

Roland Gardner addresses guests at the business event to celebrate our 160th birthday.

Newbury Building Society branches ready to welcome customers to help celebrate our 160th birthday.

Roland Gardner receives the Society's membership certificate for the Berkshire Community Foundation's Business Philanthropy Club, presented by Lady Catherine Stevenson, Deputy Lieutenant of Berkshire.

We are the proud sponsors of Berkshire County Cricket team who were crowned the Unicorns Counties Champions in 2016.

7 intrepid staff completed a tandem Skydive over Swindon and raised £2,705 for the Society's charity of the year, the Pink Ribbon Foundation.

Alton branch helped raise £2,500 for the Fire Fighters Charity selling tickets for a fundraising Royal Marines School of Music concert.

Staff from our Basingstoke branch supported the Basingstoke Half Marathon and raised money for St Michael's Hospice.

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 Strategic Risk and Nomination Committees and member of the Remuneration Committee.

John Parker
Vice Chairman

John was appointed to the Board of Directors in April 2007. He is a Chartered Accountant and a member of the Chartered Institute of Bankers. He was Chief Executive of a regional Building Society and is a past Chairman of the Building Societies Association. He is Chairman of the Assets & Liabilities and Remuneration Committees and a member of the Audit, Strategic Risk and Nomination Committees.

Sarah Hordern
Non-Executive Director

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

Tracy Morshead
Non-Executive Director

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

William Roberts
Non-Executive Director

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

Ron Simms
Non-Executive Director

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

Executive Directors

Roland Gardner
Chief Executive

Roland joined the Society in 1987 and was appointed to the Board of Directors in September 2006. He was appointed Chief Executive on 1 February 2007. As Chief Executive Roland leads the Society's strategic direction and chairs the Executive Committee. Roland is a member of the Assets & Liabilities, Credit and Sales, Marketing & Development Committees.

Lee Bambridge
Finance Director

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

Phillippa Cardno
Operations & Sales Director

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

Executives

Nigel Briggs
Head of Compliance & Company Secretary

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

Erika Neves
Head of Risk

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 last updated the UK Corporate Governance Code in September 2014. 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 meets usually eleven times a year, together with a day focused on strategy, to discharge these duties effectively. The Non-Executive Directors meet without the Executive Directors present at least once a year. The 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.

The Board delegates certain responsibilities to the following Committees:

Assets & Liabilities Committee (ALCO)

The Committee is responsible for monitoring the structure of the Society's assets and liabilities, controlling financial risk and reviewing control procedures including limits, reporting lines and mandates. Over the last year the Committee has monitored liquidity levels, interest rate and basis risk, and refinancing risk. It has also overseen the Society's participation in the Funding for Lending Scheme including the mitigation of any associated repayment risk.

The Committee comprises two Non-Executive Directors who are currently Mr Parker (Chair) and Mr Simms, as well as the Chief Executive and the Finance Director. The Treasury Manager and Head of Risk attend by invitation.

Audit Committee

The Committee is responsible for providing appropriate oversight, independently of the Executive, to ensure that the interests of members and the Society's other key stakeholders are properly protected in relation to financial reporting and internal control. During the reporting period the Committee assessed the accuracy and completeness of the annual accounts, reviewed accounting policies and satisfied itself over the approach taken to adopt the FRS102 accounting standard, including in respect of provisioning, hedge accounting and effective interest rates. The Committee recommends acceptance of the annual accounts to the Board having outlined the role it played in overseeing the integrity of financial reporting. On an annual basis the internal auditor presents a report to the Committee setting out its conclusions regarding the effectiveness of the control environment and the independence and adequacy of resourcing of internal audit over the period of the audit plan. This report informs the Committee's assessment of the effectiveness of the internal audit function. The external auditor also provides an annual attestation as part of the external audit as to its independence and the Committee discusses the performance, independence, objectivity, competence and effectiveness of both sets of auditors without those auditors present. In light of these discussions, the Committee agreed to continue to retain the services of Deloitte LLP for the forthcoming year and to recommend the re-appointment of KPMG LLP, headed up by a new engagement partner, as the Society's external auditor. The Committee negotiated and agreed the scope of audit work and fees, approving a limited amount of complementary non-audit work, and associated fees, in accordance with the Society's Policy. The Committee also monitored the effectiveness of internal compliance assurance systems as part of its consideration of conduct, operational resilience and risk management matters, and reassured itself over the operation of the Society's whistleblowing controls.

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.

Credit Committee

The Committee is responsible for credit risk oversight, reviewing the quality and profile of the mortgage portfolio against the Society's credit risk appetite. Over the last year the Committee has monitored lending quality, volume and arrears performance, and it has undertaken individual reviews of all commercial and larger loans. It has also assessed regulatory changes, including in respect of Buy To Let business, and has recommended changes to lending policy for approval by the Board.

The Committee comprises three Non-Executive Directors who are currently Mrs Hordern (Chair), Mr Morshead and Mr Roberts as well as the Chief Executive and the Operations & Sales Director. The Underwriting Manager, the Operations Manager and the Head of Risk attend by invitation.

Nomination Committee

The Committee is responsible for succession planning for both Executive and Non-Executive Director positions. During the reporting period the Committee oversaw the introduction of the Senior Managers' Regime, sponsored a comprehensive Board Effectiveness Review (BER) and considered the balance and diversity of skills, knowledge and experience of the Board. The Committee reviewed the performance of Directors individually and collectively, and recommended the re-election of three Directors to the Board including Mr Parker who will have served nine years on the Board by the time of the AGM. The Board considered the Committee's recommendation and decided that Mr Parker's considerable experience would provide additional continuity during a period of planned change. In so doing the Board also agreed that Mr Simms would replace Mr Parker as the Society's Senior Independent Director with effect from 1 January 2017.

The Committee comprises three Non-Executive Directors who are currently Mr Brickley (Chair), Mr Parker and Mr Simms. The Chief Executive attends by invitation.

Remuneration Committee

The Committee is responsible for setting and monitoring adherence to the Society's remuneration policy. 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 differentials, reviewed director expenses, and set and approved the performance related pay of the Executives, including the consideration of relevant risks. The Committee comprises three Non-Executive Directors who are currently Mr Parker (Chair), Mr Brickley and Mr Simms. The Chief Executive attends by invitation.

Sales, Marketing & Development Committee

The Committee is responsible for monitoring the Society's sales and marketing activity against business plan and ensuring positive customer outcomes.

The Committee comprises two Non-Executive Directors who are currently Mr Morshead (Chair) and Mrs Hordern as well as the Chief Executive and the Operations & Sales Director. The Marketing & Communications Manager and the Head of Risk attend by invitation.

Strategic Risk Committee

The Committee is responsible for setting the Society's risk appetite, for risk monitoring, and for its capital management framework. The Committee comprises all the Non-Executive Directors, with the Executive Directors and the Head of Risk attending by invitation.

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. Following this year's Board Effectiveness Review, a range of changes are being made to the Board's committee structure to provide a more strategic focus. These changes are due to be implemented over the course of next year following which the revised terms of reference will be avaliable on the 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.

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:

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

The Composition of the Board

Code Principle:

B.1. The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Society to enable them to discharge their respective duties and responsibilities effectively.

Board Comment:

The Board comprises six Non-Executive and three Executive Directors providing a balance of skills and experience appropriate for the requirements of the business. Committee membership is reviewed annually to ensure there is appropriate expertise 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 including Mr Parker who will have completed nine years' service by the time of the AGM but who continues, as do the other Non-Executives, to provide robust challenge to the Executive.

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 no Non-Executive Director or Executive Director appointments during the year.

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.

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. The formal appraisal process carried out by the Chairman each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 17.

Development

Code Principle:

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

Board Comment:

The Society provides a formal induction for Non-Executive Directors tailored to their needs. This includes the nature of building societies, Director's responsibilities and duties, the management information they will be provided with and how to interpret this, information on the Society and the local market, an overview of the regulatory requirements, and details of significant current issues for the industry. The Chairman ensures that Non-Executive Directors are provided with internal briefings and attend industry seminars and conferences in order to continually update their skills and knowledge.

Information and Support

Code Principle:

B.5. The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Board Comment:

The Chairman ensures that the Board receives 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 the Board has access to independent advice if required.

Evaluation

Code Principle:

B.6. The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.

Board Comment:

At least annually the Chairman of the Nomination Committee appraises the Chief Executive's performance and the Committee reviews the other Executive Director appraisals. The contribution of individual Directors is evaluated by the Chairman using questions based on those recommended in the FRC guidance on Board Effectiveness and taking into account the views of the other Directors. The Chairman is evaluated by the Non-Executive Directors facilitated by the Vice-Chairman and taking into account the views of the Executive Directors. With input from the Nomination Committee, the Board evaluates its overall performance and that of each Committee. This process is used to improve the effectiveness of Directors and the Board collectively, to identify training needs and inform the decision whether to submit a Director for re-election.

Re-election

Code Principle:

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

Board Comment:

The Society's Rules require that all Directors be submitted for election within a maximum of 16 months of, or at the AGM following, their appointment to the Board. Directors are appointed for a three-year term, subject to satisfactory performance. The Board does not believe it is appropriate for a building society to subject Directors to annual re-election (unless they are Non-Executive Directors other than the Chairman who have served three terms) because of the continuity 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 and the statement that the Society's business is a going concern are contained in the Directors' Responsibilities on page 19.

Risk Management and Internal Control

Code Principle:

C.2. The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

Board Comment:

The Board has identified a number of principal risks 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 risk management policy. Senior management is responsible for designing, operating and monitoring risk management systems and controls. Each Board Committee has oversight responsibility for the risks and controls within its remit. The Strategic Risk Committee assesses the adequacy of the risk related output of this process and the Society's internal auditor, Deloitte LLP, provides independent and objective assurance regarding the design and performance of risk management systems and controls.

During the reporting period the Board undertook a thorough review of the effectiveness of its risk management systems and controls and concluded that whilst the current framework has served the Society well, further enhancements are justified in response to the increasing scale and complexity of the business. These enhancements will be introduced during the next financial year.

Audit Committee and Auditors

Code Principle:

C.3. The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Board Comment:

The Board has an Audit Committee comprising three Non-Executive Directors. These Directors have specialist expertise including current and relevant financial, legal and risk management experience the combination of which provides sufficient relevant experience both of the sector and of matters falling within the remit of the Committee. The composition of the Committee also ensures appropriate independent oversight of the Executive management team.

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

Audit firms often have specialist skills and expertise and can provide non-audit services competitively. The Audit Committee is required to approve the commissioning of material non-audit services provided by the auditors, taking into account the effect this has on objectivity and independence. The Society's policy is to tender for audit services on a regular basis and at least every 10 years. The last tender was undertaken in 2012.

Remuneration

The Directors' Remuneration Report on page 18 explains how the Society applies the Code Principles relating to remuneration.

Dialogue with Shareholders

Code Principle:

E.1. There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Board Comment:

As a mutual organisation the Society's membership consists of individuals who are also the Society's customers. The Society is committed to dialogue with members through regular newsletters, social media and events 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 providing a further means by which members can communicate with the Society.

Constructive use of the Annual General Meeting (AGM)

Code Principle:

E.2. The Board should use the AGM to communicate with investors and to encourage their participation.

Board Comment:

Each year the Society sends details of the AGM to all members who are eligible to vote. The resolutions include the election of Directors and a separate advisory vote on the Directors' Remuneration Report. Members are encouraged to exercise their right to vote and a donation to charity is made for each vote cast. Members can choose to vote by proxy if they are unable to attend the AGM. The AGM notices are distributed with at least 21 clear days' notice. At the AGM a poll is called in relation to each resolution and the proxy votes cast are included in the results. The results are published on the Society's website.

All members of the Board are present at the AGM each year unless their absence is unavoidable. The Executive Directors and Chairs of the Committees are therefore available to answer questions raised by the Society's members.

Peter Brickley
Chairman
21 December 2016

Directors' Attendance Record

( ) = number of meetings required to attend

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

Directors Remuneration Report

This report explains how the Society applies the principles of the UK Corporate Governance Code September 2014 (the Code) relating to remuneration. It also explains how the Society's remuneration policy complies with relevant regulations including the Remuneration Part of the Prudential Regulation Authority's Rulebook and the Financial Conduct Authority's Remuneration Code for dual regulated firms (SYSC 19D). The Remuneration Committee has determined that, as at 31 October 2016, all six 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.

Board Comment:

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

Executive Directors Emoluments

The remuneration of the individual Directors is detailed in note 8 on page 32. 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 retail funds. 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% 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 Chairmen of the Board, Strategic Risk, Audit, Remuneration and Nomination Committees to reflect the additional responsibilities of these positions. Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any incentive schemes or receive any other benefits. Non-Executive Directors have letters of appointment instead of service contracts 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.

Board 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 three times a year. 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 recommendation regarding Non-Executive Director fees reflected the introduction of the Senior Managers' Regime and was accepted in full.

Executive Directors

The Remuneration Committee does not believe it is necessary to use a multi-year framework to incentivise Executives and 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. The Committee believes that the performance related targets set for 2016 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. Fundamental prerequisites for any performance related payments include compliance, ethical standards and appropriate risk management. Non-adherence would lead to the non-payment of variable remuneration.

Whilst a binding vote on Remuneration Policy is not considered appropriate for a building society of our size and nature, if 25% of the turnout 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
21 December 2016

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 1986 ("the Act") requires the Directors to prepare Group annual accounts for each financial year. Under that law they have elected to prepare the Group annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS102 The Financial Reporting Standard as it applies to the UK.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

In addition to the annual accounts the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by both the Prudential Regulation Authority and the Financial Conduct Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Newbury Building Society

We have audited the Group and Society annual accounts of Newbury Building Society for the year ended 31 October 2016 set out on pages 21 to 60. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the Directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and of the Society as at 31 October 2016 and of the income and expenditure of the Group and of the Society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

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

Peter Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
66 Queen Square, BS1 4BE. Bristol
21 December 2016

Income Statements for the year ended 31 October 2016

	Notes	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Interest receivable and similar income	2	26,638	26,638	26,449	26,341
Interest payable and similar charges	3	(10,696)	(10,696)	(10,620)	(10,620)
Net interest income		15,942	15,942	15,829	15,721
Fees and commissions receivable		46	46	77	72
Fees and commissions payable		(60)	(59)	(53)	(52)
Income from investments in subsidiary undertaking		-	12	-	1,797
Other operating income		26	26	26	26
Total operating income		15,954	15,967	15,879	17,564
Net (loss)/gain from derivatives	4	(447)	(447)	22	22
Total Net Income		15,507	15,520	15,901	17,586
Administrative expenses	5	(7,808)	(7,808)	(7,375)	(7,369)
Depreciation and amortisation	14/15	(484)	(484)	(456)	(456)
Operating profit before impairment and provisions		7,215	7,228	8,070	9,761
Impairment of loans and advances	12	(28)	(28)	(7)	(7)
Provision for FSCS levy	19	(195)	(195)	(425)	(425)
Profit before Tax		6,992	7,005	7,638	9,329
Taxation	6	(1,387)	(1,387)	(1,614)	(1,593)
Profit for the Financial Year	20	5,605	5,618	6,024	7,736

Statement of Comprehensive Income

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Profit for the financial year	5,605	5,618	6,024	7,736
Total Comprehensive income for the financial year	5,605	5,618	6,024	7,736

The notes on pages 25 to 60 form part of these accounts.

Statement of Financial Position at 31 October 2016

	Notes	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		134,780	134,780	116,532	116,532
Loans and advances to credit institutions	9	15,228	15,228	16,124	16,070
		150,008	150,008	132,656	132,602
Derivative financial instruments	10	80	80	33	33
Loans and advances to customers					
Loans fully secured on residential property	11	770,056	770,056	718,239	718,238
Other loans	11	10,731	10,731	13,537	13,537
		780,787	780,787	731,776	731,775
Investments in subsidiary undertakings	13	-	-	-	18
Tangible fixed assets	14	4,895	4,895	5,032	5,032
Intangible fixed assets	15	881	881	944	944
Other assets	16	2,230	2,230	-	-
Prepayments and accrued income		457	457	359	359
Total Assets		939,338	939,338	870,800	870,763
Liabilities					
Shares	17/25	767,617	767,617	691,738	691,738
Amounts owed to credit institutions	25	65,008	65,008	69,914	69,914
Amounts owed to other customers	25	40,726	40,726	49,137	49,137
Derivative financial instruments	10	1,554	1,554	703	703
Other liabilities	18	1,028	1,028	1,912	1,890
Accruals and deferred income		1,216	1,216	819	817
Provisions for liabilities	19	380	380	373	373
Total Liabilities		877,529	877,529	814,596	814,572
Reserves					
Revaluation reserve	20	1,425	1,425	1,425	1,425
Reserves - general reserves	20	60,384	60,384	54,779	54,766
Total Reserves	20	61,809	61,809	56,204	56,191
Total Reserves and Liabilities		939,338	939,338	870,800	870,763

The notes on pages 25 to 60 form part of these accounts.

These accounts were approved by the Board of Directors on 21 December 2016
***P Brickley** - Chairman*
***J H Parker** - Vice Chairman*
***R M W Gardner** - Chief Executive*
***L F Bambridge** - Finance Director*

Statement of Changes in Members' Interest for the year ended 31 October 2016

	General reserves £000s	Revaluation reserve £000s	Total
Group			
At 1 November 2015	54,779	1,425	56,204
Profit for the financial year	5,605	-	5,605
At 31 October 2016	60,384	1,425	61,809
Group			
At 1 November 2014	48,755	1,425	50,180
Profit for the financial year	6,024	-	6,024
At 31 October 2015	54,779	1,425	56,204

Cash Flow Statements

	Group 2016 £000s	Group 2015 £000s	Society 2015 £000s
Cash flows from Operating Activities			
Profit before tax	6,992	7,638	9,329
Depreciation and amortisation	484	456	456
Profit on disposal of property, plant and equipment	(30)	(71)	(71)
Increase in impairment of loans and advances	28	7	7
Total	7,474	8,030	9,721
Changes in Operating Assets and Liabilities			
Increase in prepayments, accrued income and other assets	(2,377)	(99)	(98)
Increase in accruals, deferred income and other liabilities	466	145	40,274
Increase in loans and advances to customers	(49,039)	(68,907)	(110,569)
Increase in shares	75,831	34,836	34,836
Increase in loans and advances to credit institutions	(7,000)	-	-
(Decrease)/increase in amounts owed to other credit institutions and other customers	(13,313)	7,755	7,755
Taxation paid	(1,438)	(1,452)	(1,522)
Net Cash Generated by Operating Activities	3,130	(27,722)	(29,324)
Cash flows from Investing Activities			
Purchase of property, plant and equipment	(249)	(604)	(604)
Disposal of property, plant and equipment	187	123	123
Purchase of intangible assets	(192)	(158)	(158)
Net Cash used in Investing Activities	(254)	(639)	(639)
Net Increase / (Decrease) in Cash and Cash Equivalents	10,350	(20,331)	(20,242)
Cash and cash equivalents at 1 November	132,645	152,976	152,833
Cash and Cash Equivalents at 31 October	142,995	132,645	132,591

No Society cash flow statement has been prepared for 2016 on the basis that Society and Group cashflows are materially the same.

1. Accounting Policies

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

1.1 Basis of Preparation

The Annual Accounts of the Group and 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.

In the transition to FRS 102 from old UK GAAP, the Group and Society have made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Group is provided in note 30.

Going concern

The Directors have prepared forecasts for the Group, 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 Group'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 Group 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.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Society and its subsidiary undertakings. Subsidiaries are all entities controlled by the Society.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Uniform accounting policies are used throughout the Group. In the Society, investments in subsidiary undertakings are carried at cost less any provisions for impairment.

1.2 Interest

Interest receivable and expense are recognised in the Income Statement using the effective interest method. The effective interest method is used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) 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 in deferred amounts 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 (loss)/gain from derivatives at fair value through profit or loss in the income statement and in the statement of comprehensive income.

1.3 Fees and commissions receivable and payable

Fees and commissions are generally recognised on an accruals basis when the service has been provided. Where material mortgage arrangement fees and other direct costs are deferred and recognised as an adjustment to the effective interest rate on the loan.

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 Group 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 Group at fair value through profit or loss upon initial recognition. The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational activities.

In accordance with its treasury policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments (both assets and liabilities) are initially recognised and subsequently held at fair value in the Statement of Financial Position with changes in their fair value going through the Income Statement. However, by applying the hedge accounting rules set out in IAS 39, the changes in fair value of derivatives used to hedge particular risks can be offset in the Income Statement.

The Group's hedging strategy hedges the fair value of recognised assets or liabilities (fair value hedges).

Hedge accounting is used for derivatives designated in this way provided that certain criteria are met.

The Group 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 various hedge transactions. The Group 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 or cash flows 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 consolidated 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 Group's holdings of financial liabilities are made up of those recorded at amortised cost and hedging derivatives recorded at fair value.

All financial liabilities including shares and deposits held by the Group are recognised initially at fair value, which is usually the amount deposited.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for those financial liabilities, for example derivative liabilities, which are measured at fair value through profit or loss.

c) Impairment of financial assets

Impairment of mortgage loans and advances

The Group 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 Group 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 the Group 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.

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 Group'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.

Impairment losses on investments in subsidiary undertakings

The Society assesses, at each reporting date, whether there is any indication that its investments in subsidiary companies are impaired. If any indication of impairment exists, the Society compares the relevant asset's recoverable amount with its carrying value and, if an impairment loss has arisen, recognises it in the Income Statement immediately.

The recoverable amount of the investment is calculated with reference to the present value of the subsidiary's estimated future cash flows, primarily those arising from the continued trading of the subsidiary. This approach is based on the assumption that the Society, by virtue of control, is able to extract the subsidiary's cash flows in the form of loan repayment and/or dividends. In line with IAS 39, the discount rate used to arrive at the present value of future cash flows is the intergroup interest charge rate representing the EIR of the investment asset being assessed.

d) Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when the contractual right to the cash flows from the financial asset expires. The Group also derecognises financial assets that it transfers 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 Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

e) Determination of fair value

The Group 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

Investment 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 Group, 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 Group, 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 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 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 the asset's carrying amount 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 Group 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 Group 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 Group, is a contingent liability. A contingent liability is disclosed but not recognised in the Statement of Financial Position.

Employee benefits

For defined contribution plans, the contributions are recognised as 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 Group 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 £148k.

- Effective interest rate
  The calculation of an effective interest rate requires the Group 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 £183k with a corresponding change to income.

- Fair value of derivatives and financial instruments
  The value of derivatives is calculated by projecting expected future principal and interest cash flows, discounted using the prevailing LIBOR curve. The LIBOR yield curve is observable market data that derived from interest rates in similar time bandings which match the timings of cash flows and maturities of the instruments. At year end a parallel increase of 50bps in the LIBOR curve would change the net fair value of derivative financial instruments and related hedged items by £102k.

Notes to the Accounts

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
2. Interest Receivable and Similar Income				
On loans fully secured on residential property	26,831	26,831	26,395	24,889
On other loans:				
• Connected undertakings	-	-	-	1,426
• Other	375	375	496	467
On Debt Securities:				
• Interest and other income	3	3	6	6
On other liquid assets:				
• Interest and other income	383	383	440	441
Net expense on financial instruments	(954)	(954)	(888)	(888)
	26,638	26,638	26,449	26,341

3. Interest Payable and Similar Charges

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
On shares held by individuals	9,950	9,950	9,741	9,741
On other shares	44	44	68	68
On deposits and other borrowings	702	702	811	811
	10,696	10,696	10,620	10,620

4. Net (Loss) / Gain from Derivatives

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Derivatives in designated fair value hedge relationships	(354)	(354)	(239)	(239)
Adjustments to hedged items in fair value hedge accounting relationships	358	358	271	271
Derivatives not in designated fair value hedge accounting relationships	(451)	(451)	(10)	(10)
	(447)	(447)	22	22

5. Administrative Expenses

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Employee costs				
• Wages and salaries	3,888	3,888	3,761	3,761
• Social security costs	396	396	364	364
• Other pension costs	529	529	512	512
	4,813	4,813	4,637	4,637
Profit on disposal of fixed assets	(30)	(30)	(71)	(71)
Other administrative expenses	3,025	3,025	2,809	2,803
	7,808	7,808	7,375	7,369
• Remuneration of auditor and its associates (excluding VAT)				
- audit of annual accounts	93	93	50	50
- audit of subsidiary's financial statements	-	-	6	-
- other services pursuant to such legislation	5	5	6	6
- other services relating to taxation	-	-	8	8
• Operating lease costs	137	137	137	137

6. Taxation

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
The taxation charge for the year comprises:				
UK corporation tax on profits in the year	1,482	1,482	1,465	1,444
Adjustment in respect of previous year	-	-	-	-
Total current tax	1,482	1,482	1,465	1,444
Deferred taxation:				
Origination and reversal of timing differences	(95)	(95)	149	149
Total deferred tax	(95)	(95)	149	149
Tax on profit on ordinary activities	1,387	1,387	1,614	1,593
Factors affecting the tax charge for the year are:				
Profit on ordinary activities before tax	6,992	7,005	7,638	9,329
Profit on ordinary activities multiplied by 20% (2015: 20.41%)	1,399	1,401	1,559	1,904
Effects of:				
Difference between capital allowances and depreciation	-	-	-	-
Movement on non-taxable provisions	-	-	-	-
Depreciation on non-qualifying assets	7	7	53	53
Exempt dividend income	-	(2)	-	(366)
Adjustment in respect of previous year	(21)	(21)	(4)	(4)
Disallowable expenses	2	2	6	6
Current tax charge for the year	1,387	1,387	1,614	1,593

7. Employees

	Full time 2016	Part time 2016	Full time 2015	Part time 2015
The average number of persons employed by the Society and Group (including Executive Directors) during the year was as follows:				
Head Office	67	15	57	14
Branch Offices	49	19	44	23
	116	34	101	37

8. Directors' Remuneration and Transactions

The emoluments for both Executive and Non-Executive Directors totalled £742,000 for the year (2015: £712,000).

Executive Directors' Emoluments

2016	Salary £000s	Performance Related Pay £000s	Taxable Benefits £000s	Pension Contribution £000s	TOTAL £000s
Roland Gardner	195	18	2	19	234
Lee Bambridge	169	15	1	-	185
Phillippa Cardno	103	11	1	27	142
TOTAL	467	44	4	46	561
2015					
Roland Gardner	166	18	1	44	229
Lee Bambridge	159	14	1	-	174
Phillippa Cardno (from 19/2/15)	67	7	1	12	87
Geoff Knappett (to 31/1/15)	24	-	-	8	32
TOTAL	416	39	3	64	522

The Executive Directors' emoluments increased by 7.5% in the year which included a 2% annual salary increase for the Chief Executive. Total employee costs increased 7.7% in the year (excluding redundancy costs) due to increased staff numbers (see note 7) and an average annual salary increase of 3.1%.

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 Roland Gardner and Phillippa Cardno took advantage of this option. Roland Gardner (from April 2016) and Lee Bambridge, with agreement from the Society, took their pension contributions as salary.

Lee Bambridge also received £13,500 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 18.

Non-Executive Directors' Emoluments (comprising fees only)	2016 £000s	2015 £000s
Peter Brickley (Chairman)	40	35
John Parker (Vice Chairman)	30	29
Brian Eighteen (resigned 27 April 2015)	-	12
Abigail Gammie (resigned 31 December 2015)	4	16
Sarah Hordern (appointed 19 February 2015)	26	17
Tracy Morshead	26	24
Adrian Rann (resigned 23 February 2015)	-	13
William Roberts (appointed 19 February 2015)	25	16
Ron Simms	30	28
TOTAL	181	190

Loans to Directors and connected parties:

The aggregate outstanding balance at the end of the financial year in respect of loans from the Group to Directors and connected persons was £395,678 (2015: £1,247,769) representing loans to two (2015: six) persons. A register of loans to and transactions with Directors and connected persons is maintained. It is available for inspection by members at the Society's Head Office for the period of fifteen days prior to the Annual General Meeting and at the Annual General Meeting.

9. Loans and Advances to Credit Institutions

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Accrued interest	13	13	11	11
Repayable on demand	5,715	5,715	16,113	16,059
Other loans and advances by residual maturity repayable:				
In not more than three months	2,500	2,500	-	-
More than three months but not more than one year	7,000	7,000	-	-
	15,228	15,228	16,124	16,070

10. Derivative Financial Instruments

	Contract/ notional amount £000s	Fair values Assets £000s	Fair values Liabilities £000s
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)
At 31 October 2015			
a) Unmatched derivatives - Interest rate swaps	26,959	8	(50)
b) Derivatives designated as fair value hedges - Interest rate swaps	113,053	25	(653)
Total recognised derivative assets/(liabilities)	140,012	33	(703)

11. Loans and Advances to Customers

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Loans fully secured on residential property	768,322	768,322	717,294	717,293
Other loans: fully secured on land	10,731	10,731	13,537	13,537
Total loans	779,053	779,053	730,831	730,830
Effective interest rate adjustment	1,613	1,613	1,154	1,154
Fair value adjustment for hedged risk	1,008	1,008	650	650
	781,674	781,674	732,635	732,634
Provision for impairment losses on loans and advances	(887)	(887)	(859)	(859)
	780,787	780,787	731,776	731,775

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

Repayable:	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
In not more than three months	3,354	3,354	3,853	3,853
In more than three months but not more than one year	6,915	6,915	10,240	10,240
In more than one year but not more than five years	51,066	51,066	46,472	46,472
In more than five years	720,339	720,339	672,070	672,069
	781,674	781,674	732,635	732,634
Less allowance for impairment (refer to note 12)	(887)	(887)	(859)	(859)
	780,787	780,787	731,776	731,775

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

At 31st October 2016 the Group had pledged £90.6m (2015: £112.1m) of mortgage assets to the Bank of England under the Funding for Lending Scheme.

	Loans fully secured on residential property	
	Group £000s	**Society £000s**
12. Allowances for losses on loans and advances		
At 1 November 2015		
Collective provision	615	615
Individual provision	244	244
	859	859
(Credit) / charge for the year		
Collective provision	150	150
Individual provision	(122)	(122)
	28	28
At 31 October 2016		
Collective provision	765	765
Individual provision	122	122
	887	887

	Shares £000s	**Loans £000s**	**Total £000s**
13. Investments in Subsidiary Undertakings			
At 1 November 2015	-	18	18
Repayment	-	(18)	(18)
At 31 October 2016	-	-	-

The Society holds directly all of the ordinary share capital of three companies; Newbury Mortgage Services Ltd (NMS), Newbury Financial Services Ltd (NFS) and Newbury Insurance Services Ltd (NIS). All subsidiaries have been consolidated. NFS and NIS have been dormant for a number of years, NMS became dormant at the end of the 2016 financial year.

All subsidiary undertakings are registered in England and Wales and operate within the United Kingdom.

14. Tangible Fixed Assets	Group and Society Land and Buildings £000s	Equipment, fixtures, fittings & vehicles £000s	Total £000s
Cost / valuation			
At 1 November 2015	4,815	2,587	7,402
Additions	-	249	249
Disposals	(165)	(492)	(657)
At 31 October 2016	4,650	2,344	6,994
Depreciation			
At 1 November 2015	171	2,199	2,370
Charge for the year	64	165	229
Elimination in respect of Disposal	(8)	(492)	(500)
At 31 October 2016	227	1,872	2,099
Net book value			
At 31 October 2015	4,644	388	5,032
At 31 October 2016	4,423	472	4,895

Land and buildings consist of £2.39m of freehold property, £1.51m non depreciable land and £0.5m of leasehold property.

The net book value occupied for own activities at 31 October was £3.9m (2015: £4.1m).

The Society’s freehold properties were last revalued on 7 April 2014 on a vacant possession basis by Quintons, Chartered Surveyors. Other tangible fixed assets are included at cost.

15. Intangible Assets

	Group and Society Software £000s
Cost / valuation	
At 1 November 2015	1,410
Additions	192
At 31 October 2016	1,602
Depreciation	
At 1 November 2015	466
Charge for the year	255
At 31 October 2016	721
Net book value	
At 31 October 2015	944
At 31 October 2016	881

Intangible assets are included at cost

16. Other Assets

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Cash collateral pledged against hedging contracts	2,230	2,230	-	-
	2,230	2,230	-	-

17. Shares

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Held by individuals	767,414	767,414	691,522	691,522
Other shares	203	203	216	216
	767,617	767,617	691,738	691,738

18. Other Liabilities

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Amounts falling due within one year:				
Corporation tax	859	859	814	792
Income tax	-	-	786	786
Other creditors	52	52	100	100
	911	911	1,700	1,678
Amount falling due in more than one year:				
Deferred tax	117	117	212	212
	1,028	1,028	1,912	1,890

There is no longer an income tax liability as interest is now paid gross.

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
Movement on deferred tax liability:				
At 1 November	(212)	(212)	(63)	(63)
Deferred tax charge (see note 6)	95	95	(149)	(149)
At 31 October	(117)	(117)	(212)	(212)
Comprising:				
Accelerated capital allowances	(111)	(111)	(156)	(156)
Pre-paid pension costs	(7)	(7)	(6)	(6)
FRS102 transition adjustment	(150)	(150)	(247)	(247)
Collective loss provision	151	151	197	197
At 31 October	(117)	(117)	(212)	(212)

19. Provisions for liabilities

	Group £000s	Society £000s
Financial Services Compensation Scheme		
At 1 November 2015	373	373
Paid in year	(188)	(188)
Income and Expenditure account:		
Increase in Provision	195	195
At 31 October 2016	380	380

Financial Services Compensation Scheme

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

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

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012 and the final compensation levy was paid in September 2015. The provision at 31 October 2016 includes an estimate of the management expenses levy for the scheme year 2016/17.

20. Reserves

	Group £000s	Society £000s
General Reserves		
At 1 November 2015	54,779	54,766
Profit for the financial year	5,605	5,618
At 31 October 2016	60,384	60,384
Revaluation Reserve		
As at 1 November 2015	1,425	1,425
Increase / Decrease	-	-
As at 31 October 2016	1,425	1,425

The potential tax liability on the surplus on revaluation is £285,000 (2015: £285,000). This liability would crystallise if the revalued assets were sold; no deferred tax has been provided for this amount.

21. Cash and Cash Equivalents

	Group 2016 £000s	Group 2015 £000s
Cash in hand and balances with the Bank of England repayable on demand	134,780	116,532
Loans and advances to credit institutions	8,215	16,113
As at 31 October	142,995	132,645

22. Capital and Other Financial Commitments

	Group 2016 £000s	Society 2016 £000s	Group 2015 £000s	Society 2015 £000s
a. Capital commitments				
Capital expenditure contracted but not yet provided for in the accounts	259	259	186	186
b. Leasing commitments				
Total commitments under non-cancellable leases	148	148	154	154
Rental commitments arising				
• Not later than one year	-	-	5	5
• Later than one year but not later than five years	24	24	25	25
• Later than five years	124	124	99	99

The Group has a commitment to repurchase treasury bills amounting to £64.9m (2015: £69.8m).

23. 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 Group 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 swap 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 Group in using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which the Group 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 course 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 Group 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 ALCO monitors the financial risks (including the use of derivative financial instruments), funding and liquidity in line with the Group'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 Group'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 analyses the Group's assets and liabilities by financial classification:

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

Carrying values by category 31 October 2015	**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	116,532	-	-	-	116,532
Loans and advances to credit institutions	16,124	-	-	-	16,124
Derivative financial instruments	-	-	25	8	33
Loans and advances to customers	731,776	-	-	-	731,776
Total assets	864,432	-	25	8	864,465

Financial liabilities					
Shares	-	691,738	-	-	691,738
Amounts owed to credit institutions	-	69,914	-	-	69,914
Amounts owed to other customers	-	49,137	-	-	49,137
Derivative financial instruments	-	-	653	50	703
Total liabilities	-	810,789	653	50	811,492

There have been no reclassifications during either year.

Fair values of financial assets and liabilities carried at fair value

The table below summarises the fair values of the Group's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Group to derive the financial instruments fair value:

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
At 31 October 2016				
Financial assets				
Derivative financial instruments - Interest rate swaps	-	80	-	80
Financial liabilities				
Derivative financial instruments - Interest rate swaps	-	1,554	-	1,554
At 31 October 2015				
Financial assets				
Derivative financial instruments - Interest rate swaps	-	33	-	33
Financial liabilities				
Derivative financial instruments - Interest rate swaps	-	703	-	703

Valuation techniques

The following is a description of the determination of fair value for financial instruments which are accounted for at fair value using valuation techniques. The fair value hierarchy detailed in FRS102.34 splits the source of input when deriving fair values into three levels, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for indentical 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. The valuation of interest rate swaps is based on the 'present value' method. Expected interest cash flows are discounted using the prevailing 3 month Libor zero coupon yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments. The swaps are subject to Credit Support Annexes (CSAs) which contain a minimum transfer threshold. Collateral is only posted once the threshold is reached, at which point the whole amount would be posted. No adjustment has been made for credit risk in the fair value of the derivatives as the amount is not material.
- Level 3 - inputs for the asset or liability that are not based on observable market data

24. 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:

	Group and Society 2016 £000s	Group and Society 2015 £000s
Credit risk exposure		
Cash in hand	134,780	116,532
Loans and advances to credit institutions	15,228	16,124
Derivative financial instruments	80	33
Loans and advances to customers	779,779	731,125
Total statement of financial position exposure	929,867	863,814
Off balance sheet exposure - mortgage commitments	41,661	31,223
Total	971,528	895,037

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 predominately made up of retail loans fully secured against UK residential property £766.2m (2015: £714.5m), split between residential and buy-to-let loans with the remaining £14.5m (2015: £17.5m) being secured on commercial property.

The Society operates throughout England and Wales with the portfolio mainly concentrated in the South East and South West. An analysis of the Group's residential and commercial geographical concentrations are shown on pages 44 and 47 respectively.

Residential Assets

Loans fully secured on residential property are split between residential and buy to let.

	Group and Society 2016 £000s	Group and Society 2015 £000s
Concentration by loan type		
Prime owner occupied	640,437	604,038
Buy to let	125,762	110,424
Gross balance	766,199	714,462
Impairment provisions	(887)	(859)
Fair value adjustments	1,008	650
	766,320	714,253

	Group and Society 2016 £m	Group and Society 2016 %	Group and Society 2015 £m	Group and Society 2015 %
Geographical analysis				
East Anglia	9.4	1.2	8.7	1.2
East Midlands	9.5	1.2	8.7	1.2
Greater London	71.1	9.3	66.1	9.3
North	2.9	0.4	3.3	0.5
North West	8.9	1.2	9.6	1.3
South East	525.9	68.7	489.4	68.5
South West	116.6	15.2	104.1	14.6
Wales	5.4	0.7	5.5	0.8
West Midlands	10.8	1.4	12.4	1.7
Yorkshire & Humberside	5.7	0.7	6.7	0.9
Total	766.2	100.0	714.5	100.0

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

	Group and Society 2016 £m	Group and Society 2016 %	Group and Society 2015 £m	Group and Society 2015 %
LTV analysis				
0% - 50%	490.7	63.9	426.3	59.6
50.01% - 75%	251.2	32.9	268.2	37.6
75.01% - 80%	9.2	1.2	5.1	0.7
80.01% - 85%	6.9	0.9	8.4	1.2
85.01% - 90%	6.0	0.8	5.9	0.8
90.01% - 95%	2.2	0.3	0.6	0.1
	766.2	100.0	714.5	100
Average loan to value of residential mortgage loans		32.1		31.3

The average LTV of 32.1% (2015: 31.3%) is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of the collateral held adjusted by a house price index.

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.46% (2015: 0.61%) of loans are three months or more in arrears and by value it is 0.29% (2015: 0.48%).

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	**Group and Society 2016 £m**	**Group and Society 2016 %**	**Group and Society 2015 £m**	**Group and Society 2015 %**
Not impaired:				
Neither past due or impaired	749	97.8	690.5	96.6
Past due up to 3 months but not impaired	12.7	1.7	21.2	3.0
Past due over 3 months but not impaired	1.7	0.2	1.8	0.3
Possessions	0.1	-	0.1	-
Impaired:				
Not past due	-	-	-	-
Past due up to 3 months	2.6	0.3	0.5	0.1
Past due 3 to 6 months	-	-	0.2	-
Past due 6 to 12 months	0.1	-	0.1	-
Past due over 12 months	-	-	0.1	-
Possessions	-	-	-	-
Total	766.2	100.0	714.5	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.

Possession balances represent those loans where the Group has taken ownership of the underlying security pending its sale. The Group 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 2016 £m	**Unindexed 2016 £m**	**Indexed 2015 £m**	**Unindexed 2015 £m**
Value of Collateral held:				
Neither past due or impaired	2,324.6	1,821.8	2,073.7	1,657.3
Past due but not impaired	53.1	36.0	75.0	55.7
Impaired	4.0	3.7	1.3	1.2
Total	2,381.7	1,861.5	2,150.0	1,714.2

The collateral consists of residential property. Collateral values are adjusted by an average of the Nationwide and HM Land Registry price indices. The Group uses the average to update the property values of its residential and buy-to-let portfolios on a quarterly basis.

The value of collateral held against loans 'Past due but not impaired' at 31 October is £53.1m (2015: £75.0m) against outstanding debt of £14.5m (2015: £23.0m). In addition, the value of collateral held against 'Impaired' assets at 31 October 2016 is £4.0m (2015: £1.3m) against outstanding debt of £2.7m (2015: £0.9m).

Mortgage indemnity insurance acts as additional security. It is taken out for residential loans where the borrowing exceeds 80% LTV at inception.

Commercial Assets	Group and Society 2016 £m	Group and Society 2015 £m
Concentration by loan type		
Loans secured on commercial property	13.2	16.2
Loans to housing associations	1.3	1.3
	14.5	17.5

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

	Group and Society 2016 £m	Group and Society 2016 %	Group and Society 2015 £m	Group and Society 2015 %
Catering	0.3	2.1	0.5	3.1
Club/social	0.4	2.8	0.5	2.8
Education	0.1	1.0	0.2	0.9
Guest house/hotel	0.1	0.6	0.1	0.6
Industrial unit	1.8	12.2	1.8	10.4
Nursing/residential home	0.2	1.4	0.2	1.3
Office	2.3	15.8	3.0	17.1
Post office	0.2	1.4	0.2	1.2
Professional	0.1	1.0	0.2	0.9
Shops	4.0	27.6	4.3	24.3
Other	5.0	34.1	6.5	37.4
	14.5	100.0	17.5	100.0

	Group and Society 2016 £m	Group and Society 2016 %	Group and Society 2015 £m	Group and Society 2015 %
Geographical analysis				
East Anglia	0.1	0.5	0.1	0.5
South East	12.9	89.2	14.0	80.0
South West	1.4	9.8	3.3	19.1
West Midlands	0.1	0.5	0.1	0.4
Total	14.5	100	17.5	100

The following table analyses the loan to value (LTV) of the commercial portfolio at inception of the mortgage:

	Group and Society 2016 £m	Group and Society 2016 %	Group and Society 2015 £m	Group and Society 2015 %
LTV analysis				
0% - 50%	10.1	69.7	10.1	57.7
50.01% - 75%	4.2	28.7	5.2	29.9
75.01% - 80%	0.2	1.6	2.1	11.8
80.01% - 85%	-	-	0.1	0.6
85.01% - 90%	-	-	-	-
	14.5	100.0	17.5	100
Average loan to value of commercial mortgage loans		31.5		34.2

The average LTV of commercial mortgages is 31.5% (2015: 34.2%). Each individual LTV is calculated by comparing the value of the mortgage loan to the value of the collateral held at inception.

The quality of the Group's commercial mortgage book is reflected in the number and value of accounts in arrears. By volume 1.41% (2015: 3.8%) of loans are three months or more in arrears and by value it is 0.59% (2015: 3.0%).

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	**Group and Society 2016 £m**	**Group and Society 2016 %**	**Group and Society 2015 £m**	**Group and Society 2015 %**
Not impaired:				
Neither past due or impaired	13.6	93.8	16.3	92.9
Past due up to 3 months but not impaired	0.8	5.6	1.1	6.5
Past due over 3 months but not impaired	0.1	0.6	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	-	-	-	-
	14.5	100.0	17.5	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 unidexed collateral for the commercial portfolio.

	Unindexed 2016 £m	**Unindexed 2015 £m**
Value of Collateral held:		
Neither past due or impaired	41.0	45.0
Past due but not impaired	1.9	2.9
Impaired	-	-
Total	42.9	47.9

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 £1.9m (2015: £2.9m) against outstanding debt of £0.9m (2015: £1.2m).

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.

- Temporary 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 are 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	Group and Society 2016 Number	Group and Society 2015 Number
Interest only concessions	28	25
Payment plans	22	15
Reduced payment concessions	2	-
Less: cases with more than one form of forbearance	(1)	(4)
Total	51	36

In total £2.0m (2015: £1m) of loans that are past due are subject to forbearance.

25. 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) quarterly.

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's liquid resources comprise high quality liquid assets, including deposits in a Bank of England reserve account, time deposits and Treasury Bills issued to the Society under the Funding for Lending Scheme (FLS). At the end of the year the ratio of liquid assets to shares and deposits was 17.2% compared to 16.4% at the end of 2015.

The Society maintains a liquidity funding plan to ensure that it has so far as possible, sufficient liquid financial resources are avaliable to meet liabilities as they fall due under each of the scenarios.

The table below analyses the Group'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 Group's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example most mortgages have a contractual maturity of around 25 years but 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 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)	-

There is no material difference between the maturity profile for the Group and that for the Society.
All Group liquid assets are unencumbered as at the balance sheet date.

Included in the amounts above is £64.9m (2015: £69.8m) relating to a sale and repurchase agreement of treasury bills borrowed from the Bank of England under the Funding for Lending Scheme.

Residual maturity as at 31 October 2015	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	116,532	-	-	-	-	-	116,532
Loans and advances to credit institutions	16,112	-	-	-	-	12	16,124
Total liquid assets	132,644	-	-	-	-	12	132,656
Derivative financial instruments	-	-	4	27	2	-	33
Loans and advances to customers	-	3,853	10,240	46,472	672,070	(859)	731,776
Other assets	-	-	-	-	-	6,335	6,335
	132,644	3,853	10,244	46,499	672,072	5,488	870,800
Financial liabilities and reserves							
Shares	639,643	46,530	5,371	-	-	194	691,738
Amounts owed to credit institutions	69,795	-	-	-	-	119	69,914
Amounts owed to other customers	47,707	1,428	-	-	-	2	49,137
Derivative financial instruments	-	1	135	564	3	-	703
Other liabilities	-	-	-	-	-	3,104	3,104
Reserves	-	-	-	-	-	56,204	56,204
	757,145	47,959	5,506	564	3	59,623	870,800
Net Liquidity gap	(624,501)	(44,106)	4,738	45,935	672,069	(54,135)	-

There is no material difference between the maturity profile for the Group and that for the Society.
All Group liquid assets are unencumbered as at the balance sheet date.

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 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
31 October 2015						
Shares	555,728	97,833	37,530	1,593	-	692,684
Amounts owed to credit institutions	69,795	-	-	-	-	69,795
Amounts owed to other customers	21,335	26,373	1,428	-	-	49,136
Derivative financial instruments	-	226	490	80	(2)	794
Total liabilities	646,858	124,432	39,448	1,673	(2)	812,409

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.

26. 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 Group 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 Group ensures compliance with this risk appetite through the monitoring of interest rate risk exposure by the ALCO. In addition to this the Group 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 an analysis of the Society's sensitivity to an increase or decrease in market rates at 31 October 2016 assuming a parallel movement in yield curves and a constant financial position.

	+200bps Parallel	
	Increase	**Decrease**
	£'000	£'000
Net interest income impact	(725)	791

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 net 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 are as follows:

	2016		2015	
	Assets £000s	Liabilities £000s	Assets £000s	Liabilities £000s
Instrument type				
Interest rate swap	80	1,554	33	703
	80	1,554	33	703

27. 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 £529,000 (2015: £512,000). There were contributions payable at the year end of £36,000 (2015: £34,000). There was a prepayment at the year end of £41,000 (2015: £40,000) for the Society Death in Service Scheme.

28. 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 management and the Credit Committee to ensure it aligns to 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.

	Group and Society Transitional CRD IV 2016 £000s	Group and Society Transitional CRD IV 2015 £000s
Common Equity Tier 1 Capital		
General reserve	60,384	54,779
Revaluation reserve	1,425	1,425
Intangible assets	(881)	(944)
Total common equity tier 1 capital	60,928	55,260
Tier 2 Capital		
Collective provision	765	615
Total tier 2 capital	765	615
Total regulatory capital	61,693	55,875
Risk weighted assets	331,475	310,146
Capital ratios		
Common equity tier 1 (CET 1) ratio	18.4	17.8
Total Capital ratio	18.6	18.0
Leverage ratio	6.5	6.3

29. 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 subsidiaries and operates only in the United Kingdom. The principal activities of the Society are noted in the Directors' report on pages 4 to 9.
- 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 21.
- Corporation Tax paid: as noted in the Cash Flow Statement on page 24.
- Public subsidies: there were none received in the year.

30. Explanation of transition to FRS102

This is the first year that the Group has presented its financial statements under Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council. The last financial statements under previous UK GAAP were for the year ended 31 October 2015 and the date of transition to FRS102 was therefore 1 November 2014. As a consequence of adopting FRS102, a number of accounting policies have changed to comply with that standard. The revised policies are set out in note 1.

The following tables set out the changes that have occured to the previously published position.

	Previously published 1/11/14 £000s	Hedge accounting note 1 £000s	EIR note 2 £000s	Other note 3 £000s	Restated 1/11/14 £000s
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England	117,640	-	-	-	117,640
Loans and advances to credit institutions	35,364	-	-	-	35,364
	153,004	-	-	-	153,004
Derivative financial instruments	-	230	-	-	230
Loans and advances to customers	661,699	380	818	(21) a	662,876
Property plant and equipment	5,722	-	-	(1,038) b	4,684
Intangible fixed assets	-	-	-	1,038 b	1,038
Other assets	88	-	-	(88) c	-
Prepayments and accrued income	243	-	-	-	243
Total Assets	820,756	610	818	(109)	822,075
Liabilities					
Shares	657,003	-	-	-	657,003
Amounts owed to credit institutions	54,945	-	-	-	54,945
Amounts owed to other customers	56,351	-	-	-	56,351
Derivative financial instruments	-	652	-	-	652
Other liabilities	1,546	-	-	159 c	1,705
Accruals and deferred income	868	-	-	-	868
Provisions for liabilities	371	-	-	-	371
Total Liabilities	771,084	652	-	159	771,895
Reserves					
Revaluation reserve	1,425	-	-	-	1,425
Reserves - general reserves	48,247	(42)	818	(268)	48,755
Total Reserves	49,672	(42)	818	(268)	50,180
Total Reserves and Liabilities	820,756	610	818	(109)	822,075

	Previously published 31/10/15 £000s	Hedge accounting note 1 £000s	EIR note 2 £000s	Other note 3 £000s	Restated 31/10/15 £000s
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England	116,532	-	-	-	116,532
Loans and advances to credit institutions	16,124	-	-	-	16,124
	132,656	-	-	-	132,656
Derivative financial instruments	-	33	-	-	33
Loans and advances to customers	729,870	650	1,154	102 a	731,776
Property plant and equipment	5,976	-	-	(944) b	5,032
Intangible fixed assets	-	-	-	944 b	944
Other assets	35	-	-	(35) c	-
Prepayments and accrued income	359	-	-	-	359
Total Assets	868,896	683	1,154	67	870,800
Liabilities					
Shares	691,738	-	-	-	691,738
Amounts owed to credit institutions	69,914	-	-	-	69,914
Amounts owed to other customers	49,137	-	-	-	49,137
Derivative financial instruments	-	703	-	-	703
Other liabilities	1,604	-	-	308 c	1,912
Accruals and deferred income	819	-	-	-	819
Provisions for liabilities	373	-	-	-	373
Total Liabilities	813,585	703	-	308	814,596
Reserves					
Revaluation reserve	1,425	-	-	-	1,425
Reserves - general reserves	53,886	(20)	1,154	(241)	54,779
Total Reserves	55,311	(20)	1,154	(241)	56,204
Total Reserves and Liabilities	868,896	683	1,154	67	870,800

Income Statement	Previously published 31/10/15 £000s	Hedge accounting note 1 £000s	EIR note 2 £000s	Other note 3 £000s	Restated 31/10/15 £000s
Interest receivable and similar income	25,995	-	336	118	26,449
Interest payable and similar charges	(10,620)	-	-	-	(10,620)
Net interest income	15,375	-	336	118	15,829
Fees and commissions receivable	995	-	-	(918)	77
Fees and commissions payable	(853)	-	-	800	(53)
Other operating income	26	-	-	-	26
Net gain/(loss) from derivatives	-	22			22
Total Net Income	15,543	22	336	-	15,901
Administrative expenses	(7,375)	-	-	-	(7,375)
Depreciation and amortisation	(456)				(456)
Operating profit before impairment and provisions	7,712	22	336	-	8,070
Impairment losses	(130)	-	-	123	(7)
Provision for FSCS levy	(425)	-	-	-	(425)
Profit before Tax	7,157	22	336	123	7,638
Tax expense	(1,518)	-	-	(96)	(1,614)
Profit for the Financial Year	5,639	22	336	27	6,024
Statement of Comprehensive Income					
Profit for the financial year	5,639	22	336	27	6,024
Property revaluation	-	-	-	-	-
Total Comprehensive income for the period	5,639	22	336	27	6,024

Note 1 Recognition of fair value hedge of fixed rate debt with an interest rate swap

The Group use fair value hedges (pay-fixed, receive-floating interest rate swaps) to hedge for fixed rate loans and advances. Under previous UK GAAP, loans were accounted for at cost and the derivatives were not recognised on the Balance Sheet. FRS 102 requires derivative financial instruments to be recognised at fair value on the Balance Sheet. The Group has applied hedge accounting to offset movements in the fair value of the swaps to the extent of accounting hedge effectiveness with the other side of the adjustment going to the hedged item. Accordingly, on transition to FRS 102, a liability and an asset have been recognised on the Balance Sheet in connection with the derivatives, with an adjustment to loans and advances to customers to reflect hedge accounting.

Note 2 Recognition of interest, income and fees on loans and advances to customers at an effective interest rate

Under previous UK GAAP, the Society and the Group measured loans and advances to customers at amortised cost using an inherent rate of interest. On transition to FRS 102, the majority of the Group's loans and receivable are measured on an ongoing basis at amortised cost using the effective interest rate method. The effective interest rate is the rate that spreads interest income and other material income and fees on a consistent yield basis over the expected lives of the loans.

Note 3 Other

(a) **Impairment allowances for loans and advances.** The adjustment is as a result of the transition from specific and general loss provisioning under previous UK GAAP to individual and collective impairment provisioning on the incurred loss approach under FRS102 with IAS39.

(b) **Intangible assets.** The recognition basis of purchased software has moved from a tangible to intangible asset.

(c) **Deferred tax** has been provided on the FRS102 adjustments for both 2014 and 2015. This had the result of moving what was a deferred tax asset to a deferred tax liability.

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.

Basel III/CRD IV
Basel III is the third capital adequacy framework issued by the Basel Committee on Banking Supervision, which defines the capital and liquidity rules for Banks and Building Societies. The framework has been embedded into UK law through the European Capital Requirements Directive IV (CRD IV).

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.

Commercial lending
Loans secured on commercial property.

Contractual maturity
The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be repaid.

Credit risk weighted amount
The notional value of derivative contracts adjusted to determine their inherent credit risk using PRA predetermined risk weights.

Derivative financial instruments
A derivative financial instrument is a type of financial instrument (or an agreement between two parties) which has a value based on the underlying asset, index or reference rate to which it is linked. The Group uses derivative financial instruments to hedge its exposures to interest rate risk.

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.

Financial Services Compensation Scheme (FSCS)
The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry.

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

Free capital
The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and investment properties.

Funding limit
Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals.

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.

Gross capital
The aggregate of the general reserve and revaluation reserve.

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.

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.

Lending limit
Measures the proportion of business assets not in the form of loans fully secured on residential property.

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.

Glossary of Terms

Mean total assets
Represents the amount produced by halving the aggregate of 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 received on assets and similar income and interest paid on liabilities and similar charges.

Operational risk
The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

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.

Repurchase agreements (Repo)
A repurchase agreement that allows a borrower to use a financial security as collateral for a cash loan at a fixed rate of interest.

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
Loans that are made to individuals rather than institutions. Residential mortgage lending is 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.

Wholesale funding
The total of amounts owed to credit institutions and other deposit customers.

Annual Business Statement as at 31 October 2016

1. Statutory Percentages	2016 %	Statutory Limit %
Lending limit	1.7	25
Funding limit	12.1	50

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Group plus provisions for bad and doubtful debts less liquid assets and tangible fixed assets as shown in the Group balance sheet.

The Funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are prescribed in building society legislation and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other Percentages	2016 %	2015 %
Gross capital as a percentage of shares and borrowings	7.08	6.94
Free capital as a percentage of shares and borrowings	6.50	6.28
Liquid assets as a percentage of shares and borrowings	17.18	16.36
Profit after tax as a percentage of mean total assets	0.62	0.67
Management expenses as a percentage of mean total assets	0.92	0.93

The above percentages have been prepared from the Group accounts:

- 'Shares and Borrowings' represents the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers;
- 'Gross Capital' represents the aggregate of general reserves and revaluation reserve;
- 'Free Capital' represents the aggregate of gross capital and 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 Group Balance Sheet;
- 'Management Expenses' represents the aggregate of administrative expenses and depreciation shown in the Group Income and Expenditure Account.

3. Directors and Other Officers as at 31 October 2016

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; The Housing Finance Corporation Ltd
Lee Bambridge BA (Hons), ACA, AMCT	1963	Building Society Finance Director	23/07/07	Sovereign Housing Association Ltd
Phillippa Cardno PGCert, CeMap	1969	Building Society Operations and Sales Director	19/02/15	Temptings Ltd
Roland Gardner MA (Hons)	1960	Building Society Chief Executive	01/09/06	Newbury and Thatcham Hospital Building Trust Ltd; Newbury Mortgage Services Ltd; Newbury Financial Services Ltd (non trading); Newbury Insurance Services Ltd (non trading)
Sarah Hordern BA (Hons), ACA	1972	Chief Operating Officer	19/02/15	Perspicio Limited
Tracy Morshead FCIM	1956	Company Director	01/06/12	Assurant Group Ltd; Assurant Intermediary Ltd; Assurant Life Ltd; Assurant General Insurance Ltd; Lifestyle Services Group Ltd; National 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; Premier Processing Limited.
William Roberts BSc (Hons), ACA	1970	Finance Director	19/02/15	Hastoe Capital Plc; Hastoe Homes Limited
Ron Simms BA (Hons)	1965	Director Corporate Services - Insurance	28/06/10	None

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

Other Officers

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

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

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

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

Charles Lucas and Marshall
28 Bartholomew Street, Newbury, Berkshire RG14 5EU

Staff

The Board would like to thank all our members of staff without whom we would not have achieved the performance set out in these accounts.

Branches

Abingdon	Bridget Etiang • Becky Pearson • Sonja Roostan • Michele Willis
Alton	Karlene Coles • Julie Harness • Dave Murray • Julie Pink • Caroline Seymour
Andover	Gemma Adolph • Pippa Bracey • Kelly Carter • Alice Champion • Cliff Osborne • Shannon Rigler Sheila Sandham
Basingstoke	Aishling Breakspear • Ellen Harmon • Maisy Knight • Deidre Newell • Lucy Parnell • Nicola Pope James Rolfe • Luke Wooldridge
Didcot	Angela Bradshaw • Hannah Tame • Rebekah Vaughan • Jack Whiting
Hungerford	Naomi Hague • Hannah Kenison • Eve McDowell • Paula Wheeler
Newbury	Jane Bosher • Katy Briggs • Agnes Frydel-Sapinska • Pete Hawkins • Rachel Hawkins Gemma Johnson • Nicola King-Head • Sue Mason • Chloe Somerville
Thatcham	Kayleigh Tingle • Karen Griffin • Chloe Bance • Xania Bosley • Debbie Brockett • Chelsea Ford Mark Kinder
Winchester	Rob Angus • Louise Morgan • Lisa Wedge • Laura Whale
Wokingham	Max Beasleigh • Debbie Gadd • Jac Goddard • Charlotte Hall • Sue Murgatroyd • Justine Ransom Holly Webster
Business Support Managers	Ella Bright • Clare Taylor
Sales	Rose Hallett • Paul Holt • Brett Humphrey • Matt Long • Alice Pocock • Luke Pummell Kate Rockall • Karen Smith • Jordan Sharpe • Emma Trincas • Martin Yates

Head Office

Compliance	Charlotte Courtenay • Keira Dixon • Lynn Fiske • Andy Ransom
Customer Services	Debbie Bailey • Lisa Dixon • Rose Fishlock • Louise Griffin • Laura Heal • Sarah Hubbard Janet Jex • Diane Long • Jane Mason • Melanie Mildenhall • Sue Newcombe • Katie Rocks Emma Robinson • Gemma Robinson • Lynn Small • Sandra Smith • Tash Stacey • Katie Stubbs Alison Thompson • Elliot Walker
Mortgage Underwriting	Lucy Amore • Jill Bennett • Vicky Boyles • Nathan Bryan • Rowan Curtis • Tim Kirby Diana Lewis • Michelle Seeber • Kim Smyth • Lauren Troy • Craig Turner • Hannah Westlake
Executives	Lee Bambridge • Nigel Briggs • Phillippa Cardno • Roland Gardner • Erika Neves • Ian Willson
Finance	Suzanne Allen • Ruth Bowden • Cheryl Bowers • Laura Chisling • Louise Brookes • Lynda Ralph Debbie Springer
Human Resources	Anne-Marie Goldsmith • Cara Holley • Jacky Reenan • Sarah Walczak
ICT	Tim Cooke • Ben Egan • Seth Ford • Piotr Jaworski • Nicola Martin • Darren Oliver • Shiv Stacey Hayley Watt • David Ward
Lending	Roger Knight
Marketing	Emma Lavers • Louise McCormack • Emma Simms • Bronwyn Tucker • Daryl Wing
Premises, Health and Safety	Sandra Armstrong • Michael Goodall • Ricky Walker
Project	Shingai Chipfupa • Daryle Churcher • Nick Croxford • Amba Goodall • Melissa Kenah • Traci Sharp
Personal Assistant to the Executives	Sarah Rouault
Treasury and Risk	Jahangir Ahmed • Sam Jones
Valuer	Ann Davidson

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