Newbury Building Society

Annual Report and Accounts
Year ended 31 October 2013

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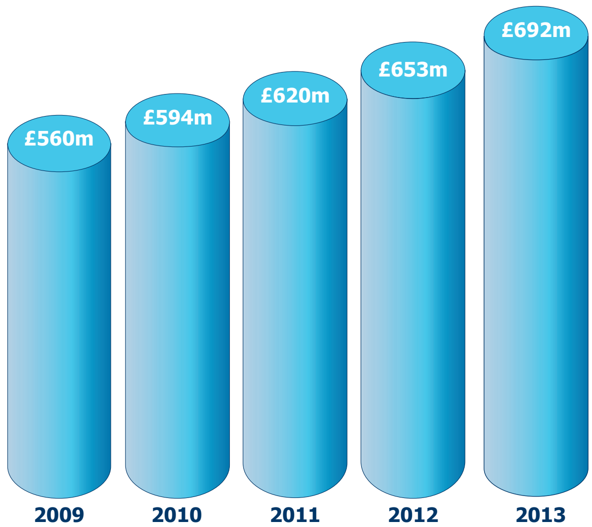
Key Results and Trends

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

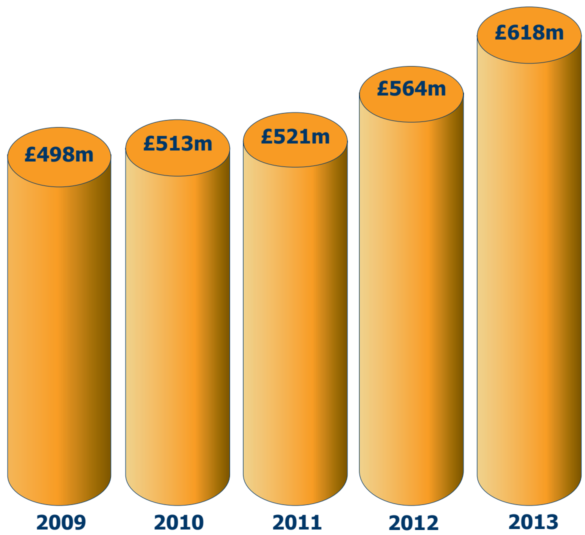
Our members and depositors invest in our savings accounts which are available in branch and online.



In 2013 our balances increased by £39m. The performance of our Access 90, Senior saver and ISA accounts were significant factors in this achievement.

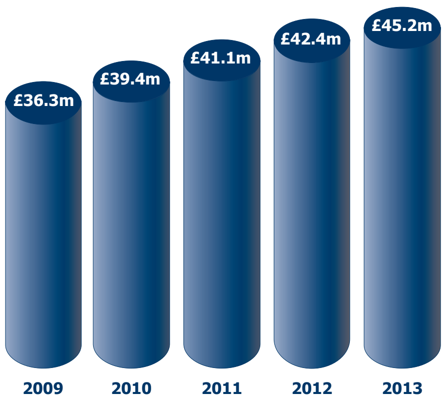
And make **Loans** to Homebuyers

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

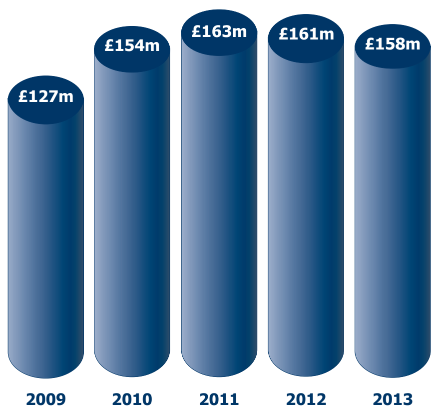


The Society lent £145m in the year, which after repayments led to an increase of £54m in outstanding loans. Strong demand for our first time buyer products helped this achievement.

Whilst ensuring strong **Capital and Liquidity** positions are maintained



Capital



Liquid Assets

Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Annual Accounts and Business Statement of the Society and its subsidiaries (the Group) for the year ended 31 October 2013.

Key Performance Indicators	2013	2012
Retail Shares and Deposits	£692m	£653m
Loans to Customers	£618m	£564m
Total Assets	£781m	£731m
Capital	£45.2m	£42.4m
Management Expenses as a % of Mean Total Assets	0.90	0.86
Interest Margin as a % of Mean Total Assets	1.43	1.23
Group Profit Before Tax	£3.6m	£2.5m
Liquid Assets as a % of Shares and Borrowings	21.5%	23.5%
Mortgage Arrears - on accounts two months or more in arrears	£0.11m	£0.13m

Business Review

The Board is pleased to report that the Group has had an exceptional year and delivered an outstanding business performance, with the two main highlights being a £54m (9.6%) increase in loans to customers and pre tax profitability of £3.6m, £1.1m higher than last year. Your Society has therefore managed simultaneously to accomplish the key strategic goal of balance sheet growth whilst preserving capital strength.

The retail shares and deposits from our savers also grew by a healthy £39m, although as the Society has had access to low cost funding through the Funding for Lending Scheme (FLS), savings balance inflows have had to be managed carefully to ensure the Society did not hold inappropriately high levels of liquidity. Indeed, FLS has catalysed a major shift in market conditions with lower mortgage and savings rates being a most visible consequence. Our policy for savings in this unique environment has been to prioritise and protect the interests of existing members, by restricting new investment to several of our savings accounts and therefore being able to maintain interest rates higher than the market average for our existing clients.

Our interest margin has improved to 1.43% from 1.23% in the year and this has been the key factor in the increase in profitability. With the forthcoming introduction of the Capital Requirements Directive (CRD4) from the beginning of 2014, which will require the Group to hold a higher minimum level of capital, the Board determined that building up capital reserves needed to take priority over other potential uses of the profits during the year.

In April, the Society opened a new branch in Winchester, raising our branch network to eleven and providing the Society's first branch located on a city high street. In addition, we have continued to invest in the Society's development through strengthening our staffing and Information Technology capability. A consequence of this investment is that our management expense ratio rose to 0.90% for the year and we anticipate that it will rise further during the next financial year, as we complete the substantial project of replacing our core IT system. Thereafter, we anticipate that the management expenses ratio will reduce as the benefits of our investment in the business manifest themselves and the economies of scale from balance sheet growth take effect. The Board is aware of the need for cost control and this remains a major area of focus for us.

> "The Board is pleased to report that the Group has had an exceptional year and delivered an outstanding business performance."

Mortgage arrears have continued to be well below market average and it has been pleasing to see the amount on accounts two months or more in arrears reduce to £110,000 (2012: £127,000). With only 41 accounts over two months in arrears, two properties in possession at year end and no losses during the year, these figures demonstrate the quality of your Society's mortgage book.

The Group's performance in 2013 has reflected the increasing confidence of the wider economic world, where talk is of growth rather than recession, and in particular in the housing market where governmental influence has been a key driver in improving funding, increasing the number of transactions and catalysing a greater increase in the number of first time buyers than in any year since 2007. Building Societies generally, and Newbury in particular, have thrived in this environment, and against this backdrop your Board is pleased to be able to present such a strong financial performance.

Retail Shares and Deposits

The Society grew its retail shares and deposit balances by 6% during the year, an appropriate level of growth given the availability of low cost funding from the Bank of England through the FLS. Growth would have been particularly challenging without the FLS, as returns below the rate of inflation are a major disincentive to savers. The effect of the availability of the FLS funding to the industry as a whole has resulted in a significant reduction in savings rates, particularly amongst the high street banks. Although the Society made some modest reductions to savings rates at the start of the year, it quickly became clear that without further action we would have received significant additional inflows from customers of institutions where large rate reductions had occurred. Therefore in order to protect our members, the Society imposed entry restrictions on a number of accounts, thus allowing us to retain normal terms and conditions and above market interest rates for existing savers. We also restricted one year fixed rate bonds to those members with maturing bonds, thus creating capacity for more business of this type in the post FLS era, whilst simultaneously ensuring that the Society's current liquidity levels were not excessive.

Winchester branch opened on 2 April 2013

There have been several savings highlights during the year, the most notable being the success of our new branch in Winchester, where we have opened over 750 new accounts since its opening in April. Our branch in Basingstoke, opened in October 2010, continues to grow from strength to strength and now has over 2,500 accounts. We believe so many new members are coming to us because we maintain a stance of fairness and simplicity in the design and operation of our savings accounts and we do not offer bonus accounts (or 'teaser' accounts as the Financial Conduct Authority now calls them) with unsustainable initial rates that automatically reduce after a set period. Given that the Bank of England base rate is 0.5%, it is a truism that savers have enjoyed unusually high returns in the last four years, but the Board is also keenly aware of the detrimental effect of inflation in maintaining the real value of savings, and although there are now clear signs of economic recovery, it seems likely that the Bank of England base rate will remain low for some time to come. The Board will therefore continue to review rates on all savings accounts regularly in order to ensure they retain a fair and competitive market position.

Loans to Customers

Growth of the balance sheet is a core aim of the Society in our desire to achieve the economies of scale which translate into better value for members. Your Board is therefore delighted with the mortgage balance growth of £54m during the year, following a record lending year of £145m in new advances, which represents an increase of just over 25% on last year's total. One of the reasons for the growth was the Society's success in the First Time Buyer market place, where the Society has earned a national reputation for its expertise in the shared ownership market. As a shared ownership mortgage is often the only way onto the housing ladder for younger individuals and families, the Society has focused its attention on creating affordable products for such purchasers, whilst also forging relationships with Registered Social Landlords, specifically Housing Associations, who own the freeholds of shared ownership properties. The Society's partnership with Sovereign Housing Association in particular has continued to be especially productive and was recognised nationally at the National Housing Awards in September, when we jointly received the Best Partnership award for our affordable home ownership scheme. The Society has also offered Help To Buy Shared Equity mortgages, following the announcement of this scheme at the Budget this year. However, we have decided not to utilise the second phase of the scheme. The Society already has better quality private insurance arrangements in place for higher loan to value lending.

The Society will continue its commitment to helping aspiring homeowners onto the property ladder by further product and service innovation in this area of lending moving forward.

Another reason for the lending success this year is the competitive range of fixed and discounted mortgages we were able to offer to our borrowers. FLS has catalysed a reduction in new borrower rates and encouraged lenders to offer unprecedented low interest rates to their customers. Your Society has been no exception to this, offering its lowest ever rates to residential owner occupiers. Without the legacy issues which have held back lending volume by some of the biggest lenders in the market, the Society has taken the opportunity to lend and grow above its natural market share by offering competitive mortgage products combined with a first rate service. The introduction of new rules for mortgage sales next April, known as the Mortgage Market Review, will see, amongst other changes, compulsory advice and a stricter assessment of affordability. The Society is preparing for the new regime with confidence given that we have been offering advice and have been applying affordability criteria for many years. The affordability rules will take individual assessment of a borrower's affordability to a new level, one which we welcome in a desire to ensure that every single client has the best possible prospect of affording their mortgage for the full term of the loan.

The Group's mortgage book remains of the highest quality with an average loan to value under 40%. Our loans are all individually underwritten by an experienced team based in Head Office, who have the authority to exercise some flexibility 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.

> “ The Group's mortgage book remains of the highest quality with an average loan to value under 40%. ”

The Group's arrears and possession statistics remain low both for the sector and for the industry as a whole. There were five cases in serious arrears of 12 months or more at our year-end (2012: seven cases). The total amount of arrears outstanding on these accounts was £30,000 (2012: £38,000) and the aggregate capital balance was £200,000 (2012: £329,000). In addition, as at 31 October 2013 the Group had two properties in possession (2012: nil). The Society has incurred no mortgage losses during the year, thus maintaining our enviable record of total mortgage losses under £50,000 in the last ten years. That said, members will note that the Society has increased its mortgage loss provisioning this year. This increase is a prudent reaction to reflect the fact that our book has grown by 9.6%, certain mortgage indemnity insurance policies on loans taken out in 2007 and 2008 have now expired and our existing provisions were lower than our peer group average. The increase also reflects the fact that the Board has decided to make a full provision against a commercial loan originated in 2007, for which it believes there is now a risk that it may not be repaid. The Society continues to undertake forbearance actions with as many borrowers as appropriate; there were 28 accounts at 31 October 2013 (2012: 40) where clients were benefitting from a forbearance action such as a temporary interest only arrangement.

Capital and Liquidity

The Board is very aware that our members require the Group to be financially secure. This protects the Group against its principal risks and uncertainties (see below) and safeguards members' funds. We therefore set a strategy to ensure that both capital and liquidity are maintained at appropriate levels. The emphasis on high quality capital by world banking authorities has meant that the increase in profitability this year was necessary for two reasons: firstly to continue to build our reserves for the stricter regime to be introduced by the CRD4, and secondly to reflect the 9.5% increase in mortgage balances. This strategy has resulted in the following position as at 31 October 2013:-

- Capital:
  The Group's capital increased 6.6% to £45.2m (2012: £42.4m).
  The Group's Gross Capital and Free Capital ratios were 6.15% (2012: 6.18%) and 5.50% (2012: 5.53%) respectively.
- Liquidity:
  Liquid assets (which comprise cash and investments as shown on the balance sheet on page 21) were £158m (2012: £161m).

Liquid assets as a percentage of Shares and Borrowings decreased to 21.5% (2012: 23.5%). The Board felt able to reduce the liquidity percentage as the Society has access to both of the Bank of England's discount window and funding for lending facilities.

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

Financial Services Compensation Scheme (FSCS)

The FSCS continues to have a significant impact on your Society as a result of the failures of Bradford & Bingley plc and three Icelandic banks in 2008. The Society's contribution to FSCS more than doubled in 2013, from £208,000 to £442,000 as the effect of the higher interest rate took hold and the first payment of capital in respect of the non Bradford and Bingley plc loans. Further detail is contained within note 17 of these Accounts. In your Board's view, both the increase in the interest rate and the new funding arrangements announced in Policy Statement 13/4 are an unfair burden for the Society and its members, who ultimately pay for the levies to the FSCS through lower savings and higher mortgage rates. It is understood that the Building Society sector as a whole saw approximately one quarter of its post tax profits paid in FSCS levies last year, thus demonstrating the huge effect on the sector of those banking failures.

Governance

This year has been another year of significant regulatory activity, with the creation of the Prudential Regulatory Authority and the Financial Conduct Authority in April as successor regulators to the Financial Services Authority. The Society is therefore now regulated by two separate bodies.

There have been no changes in the structure of the Board during the year, the first year without a change in membership or committee structure since 2004. The ensuing continuity has enabled the development of the Board's expertise, which is so vital in the modern world of corporate governance where the non-executive director role assumes such importance.

The Board of Directors is committed to best practice in Corporate Governance. The report on pages 14 to 16 explains how the Society applies the principles contained in the UK Corporate Governance Code.

During the year the Audit Committee decided to put the role of the Group's external auditor out to tender. Further details of the process are set out in code principle C.3. on page 16.

Office Manager Jane Bosher with Junior Newbury Building Society school at St Nicolas Church of England Junior school

The Communities We Serve

The Society continues to contribute to the sustainability and enhancement of the communities we serve through the commitment of time and resource.

All staff have the opportunity to take two days paid leave to support community projects. Our executives continue to support local organisations through their service and presence on the governing bodies of Newbury & Thatcham Hospital Building Trust, Education Business Partnership West Berkshire, Sovereign Housing Association and Newbury College. Our Junior Newbury Building Society programme goes from strength to strength with 15 primary schools now participating. This programme offers schoolchildren the opportunity to operate accounts for fellow pupils whilst learning to save and understand basic personal finance matters.

In addition during the year the Group made donations totalling £21,493 in support of 48 local charities and community organisations. This ranged from supporting local fetes and fairs, to donating prizes and sponsoring local clubs. In addition we have a three-year commitment to support the Pink Ribbon Foundation as our principal charity with £7,000 raised to date. Our total support to the communities we serve, including time spent by our staff, totals nearly £70,000 which represents just under 2% of our profit before tax. No contributions were made for political purposes.

The Future

The Society has continued to strengthen its financial position in 2013, whilst accelerating the level of asset growth achieved in prior years. The Society is well placed to continue with this strategy in 2014 and beyond, with plans to strengthen its capital base further in 2014 in recognition of the new capital regime of CRD4 which takes effect in January 2014. During 2014 the Society will have availability of significant FLS funds even after the recent adjustment to the scheme. The Society therefore has an opportunity to maintain its recent lending growth, as FLS provides an element of certainty in our funding requirements. The Board is however aware that the housing market is currently subject to an extraordinary level of governmental intervention, specifically FLS and Help To Buy, and so the Society will continue to pay particular regard to the quality of its mortgage lending to ensure that there are no shocks when the level of governmental support reduces. The lending policy is regularly reviewed to ensure alignment to best practice and the evolving nature of the mortgage industry, and the introduction of the new rules brought in by the Mortgage Market Review in April 2014 will help facilitate this.

The Board strongly believes that a successful future lies ahead for the Society as an independent and vibrant mutually owned business. The Board's strategy for the future will be to continue to place more emphasis on growing the balance sheet in order to achieve the economies of scale and ensuing cost effectiveness to enable the quality of products and service demanded by members today. The current upgrade to our IT systems and the investments made in middle management are examples of how the Society is modernising itself for the challenges of financial service provision in the future.

Financial Risk Management Objectives and Policies

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

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

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

Principal Risks and Uncertainties

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

Credit Risk

The Group is exposed to credit risk in respect of either loan customers or treasury counterparties being unable to meet their obligations as they become due:

- The Lending Policy is regularly reviewed and approved by the Credit Committee. Lending mandates are strictly controlled and applications are approved by a central unit. Regular quality control reports are considered by the Credit Committee.
- The Liquidity & Financial Risk Management Policy includes limits on credit exposures to individual and groups of counterparties.

Liquidity Risk

Liquidity risk is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties. The Group's Liquidity & Financial Risk Management Policy ensures sufficient funds in liquid form are available at all times so the Group can meet its liabilities as they fall due. Stress tests are carried out regularly to confirm that the Group can withstand normal and abnormal cash outflows. The Liquidity & Financial Risk Management Policy is regularly reviewed and approved by the Assets & Liabilities Committee.

Interest Rate Risk

This is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Group's assets and liabilities. This risk, which includes basis risk, is managed utilising financial instruments where appropriate in accordance with the Liquidity & Financial Risk Management Policy. This is regularly reviewed and approved by the Assets & Liabilities Committee. A detailed analysis of the Group's interest rate sensitivity at 31 October 2013 can be found in note 20 on pages 34 to 36.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Group has controls in place which are designed to mitigate these risks. The Audit Committee is responsible for assessing the effectiveness of the system of inspection and control.

At the end of 2012 the Board entered into an agreement with Sopra Group Solutions UK Limited for the provision of the Society's core IT system to replace current arrangements with Yorkshire Key Services Limited, a subsidiary of Yorkshire Building Society. The Board acknowledges the significance of this project and has therefore appointed an external project manager as well as external advisors to provide independent assurance. The project is expected to run until the middle of 2014 and it is recognised that successful delivery is crucial in protecting the Society's member interests. Accordingly a Project Steering Committee has been established, which reports to the Board, to provide close scrutiny of progress and as an escalation point for key issues. Whilst the Board has identified the project as one of its key risks for 2014, it is confident it has established a structure to mitigate effectively any material matters which may arise.

Financial Services Compensation Scheme (FSCS) Risk

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable claims to be met. The possibility therefore exists that the Society may be required to pay a higher level of levies if claims increase. A full explanation of the Society's current position in relation to this risk can be found in note 17 on page 33.

Regulatory Risk

The risk that the volume and complexity of regulatory issues may impact the Society's ability to compete and grow. In April 2013 the formal transition to the new regulatory framework was implemented. Under the framework prudential supervision was transferred to a subsidiary of the Bank of England, the PRA and consumer protection and market regulation was transferred to the FCA. The Board will continue to monitor developments under the new 'twin peaks' regime together with all other applicable regulatory changes, to ensure that the Society continues to meet all of its regulatory requirements.

Employees

The Society's service proposition is founded upon well qualified staff, motivated to act in the best interests of our customers, with the time and the tools to do the job properly. With business growth come staffing challenges, and as the business continues to grow, we have strengthened our resources to meet the needs of the business. We have welcomed new faces in many areas of the business (principally Marketing, IT and Finance) who bring new expertise to complement the existing skills and knowledge of our many loyal long-serving members of staff.

The Society is fully committed to providing access to learning and development, career progression and promotion opportunities to all staff. The study programme for seven staff undertaking the Certificate in Mortgage Advice and Practice (CeMap) saw all qualify within 12 months and we now have 41 people CeMap qualified (32% of our staff) with 19 Registered Mortgage Advisers available in our branches. This ensures the Society is in excellent shape for the new advice regime created by the Mortgage Market Review.

During the year 42 delegates attended the internally developed Thinking Like Customers programme, and a further group of 12 are undertaking an Experiential Learning Programme. Another 12 colleagues have commenced a Discovery Programme in partnership with Newbury College. Newbury College is also working with the Society to provide apprentice opportunities, and the Society currently has six apprentices working in diverse areas of the business (Branches, Finance, Marketing, Customer Services and Premises).

HR Manager Anne-Marie Goldsmith receiving the National Skills Academy award

Our investment in staff has been recognised by the award of a prestigious training accreditation by the National Skills Academy for Financial Services.

The Society's Executives consult with the Staff Association, and regular team briefings and communications on the Society's intranet ensure employees are aware of the Society's performance and objectives, and understand their part in achieving these.

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

Directors

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

- Mr A C D Rann
- Mr J H Parker
- Mr L F Bambridge
- Mr P J Brickley
- Mr B P Eighteen
- Mr R M W Gardner
- Mr G M Knappett
- Mr T L Morshead
- Mr R F Simms

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

Mr Parker, Mr Bambridge and Mr Simms will retire at the Annual General Meeting on 17 February 2014 and being eligible will seek re-election to the Board.

Other Matters

Creditor Payment Policy

It is Group policy to pay suppliers within agreed terms providing the supplier performs according to the terms of the contract. The number of creditor days at 31 October 2013 was 10 (2012: 8).

Going Concern

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

Events since the Year End

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

Auditor

Following a review of their corporate structure, our auditor, KPMG Audit Plc, has instigated an orderly wind down of business, with future audit work being undertaken by KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution for their appointment will be proposed to the forthcoming Annual General Meeting of the Society. There is no difference in liability terms between KPMG Audit Plc and KPMG LLP.

A C D Rann
Chairman
18 December 2013

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

Roland Gardner, Chief Executive with Ann Santry, Chief Executive at Sovereign Housing Association.

Our Members

1 Treat our members fairly because we want to

2 Offer our members products that match their needs

3 Communicate clearly, openly and honestly

4 Give suitable advice

5 Meet our members' expectations of service and product performance

6 Not make it difficult for members to change their minds or complain

Our Staff

1 Encourage our staff to take responsibility and focus on outcomes

2 Create opportunities to learn and develop with progression gained on merit

3 Celebrate success and support colleagues

4 Communicate openly sharing our views in a positive way and respecting the views of others

5 Reward people who do their best at all times

Our uniform in the community.

The Year in Pictures

1 Awarded Best Partnership with Sovereign Living at the National Housing Awards 2013. 2 Our new website launched in December alongside our new branding in branches and head office.

3 Our Winchester branch opened in April. 4 Our successful first time buyer event at Newbury College.

5 Staff taking part in our Discovery programme at Newbury College. 6 Our new uniform in branches.

Non-Executive Directors

Adrian Rann

Chairman

Adrian was appointed to the Board of Directors in March 1996 and elected Chairman in February 2009. He is a Chartered Accountant and a partner in a local firm of Chartered Accountants. He is Chairman of the Strategic Risk and Remuneration & Nomination Committees.

John Parker

Vice Chairman

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

Peter Brickley

Non-Executive Director

Peter was appointed to the Board of Directors in July 2008. He is Global Chief Information Officer for a global brewer. Peter is Chairman of the Audit Committee and a member of the Assets & Liabilities, Remuneration & Nomination and Strategic Risk Committees.

Brian Eighteen

Non-Executive Director

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

Tracy Morshead

Non-Executive Director

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

Ron Simms

Non-Executive Director

Ron was appointed to the Board of Directors in June 2010. He is a Solicitor and is Director of Corporate Services for one of the UK's largest personal lines insurance intermediaries. Ron is Chairman of the Sales, Marketing & Development Committee and a member of the Credit and Strategic Risk Committees.

Executive Directors

Roland Gardner

Chief Executive

Roland joined the Society in 1987. He joined the senior executive team in 2000 and was appointed to the Board of Directors in September 2006. He was appointed Chief Executive on 1 February 2007. Roland is a member of the Assets & Liabilities, Credit and Sales, Marketing & Development Committees.

Lee Bambridge

Finance Director

Lee joined the Society and the Board of Directors in July 2007. He is a Chartered Accountant and a Corporate Treasurer and previously worked in the Aerospace industry. He is a member of the Assets & Liabilities Committee.

Geoff Knappett

Development Director

Geoff joined the Society in 1992. He was appointed to the Board of Directors in November 2002. He is a Chartered Mathematician and holds a Masters degree in Management Learning. He is a member of the Credit and Sales, Marketing & Development Committees.

Executives

Phillippa Cardno

Head of Operations

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

Erika Neves

Head of Conduct

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

Phil Relf

Head of Compliance & Company Secretary

Phil initially joined the Society in 1997 and became an Executive in 2008. He is Company Secretary and heads the Compliance function. He attends Audit Committee by invitation. Phil is a graduate and Chartered Secretary and reports to the Chief Executive.

Ian Thompson

Head of Treasury & Risk

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

Corporate Governance Report

The Financial Reporting Council updated the UK Corporate Governance Code in October 2012. Although the Code does not directly apply to mutual organisations, the Group has regard to its principles as they apply to a building society.

The Role of the Board

Code Principle:

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

Board Comment:

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

Assets & Liabilities Committee

The Committee is responsible for monitoring the structure of the Society's assets and liabilities, controlling financial risk and reviewing control procedures including limits, reporting lines and mandates. The Committee therefore focuses on treasury activities, including liquidity, interest rate risk, basis risk and refinancing risk.

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

Audit Committee

The Committee considers all aspects of conduct, operational and reputational risk management. It is responsible for assessing the effectiveness of audit and compliance assurance systems; assessing accuracy and completeness of financial information; reviewing accounting policies; and ensuring effective whistle-blowing controls. It reviews fairness of disclosures and recommends acceptance of the annual accounts to the Board. It negotiates and agrees audit fees and scope of work. It monitors the performance, independence, objectivity, competence and effectiveness of the internal and external auditors. It is responsible for recommending appointment, re-appointment or removal of external auditors; and approving non-audit fees paid to the auditors in accordance with the Society's Policy.

The Committee comprises three Non-Executive Directors who are currently Mr Brickley, Mr Eighteen and Mr Parker. The Executive Directors, the Heads of Compliance & Company Secretary, Conduct and Treasury & Risk, and representatives from the internal and external auditors attend by invitation.

Credit Committee

The Committee is responsible for credit risk oversight, ensuring the quality and profile of the mortgage portfolio continues to meet the Group's credit risk appetite. The Committee reviews lending policy and lending mandates; monitors lending quality, volume and arrears performance; and undertakes individual reviews of all commercial and larger loans.

The Committee comprises two Non-Executive Directors who are currently Mr Eighteen and Mr Simms as well as the Chief Executive and the Development Director. The Head of Operations attends by invitation.

Remuneration & Nomination Committee

The Committee is responsible for succession planning for both Executive and Non-Executive Director positions. It leads the process for Board appointments and makes recommendations to the Board. It considers the balance and diversity of skills, knowledge and experience of the Board, the requirements of the business and recommends change where appropriate. It is responsible for the appraisal of the Non-Executive Directors and for the review of Board performance collectively. It is responsible for the Remuneration Policy. Under advice it determines the terms and conditions of employment of the Executive Directors and also recommends Non-Executive Director remuneration to the full Board.

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

Sales, Marketing & Development Committee

The Committee is responsible for marketing strategy; agreeing the sales and marketing plan; reviewing current and future products; monitoring and managing risks including product and associated risks. The Committee comprises two Non-Executive Directors who are currently Mr Simms and Mr Morshead as well as the Chief Executive and Development Director. The Head of Conduct attends by invitation.

Strategic Risk Committee

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

The terms of reference for these Committees can be obtained from the Head of Compliance & Company Secretary at the AGM or by writing to the Society's head office. Proceedings of all Committees are formally minuted, minutes are distributed to all Board members and the Chairman of each Committee reports on the substance of the meeting. The Society maintains liability insurance cover for Directors and Officers. Attendance at Board and Committee meetings for the year to 31 October 2013 is set out on page 18.

Division of Responsibilities

Code Principle:

A.2. There should be a clear division of responsibilities at the head of the company between the running of the Board and the Executive Responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

Board Comment:

The offices of Chief Executive and Chairman are distinct and held by different Directors. The Chief Executive is responsible for managing the Group's business within the parameters set by the Board. 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 Chairman was appointed in February 2009, because of his experience, commitment and capability demonstrated during his previous 13 years' service to the Society. He will be retiring at the Annual General Meeting (AGM) in 2015 and will not be seeking re-election.

Non-Executive Directors

Code Principle:

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

Board Comment:

The Non-Executive role at the Society requires understanding of the risks in the business; commercial leadership within a framework of prudent and effective risk management controls; independently monitoring performance and resources; and developing, scrutinising, and constructively challenging strategic proposals, whilst supporting the Executive management.

The Vice Chairman is the Senior Independent Director, providing support for the Chairman and an alternative route for communication from members and staff. His main responsibilities are to carry out the appraisal of the Chairman and to chair meetings when the Chairman is unavailable.

The Composition of the Board

Code Principle:

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

Board Comment:

The Board comprises six Non-Executives and three Executive Directors providing a balance of skills and experience appropriate for the requirements of the business. Committee membership is reviewed annually to ensure there is appropriate expertise in each Committee to discharge its terms of reference. All Non-Executive Directors are considered by the Board to be independent in character and judgement.

Appointments to the Board

Code Principle:

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

Board Comment:

The Society values diversity but always makes Non-Executive Director appointments on merit, based on the specific skills and experience required to complement existing skills under the succession plan. No Board appointments were made this year and no imminent succession is required but vacancies are always widely advertised. For these reasons the Society does not have a measurable diversity objective. All Directors must meet the regulatory fitness and propriety standards. The Remuneration & Nomination Committee lead the process, and recommends a candidate. The Board decides whether to appoint the candidate. Each Director must be approved by the FCA in order to fulfil their control function as a Director.

Commitment

Code Principle:

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

Board Comment:

Directors are informed of the time commitment in the letter of appointment. The Remuneration & Nomination Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 18.

Development

Code Principle:

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

Board Comment:

The Society provides a formal induction for Non-Executive Directors tailored to their needs. This includes the nature of building societies; Director's responsibilities and duties; the management information they will be provided with and how to interpret this; information on the Group and the local market; an overview of the regulatory requirements; and details of significant current issues for the industry. The Chairman ensures that Non-Executive Directors continually update their skills and knowledge to fulfil their role on the Board and any Committees. Training and development needs are identified as part of the annual appraisal of the Board and individual Director performance and effectiveness. These needs are usually met by internal briefings and via attendance at industry seminars and conferences.

Information and Support

Code Principle:

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

Board Comment:

The Chairman ensures that the Board receives information sufficient to enable it to discharge its responsibilities. The Group continuously improves management information to assist the Committees in discharging their terms of reference. Internal Audit review the adequacy of the information provided to the Board. The Head of Compliance & 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 Remuneration & Nomination Committee appraises the Chief Executive's performance and reviews the other Executive Director appraisals. The Non-Executive Directors are evaluated by the Chairman using questions based on those recommended in the FRC guidance on Board Effectiveness issued in March 2011 and taking into account the views of the other Directors. The Chairman is evaluated by the Non-Executive Directors facilitated by the Vice-Chairman and taking into account the views of the Executive Directors. The Board evaluates its overall performance and that of each Committee. This process is used to improve the effectiveness of Directors and the Board collectively. It also identifies training needs and informs the decision whether to submit a Director for re-election.

Re-election

Code Principle:

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

Board Comment:

The Society's Rules require that all Directors be submitted for election 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 all Directors to annual re-election (unless they have served three terms) because of the continuity and succession needs of an effective Board. The Board's policy is that Non-Executive Directors (apart from the Chairman) will not usually serve more than three terms. The Remuneration & Nomination Committee considers whether members are independent in character and judgement, are able to commit sufficient time and demonstrate capability and knowledge. The Remuneration & Nomination Committee recommends to the Board whether a Non-Executive Director should be submitted for re-election.

Financial and Business Reporting

Code Principle:

C.1. The Board should present a fair, balanced and understandable assessment of the company's position and prospects.

Board Comment:

The Board confirms that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for Members to assess performance, strategy and the business model of the Society. The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained in the Directors' Responsibilities on page 18.

Risk Management and Internal Control

Code Principle:

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

Board Comment:

The Board is collectively responsible for determining risk appetites, strategies for risk management and control as described in the Group's risk management policy. Senior management is responsible for designing, operating and monitoring risk management systems and controls. Each Board Committee has oversight responsibility for the risks and controls within its remit. The Strategic Risk Committee assesses the adequacy of the risk related output of this process. The Society's internal auditors, Deloitte LLP, provide independent and objective assurance that the systems are appropriate and controls effectively applied. The Board has reviewed effectiveness of risk management systems and controls and concluded that the Society has a strong compliance culture and that systems are effective and appropriate to the scale and complexity of the business.

Audit Committee and Auditors

Code Principle:

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

Board Comment:

The Board has an Audit Committee comprising three Non-Executive Directors. These Directors have specialist expertise including current and relevant financial, legal and risk management experience. The Society's external and internal auditors and the Executive Directors attend by invitation. The responsibilities of the Committee are set out on page 14. The Audit Committee meets four times a year. At least annually, the Audit Committee meets with the external and internal auditors without the Executive Directors present.

Audit firms often have specialist skills and expertise and can provide non-audit services competitively. 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.

As KPMG has been the Society's auditor for a number of years, at the beginning of 2013 the Audit Committee decided to conduct a tender process for audit services. Following a review of the strengths and capabilities of a number of firms, two were shortlisted. After careful and thorough evaluation of what each firm could offer, the Committee concluded that KPMG's approach and detailed knowledge of the Society made them the best firm to provide audit services. The tender was a valuable process as it benchmarked the quality and cost of the service. The Policy is to tender for audit services on a regular basis but at least every 10 years.

Remuneration

The Directors' Remuneration Report on page 17 explains how the Society complies with the Code Principles relating to remuneration.

Dialogue with Shareholders

Code Principle:

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

Board Comment:

As a mutual organisation the Society's membership consists of individuals who are also the Society's customers. The Society is committed to dialogue with members through regular newsletters, social media and events attended by Executive and Non-Executive Directors. The purpose of this dialogue is to understand our members and better serve their needs.

Constructive use of the Annual General Meeting (AGM)

Code Principle:

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

Board Comment:

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

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

A C D Rann
Chairman
18 December 2013

Directors' Remuneration Report

This report explains how the Society complies with the principles in the UK Corporate Governance Code 2012 relating to remuneration. The Society has adopted a Remuneration Policy, which describes how the Society complies with the relevant sections of the FCA's Remuneration Code. The remuneration of the individual Directors is detailed in note 6 on page 26.

The Level and Components of Remuneration

Code Principle:

D.1. Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Board Comment:

The Society's remuneration policy is to reward Directors according to their expertise, experience and overall contribution to the successful performance of the business. The principles of the Society's remuneration policy are to:

- Attract and retain good people that share our values;
- Motivate staff to optimise achievements;
- Achieve long term business objectives and strategy to ensure sustainability of the business;
- Encourage a prudent approach to risk management; and
- Align the interests of staff with the interests of Members.

The Executive Directors' benefit package is therefore designed in the long term interest of Members as a whole. A performance related pay scheme operated during the year for Executive Directors, which was designed to encourage achievement of targets, linked to strategic objectives, that maintain customer service, security and financial strength of the Society; and to recognise corporate and individual performance in accordance with good risk management.

Executive Directors' Emoluments

The remuneration for Executive Directors reflects their responsibilities. It comprises basic salary, annual performance related pay scheme and various benefits detailed below. Performance related payments are not pensionable. The Society has no share option scheme and none of the Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of any connected undertaking of the Society.

Basic Salaries

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

Annual Performance Related Pay Scheme

The annual scheme is based on the Society's key financial measures of profitability, control of costs and growth in mortgages and retail and deposit balances. A maximum of 20% of salary (prior to any salary sacrifice) can be earned for achievement of all targets (this is reducing to 10% in 2013/14). The Remuneration & Nomination Committee sets targets and assesses whether any payment should be made. Fundamental prerequisites for any performance related payments include compliance, ethical standards and appropriate risk management. A proportion of the performance related payment is deferred to discourage inappropriate risk taking in accordance with good practice in remuneration policy. Misconduct or misstatement would lead to claw back of performance related pay.

Benefits

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

Executive Directors' Contractual Terms

Mr Gardner, Mr Bambridge and Mr Knappett each have a service contract with the Society, terminable by either party giving twelve months notice. In the event of amalgamation, transfer of engagements or transfer of business where the Executive Director's employment is to be terminated the Society shall give not less than 24 months notice.

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

Non-Executive Directors

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations.

Remuneration comprises a basic fee with supplementary payments for the Chairman, Vice Chairman and Chairmen of the Committees to reflect the additional responsibilities of these positions.

Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any incentive schemes or receive any other benefits. Non-Executive Directors have letters of appointment instead of service contracts.

The Procedure for Determining Remuneration

Code Principle:

D.2. There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

Board Comment:

The Remuneration & Nomination Committee reviews the Society's Remuneration Policy annually. The Committee consists of two independent Non-Executive Directors under the Chairmanship of the Society's Chairman. The Chairman is appropriate for this role because of his extensive experience of the Society. The Chief Executive attends by invitation but takes no part in the discussion of his own salary. The Committee reviews Directors and Executive remuneration annually using data from comparable organisations, and takes advice from external consultants when appropriate. Minutes of the Committee's meetings are distributed to all Board members, and the Chairman of the Committee reports at the Board meeting following a Committee meeting.

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

A C D Rann
Chairman
18 December 2013

Directors' Responsibilities

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

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

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

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

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

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

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

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

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

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

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

Directors' Attendance Record

( ) = number of meetings required to attend

Director	Board	Assets & Liabilities	Audit	Credit	Remuneration & Nomination	Sales, Marketing & Development	Strategic Risk
A C D Rann Chairman	10 (11)				4 (4)		4 (4)
J H Parker Vice Chairman	11 (11)	11 (11)	3 (4)		4 (4)		4 (4)
L F Bambridge Finance Director	11 (11)	11 (11)					
P J Brickley	10 (11)	11 (11)	4 (4)		4 (4)		4 (4)
B P Eighteen	11 (11)		4 (4)	10 (11)			4 (4)
R M W Gardner Chief Executive	11 (11)	11 (11)		11 (11)		9 (9)	
G M Knappett Development Director	11 (11)			9 (11)		9 (9)	
T L Morshead	11 (11)	11 (11)				7 (9)	4 (4)
R F Simms	10 (11)	6 (7)		11 (11)		9 (9)	3 (4)

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

We have audited the Group and Society annual accounts of Newbury Building Society for the year ended 31 October 2013 set out on pages 20 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the Directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the annual accounts

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

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and of the Society as at 31 October 2013 and of the income and expenditure of the Group and of the Society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

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

Matters on which we are required to report by exception

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

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

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
One Snowhill, Snow Hill Queensway, Birmingham B4 6GH
18 December 2013

Income and Expenditure Accounts for the year ended 31 October 2013

	Notes	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Interest receivable and similar income	1	23,100	22,936	21,114	20,939
Interest payable and similar charges	2	(12,260)	(12,260)	(12,343)	(12,343)
Net interest receivable		10,840	10,676	8,771	8,596
Fees and commissions receivable		975	961	815	811
Fees and commissions payable		(776)	(774)	(629)	(628)
Other operating income		82	82	71	71
Total Income		11,121	10,945	9,028	8,850
Administrative expenses	3	(6,456)	(6,451)	(5,814)	(5,806)
Depreciation and amortisation	11	(355)	(355)	(328)	(328)
		4,310	4,139	2,886	2,716
Provisions for bad and doubtful debts	9	(352)	(351)	(66)	(89)
Operating profit before FSCS levy		3,958	3,788	2,820	2,627
Provision for FSCS levy	17	(389)	(389)	(275)	(275)
Profit on Ordinary Activities before Tax		3,569	3,399	2,545	2,352
Tax on profit on ordinary activities	4	(871)	(834)	(694)	(640)
Profit for the Financial Year	18	2,698	2,565	1,851	1,712

Statement of total recognised gains and losses

Profit for the financial year	2,698	2,565	1,851	1,712
Property revaluation	-	-	(473)	(473)
Total Recognised Gains and Losses Relating to the Year	2,698	2,565	1,378	1,239

*The **notes** on pages 23 to 36 form part of these accounts. The operating profit for the Group and Society is equivalent to Profit on Ordinary Activities before Tax. The above results are all derived from continuing operations. Profits on a historical cost basis would not be significantly different to those stated above.*

Balance Sheets at 31 October 2013

	Notes	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		71,855	71,855	55,212	55,212
Loans and advances to credit institutions	7	85,830	85,261	106,247	105,978
		157,685	157,116	161,459	161,190
Loans and advances to customers					
Loans fully secured on residential property	8	604,619	562,751	549,009	501,661
Other loans	8	12,883	5,565	14,859	5,873
		617,502	568,316	563,868	507,534
Investments in subsidiary undertakings	10	-	48,132	-	55,113
Tangible fixed assets	11	5,428	5,428	5,291	5,291
Other assets	12	438	421	513	489
Prepayments and accrued income		307	307	229	229
Total Assets		781,360	779,720	731,360	729,846
Liabilities					
Shares	13	627,871	627,871	598,149	598,149
Amounts owed to credit institutions	14	33,057	33,057	7,688	7,688
Amounts owed to other customers	15	72,784	72,784	80,638	80,638
Other liabilities	16	1,374	1,343	1,276	1,240
Accruals and deferred income		792	784	772	762
Provisions for liabilities	17	347	347	400	400
Revaluation reserve	18	1,706	1,706	1,706	1,706
Reserves - general reserves	18	43,429	41,828	40,731	39,263
Total Liabilities		781,360	779,720	731,360	729,846

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

These accounts were approved by the Board of Directors on 18 December 2013
***A C D Rann** - Chairman*
***J H Parker** - Vice Chairman*
***R M W Gardner** - Chief Executive*
***L F Bambridge** - Finance Director*

Group Cash Flow Statement

	2013 £000s	2012 £000s
Net Cash Inflow from Operating Activities	17,757	26,344
Taxation	(674)	(634)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(501)	(156)
Proceeds from disposals of tangible fixed assets	10	-
Proceeds from sale of debt securities	-	38,629
Increase in cash	16,592	64,183

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities	2013 £000s	2012 £000s
Operating profit	3,569	2,545
(Increase) / decrease in prepayments and accrued income	(12)	543
(Decrease) / increase in accruals and deferred income	(1,050)	330
Provisions for bad and doubtful debts	352	(438)
Provision for FSCS levy	(53)	67
Depreciation and amortisation	355	328
(Profit) / loss on sale of fixed assets	(1)	31
Net Cash Inflow from Trading Activities	3,160	3,406
Movement in:		
Loans and advances to customers	(53,986)	(41,986)
Shares	30,512	25,718
Amounts owed to credit institutions and other customers	17,795	13,265
Loans and advances to credit institutions	20,300	26,200
Other assets	-	(310)
Other liabilities	(24)	51
Net Cash Inflow from Operating Activities	17,757	26,344

Reconciliation of Cash Balances	2012 £000s	Cash Flow £000s	2013 £000s
Cash in hand and balances with the Bank of England	55,212	16,643	71,855
Loans and advances to credit institutions - repayable on demand	83,840	(51)	83,789
	139,052	16,592	155,644

	2011 £000s	Cash Flow £000s	2012 £000s
Cash in hand and balances with the Bank of England	17,293	37,919	55,212
Loans and advances to credit institutions - repayable on demand	57,576	26,264	83,840
	74,869	64,183	139,052

Accounting Policies

Basis of Preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of land and buildings in accordance with applicable accounting standards, the Building Societies Act 1986, and in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998.

Basis of Consolidation

The Group accounts consolidate the accounts of the Society and its subsidiary undertakings, all of which have accounting periods ending 31 October.

Income Recognition

All the Society's material sources of income including interest receivable, fees and commissions are accounted for as earned on an accruals basis.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation which is deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided using the full provision method in accordance with Financial Reporting Standard 19.

Mortgage Incentives

Mortgage incentive payments are written off to other operating charges in the year of commitment to the advance. Interest discounts are recognised over the period of the discount as part of interest receivable.

Fixed Assets and Depreciation

Freehold buildings are depreciated on a straight-line basis over 50 years. Freehold land is not depreciated. Depreciation of leasehold premises is provided on a straight-line basis over the period of the lease, or over 50 years, whichever is the shorter. Equipment, fixtures, fittings and motor vehicles are capitalised when acquired and depreciated on a straight-line basis over their estimated useful lives of between three and eight years. Assets under the course of construction are capitalised and depreciation commences when the assets are available for use.

Freehold properties are revalued every three years by a qualified valuer and every five years by independent external valuers, on a vacant possession basis. The surplus or deficit on revaluation is taken to the revaluation reserve.

Liquid Assets

Debt securities are intended for use on a continuing basis, are classified as financial fixed assets and are stated at cost, adjusted for accrued interest at the date of purchase, where applicable. A similar adjustment is made on realisation. Any premium or discount on purchase is amortised over the period to maturity. Other liquid assets are stated at the lower of cost and net realisable value.

Funding for Lending (FLS)

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

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

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

Provision for Bad and Doubtful Debts

Specific provisions are made for loans and advances on a case by case basis to cover anticipated losses in respect of all accounts that are more than three months in arrears or that have been identified as impaired. Anticipated losses on such accounts are calculated as the difference between the estimated current achievable market value of the security and the outstanding loan balance, after making appropriate allowance for costs.

In addition, a general provision is made against other advances which have not been specifically identified as impaired, but where experience would indicate that losses may ultimately be incurred. Such provisions are calculated according to risk profiles including loan to value and taking into consideration the general economic climate.

It is the Group's policy not to suspend interest on non-performing loans in arrear, irrespective of whether the interest is subsequently recoverable. Interest is charged up to the date of sale of properties in possession and accordingly the loss provision is increased by the non-recoverable interest.

The Society utilises forbearance measures to assist borrowers who are, or could be, experiencing financial difficulty. Where the Society considers that there is a possibility of loss, provision is made in accordance with the policy set out above.

Pensions

Pension costs in respect of the Society's defined contribution scheme are charged to the income and expenditure account on an accruals basis.

Leases

Rental charges under operating leases are charged to the income and expenditure account on a straight line basis over the life of the lease. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

Off-Balance Sheet Instruments

All interest rate related contracts are classified at the balance sheet date as hedging contracts and the income and expense arising are recognised on an equivalent basis to the assets, liabilities or positions that are being hedged. If the hedging contract is terminated early, the realised gain or loss is charged immediately to the income and expenditure account. Amounts accrued on hedging contracts and instruments are included within prepayments and accrued income or accruals and deferred income.

Notes to the Accounts

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
1. Interest Receivable and Similar Income				
On loans fully secured on residential property	22,654	20,521	20,116	17,645
On other loans:				
• Connected undertakings	-	2,379	-	2,797
• Other	652	242	759	258
On debt securities (all fixed income):				
• Interest and other income	-	-	107	107
On other liquid assets:				
• Interest and other income	928	928	1,212	1,212
Net expense on financial instruments	(1,134)	(1,134)	(1,080)	(1,080)
	23,100	22,936	21,114	20,939
2. Interest Payable and Similar Charges				
On shares held by individuals	10,770	10,770	10,648	10,648
On other shares	73	73	76	76
On deposits and other borrowings	1,417	1,417	1,619	1,619
	12,260	12,260	12,343	12,343
3. Administrative Expenses				
Employee costs				
• Wages and salaries	2,848	2,848	2,535	2,535
• Social security costs	294	294	265	265
• Other pension costs	374	374	381	381
	3,516	3,516	3,181	3,181
Other administrative expenses	2,940	2,935	2,633	2,625
	6,456	6,451	5,814	5,806
Other administrative expenses include:				
• Remuneration of auditor and its associates				
- audit of annual accounts	35	35	35	35
- audit of subsidiary's financial statements	5	-	5	-
- other services pursuant to such leglislation	2	2	2	2
- other services relating to taxation	6	6	9	8
• Operating lease costs	125	125	92	92

4. Taxation

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
The taxation charge for the year comprises:				
UK corporation tax on profits in the year	793	763	671	635
Adjustment in respect of previous year	3	3	13	4
Total current tax	796	766	684	639
Deferred taxation:				
Origination and reversal of timing differences	51	47	(24)	(30)
Adjustment in respect of previous year	(3)	(3)	11	11
Effect of tax rate change on opening balance	27	24	23	20
Total deferred tax	75	68	10	1
Tax on profit on ordinary activities	871	834	694	640
Factors affecting the tax charge for the year are:				
Profit on ordinary activities before tax	3,569	3,399	2,545	2,352
Profit on ordinary activities multiplied by 23.41% (2012: 24.83%)	836	796	632	584
Effects of:				
Difference between capital allowances and depreciation	(15)	(15)	10	10
Movement on non-taxable provisions	(46)	(40)	15	22
Depreciation on non-qualifying assets	16	16	17	17
Adjustment in respect of previous year	3	3	13	4
Small company relief	(4)	-	(5)	-
Disallowable expenses	6	6	2	2
Current tax charge for the year	796	766	684	639

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

5. Employees

	Full time 2013	Part time 2013	Full time 2012	Part time 2012
The average number of persons employed by the Society and Group (including Executive Directors) during the year was as follows:				
Head Office and Administration Centre	50	10	43	10
Branch Offices	36	26	33	28
	86	36	76	38

6. Directors' Remuneration and Transactions

The emoluments for both Executive and Non-Executive Directors totalled £665,400 for the year (2012: £667,461).

Executive Directors' Emoluments £s

2013	Salary	Performance Related Pay	Taxable Benefits	Pension Contribution	TOTAL
R M W Gardner	152,606	26,090	1,487	36,327	216,510
L F Bambridge	113,228	19,610	961	16,860	150,659
G M Knappett	91,132	15,086	1,819	26,645	134,682
TOTAL	356,966	60,786	4,267	79,832	501,851
2012					
R M W Gardner	150,240	28,560	1,522	35,703	216,025
L F Bambridge	87,667	20,800	977	48,155	157,599
G M Knappett	89,678	17,486	1,270	26,188	134,622
TOTAL	327,585	66,846	3,769	110,046	508,246

Further details on the components of Directors' emoluments can be found in the Directors' Remuneration Report on page 17.

The Executive Directors have the option to sacrifice part of their salary in exchange for the Society making additional pension contributions on their behalf. During the year all three Executive Directors took advantage of this option.

Mr Bambridge also received £4,220 from Sovereign Housing Association for his services as a Non-Executive Director.

Total employee costs increased 10.5% during the year which included an average pay review increase of 2.4%. The Executive Directors' emoluments reduced 1.3% which included a 0.2% increase for the Chief Executive.

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

	2013 £	2012 £
A C D Rann (Chairman)	39,460	38,793
J H Parker (Vice Chairman)	26,976	26,513
P J Brickley	26,976	26,513
B P Eighteen	24,278	22,767
T L Morshead	21,581	8,925
H M E Wright (Resigned 31/05/12)	-	13,379
R F Simms	24,278	22,325
TOTAL	163,549	159,215

The amount shown in respect of Mr A C D Rann is a contribution made to James Cowper LLP for making his services available.

Loans to Directors and connected parties:

The aggregate outstanding balance at the end of the financial year in respect of loans from the Group to Directors and connected persons was £891,503 (2012: £659,128) representing loans to four (2012: three) persons. A register of loans to and transactions with Directors and connected persons is maintained. It is available for inspection by members at the Society's Head Office for the period of fifteen days prior to the Annual General Meeting and at the Annual General Meeting.

7. Loans and Advances to Credit Institutions

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Accrued interest	41	41	107	107
Repayable on demand	83,789	83,220	83,840	83,571
Other loans and advances by residual maturity repayable:				
In not more than three months	2,000	2,000	22,300	22,300
	85,830	85,261	106,247	105,978

8. Loans and Advances to Customers

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Loans and advances to customers net of provisions are analysed as follows:				
Loans fully secured on residential property	604,619	562,751	549,009	501,661
Other Loans				
- Loans fully secured on land	12,883	5,565	14,637	5,651
- Other loans	-	-	222	222
	617,502	568,316	563,868	507,534

At 31st October 2013 the Group had pledged £58.3m (2012: Nil) of mortgage assets to the Bank of England as collateral under the Funding for Lending Scheme.

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:				
On call and at short notice	84	84	-	-
Repayable with remaining maturity:				
In not more than three months	4,938	4,644	4,953	4,528
In more than three months but not more than one year	17,879	16,556	16,332	15,307
In more than one year but not more than five years	103,785	96,294	92,186	84,621
In more than five years	492,031	451,849	451,260	403,838
	618,717	569,427	564,731	508,294
Less provisions (note 9)	(1,215)	(1,111)	(863)	(760)
	617,502	568,316	563,868	507,534

The maturity analysis is produced on the basis that where a loan is repayable by instalment, each such instalment is treated as a separate repayment.

	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Group £000s	**Society £000s**	**Group £000s**	**Society £000s**	**Group £000s**	**Society £000s**	**Group £000s**	**Society £000s**
9. Provisions for Bad and Doubtful Debts								
At 1 November 2012								
General provision	481	468	147	57	221	221	849	746
Specific provision	14	14	-	-	-	-	14	14
	495	482	147	57	221	221	863	760
Written off in year	-	-	-	-	-	-	-	-
Income and expenditure account								
General provision	71	79	(17)	(1)	(221)	(221)	(167)	(143)
Specific provision	76	51	-	-	443	443	519	494
	147	130	(17)	(1)	222	222	352	351
At 31 October 2013								
General provision	552	547	130	56	-	-	682	603
Specific provision	90	65	-	-	443	443	533	508
	642	612	130	56	443	443	1,215	1,111

	Shares £000s	**Loans £000s**	**Total £000s**
10. Investments in Subsidiary Undertakings			
At 1 November 2012	-	55,113	55,113
Repayment	-	6,981	6,981
At 31 October 2013	-	48,132	48,132

The Society holds directly 100% of the issued voting ordinary share capital of £1 in Newbury Mortgage Services Ltd (NMS), whose principal business activity is the provision of mortgage related finance. The repayment made in the year reflects the reduction in the outstanding loan in NMS. The Society also holds directly 100% of the ordinary share capital of two dormant companies; Newbury Financial Services Ltd and Newbury Insurance Services Ltd. All subsidiaries have been consolidated.

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

11. Tangible Fixed Assets

	Group and Society			
	Assets under the course of construction £000s	Land and Buildings £000s	Equipment, fixtures, fittings & vehicles £000s	Total £000s
Cost / valuation				
At 1 November 2012	-	4,792	2,810	7,602
Additions	359	-	142	501
Disposals	-	-	(176)	(176)
At 31 October 2013	359	4,792	2,776	7,927
Depreciation				
At 1 November 2012	-	105	2,206	2,311
Charge for the year	-	62	293	355
Elimination in respect of disposal	-	-	(167)	(167)
At 31 October 2013	-	167	2,332	2,499
Net book value				
At 31 October 2012	-	4,687	604	5,291
At 31 October 2013	359	4,625	444	5,428

The Assets under the course of construction comprise costs relating to the replacement of the Society's core IT system.

The freehold properties were revalued on 6 September 2012 on a vacant possession basis as a result of a review by Quintons, chartered surveyors. This interim revaluation produced a £472,567 decrease in value which was debited to the revaluation reserve. The last full valuation took place on 2 March 2009. The valuation of the freehold properties has been reviewed as at October 2013 and approved by the Society's Board.

If the freehold properties had been held under the historical cost basis their net book value as at 31 October 2013 would have been £3,201,070.

Included in the land and buildings above is £1,711,520 (2012: £1,711,520) of non-depreciable land.

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

	2013 £000s	2012 £000s
Freehold	4,573	4,633
Long leasehold	52	54
	4,625	4,687

Net book value of Land and Buildings occupied by the Group and Society for its own activities:	2013 £000s	2012 £000s
Freehold	4,312	4,218
Long leasehold	52	54

12. Other Assets

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Deferred tax assets	128	111	203	179
Cash collateral pledged against off-balance sheet contracts	310	310	310	310
	438	421	513	489
Deferred tax assets comprise:				
General provisions	134	117	208	184
Prepaid pension costs	(6)	(6)	(5)	(5)
	128	111	203	179

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Movement on deferred tax asset:				
At 1 November	203	179	213	180
Deferred tax charge (note 4)	(75)	(68)	(10)	(1)
At 31 October	128	111	203	179

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 October 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

13. Shares	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Held by individuals	627,858	627,858	598,136	598,136
Other shares	13	13	13	13
	627,871	627,871	598,149	598,149
Shares are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	827	827	1,617	1,617
Repayable on demand	422,849	422,849	381,536	381,536
In not more than three months	113,992	113,992	91,369	91,369
In more than three months but not more than one year	82,907	82,907	114,552	114,552
In more than one year but not more than five years	7,296	7,296	9,075	9,075
	627,871	627,871	598,149	598,149

14. Amounts Owed to Credit Institutions	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	135	135	188	188
On demand	-	-	-	-
In not more than three months	32,922	32,922	3,000	3,000
In more than three months but not more than one year	-	-	4,500	4,500
	33,057	33,057	7,688	7,688

Included in the amounts above is £29.9m (2012: Nil) relating to a sale and repurchase agreement of treasury bills borrowed from the Bank of England under the Funding for Lending Scheme.

15. Amounts Owed to Other Customers

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Accrued interest	9	9	236	236
On demand	26,660	26,660	35,732	35,732
In not more than three months	44,559	44,559	27,549	27,549
In more than three months but not more than one year	1,556	1,556	17,121	17,121
	72,784	72,784	80,638	80,638

16. Other Liabilities

Amounts falling due within one year:

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
Corporation tax	475	445	353	316
Income tax	828	828	837	837
Other creditors	71	70	86	87
	1,374	1,343	1,276	1,240

17. Provisions for liabilities

	Group £000s	Society £000s
Financial Services Compensation Scheme		
At 1 November 2012	400	400
Paid in year	(442)	(442)
Income and Expenditure account:		
Increase in Provision	389	389
At 31 October 2013	347	347

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts - a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford and Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

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

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012. The provision at 31 October 2013 includes an estimate of the management levy for the scheme year 2013/14. The compensation levy for 2013/14 was paid in the year to 31 October 2013. No provision has been made for any levies relating to 2014/15 and subsequent scheme years.

18. Reserves

	Group £000s	Society £000s
General Reserves		
At 1 November 2012	40,731	39,263
Profit for the financial year	2,698	2,565
At 31 October 2013	43,429	41,828
Revaluation Reserve		
At 1 November 2012 and 31 October 2013	1,706	1,706

The potential tax liability on the surplus on revaluation is £341,000 (2012: £417,000). This liability would crystallise if the revalued assets were sold; no deferred tax has been provided for this amount.

19. Capital and Other Financial Commitments

	Group 2013 £000s	Society 2013 £000s	Group 2012 £000s	Society 2012 £000s
a. Capital commitments contracted for but for which no provision has been made in the accounts	482	482	5	5
b. Annual commitments under non-cancellable operating leases are as follows:-				
Land and buildings				
• Leases which expire within one year	19	19	-	-
• Leases which expire within two to five years inclusive	25	25	19	19
• Leases which expire after more than five years	75	75	50	50

The Group has a commitment to repurchase treasury bills accounting to £30m (2012: nil)

20. Financial Instruments

a. Off-Balance Sheet Hedging Instruments

The Group has a well established formal structure for managing risks which includes formal risk policies, risk limits, reporting structures, mandates and control procedures. This structure begins with the Board of Directors which delegates responsibility for hedging risks to the Assets & Liabilities Committee (ALCO).

Financial instruments used by the Group for risk management purposes include off-balance sheet or derivative instruments. In accordance with the Building Societies Act 1986 such instruments are only used to limit the extent to which the Group will be affected by changes in interest rates.

As part of its responsibilities, ALCO approves the use of specified off-balance sheet instruments within approved limits and business activities. The Group does not undertake transactions for trading or speculative purposes and consequently all off-balance sheet financial instruments are classified as hedging contracts.

The off-balance sheet instruments used by the Group in managing its balance sheet risk exposures are interest rate swaps. These are used to protect the Group from exposures arising principally from fixed and capped rate mortgage lending, fixed rate savings products and deposit funding. The duration of the off-balance sheet contracts is generally short to medium-term and their maturity profile reflects the nature of exposures arising from underlying business activities.

Under an interest rate swap, the Group agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount.

b. Risk Management

The main financial risks arising from the Group's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, and these are summarised below.

Credit Risk

All loan applications are assessed with reference to the Group's Lending Policy. Changes to Policy are approved by the Credit Committee and the approval of loan applications is mandated. ALCO is responsible for approving treasury counterparties and limits.

Liquidity Risk

The Group's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Group can meet its liabilities as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected development that might arise.

Interest Rate Risk

The Group is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Group manages this exposure continually by using both on and off-balance sheet instruments.

c. Interest Rate Risk Exposure

The table below summarises these repricing mismatches as at 31 October 2013. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

	3 months or less £000s	More than 3 months, less than 6 months £000s	More than 6 months, less than a year £000s	More than a year, less than 5 years £000s	Non-interest bearing £000s	Total £000s
Assets						
Liquid assets	157,265	-	-	-	420	157,685
Loans and advances to customers	502,034	12,158	4,413	100,113	(1,216)	617,502
Tangible fixed assets	-	-	-	-	5,428	5,428
Other assets	-	-	-	-	745	745
Total Assets	659,299	12,158	4,413	100,113	5,377	781,360
Liabilities						
Shares	536,841	46,016	36,891	7,296	827	627,871
Amounts owed to credit institutions and other customers	104,141	1,186	370	-	144	105,841
Other liabilities	-	-	-	-	2,166	2,166
Provision for liabilities and charges	-	-	-	-	347	347
Reserves	-	-	-	-	45,135	45,135
Total Liabilities	640,982	47,202	37,261	7,296	48,619	781,360
Off-balance sheet items	114,000	(13,500)	(3,000)	(97,500)	-	-
Interest rate sensitivity gap	132,301	(48,544)	(35,848)	(4,683)	(43,242)	-
Cumulative surplus	132,317	83,773	47,925	43,242	-	-

The comparatives as at 31 October 2012 were as follows:

Assets						
Liquid assets	161,055	-	-	-	404	161,459
Loans and advances to customers	478,182	-	13,878	72,671	(863)	563,868
Tangible fixed assets	-	-	-	-	5,291	5,291
Other assets	-	-	-	-	742	742
Total Assets	639,237	-	13,878	72,671	5,574	731,360
Liabilities						
Shares	472,905	53,002	61,550	9,075	1,617	598,149
Amounts owed to credit institutions and other customers	66,281	12,428	9,193	-	424	88,326
Other liabilities	-	-	-	-	2,048	2,048
Provision for liabilities and charges	-	-	-	-	400	400
Reserves	-	-	-	-	42,437	42,437
Total Liabilities	539,186	65,430	70,743	9,075	46,926	731,360
Off-balance sheet items	83,000	-	(15,000)	(68,000)	-	-
Interest rate sensitivity gap	183,051	(65,430)	(71,865)	(4,404)	(41,352)	-
Cumulative surplus	183,051	117,621	45,756	41,352	-	-

d. Fair Values of Financial Assets and Financial Liabilities

Set out below is a comparison of carrying values of some of the Group's financial assets and financial liabilities as at 31 October 2013. The Group does not undertake transactions for trading or speculative purposes. The table excludes certain financial assets and financial liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes items such as mortgages, share accounts and deposits with banks. Market values have been used to determine the fair value of interest rate swaps and debt securities held.

	Group and Society			
	2013 Book value £000s	**2013 Fair value £000s**	**2012 Book value £000s**	**2012 Fair value £000s**
Financial assets and liabilities for which active markets exist				
Interest rate swaps	-	(1,289)	-	(2,454)

The table below shows the notional principal amounts and credit risk weighted amounts of derivatives. Notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amount has been calculated in accordance with guidance on the solvency ratio issued by the Financial Services Authority. The replacement cost represents the cost of replacing contracts with positive value calculated at market rates current at the balance sheet date. This reflects the Group's maximum exposure should all counterparties default.

	Group and Society	
	2013 £000s	**2012 £000s**
Unmatured interest rate swaps		
Notional principal amounts	119,000	83,000
Credit risk weighted amounts	240	66
Replacement cost	85	-

Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised losses on hedges at the balance sheet date were £1,289,000 (2012: £2,454,000). These losses represent the expected future cost of interest rate hedges to the Group, given current economic conditions and after taking account of unrealised gains and losses which have been recognised in the balance sheet as at 31 October 2013. The Group expects to realise losses during the forthcoming financial year of £920,000 (2012: £1,164,000). Of the unrecognised gains and losses on hedges as at 1 November 2012, the effect on profit for the year was a loss of £1,064,000 (2012: £1,037,000).

21. Pension Scheme

The Society operates a stakeholder defined contribution pension scheme and contributes to some other individual personal pension arrangements. The assets are held separately from those of the Society in independently administered funds. In addition the Society provides death in service cover for its employees. This is fully insured under the Newbury Building Society Death In Service Scheme. The pension cost charge represents contributions payable by the Society to the individual employee funds and death in service premiums and amounted to £374,000 (2012: £381,000). There were contributions payable at the year end of £26,000 (2012: £29,000). There was a prepayment at the year end of £30,000 (2012: £23,000) for the Society Death in Service Scheme.

Annual Business Statement as at 31 October 2013

1. Statutory Percentages	2013 %	Statutory Limit %
Lending limit	2.3	25
Funding limit	14.4	50

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

The Lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the 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	2013 %	2012 %
Gross capital as a percentage of shares and borrowings	6.15	6.18
Free capital as a percentage of shares and borrowings	5.50	5.53
Liquid assets as a percentage of shares and borrowings	21.49	23.52
Profit after tax as a percentage of mean total assets	0.36	0.26
Management expenses as a percentage of mean total assets	0.90	0.86

The above percentages have been prepared from the Group accounts:

- 'Shares and Borrowings' represents the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers;
- 'Gross Capital' represents the aggregate of general reserves and revaluation reserve;
- 'Free Capital' represents the aggregate of gross capital and general provisions for bad and doubtful debts less tangible fixed assets;
- 'Mean total assets' represents the average of the total assets at the beginning and end of the financial year;
- 'Liquid Assets' has the same meaning ascribed in the Group Balance Sheet;
- 'Management Expenses' represents the aggregate of administrative expenses and depreciation shown in the Group Income and Expenditure Account.

3. Directors and Other Officers as at 31 October 2013

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

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

Other Officers

Phillippa Cardno - Head of Operations
Erika Neves BSc (Hons), DIMA - Head of Conduct
Philip Relf BA (Hons), ACIS - Head of Compliance & Company Secretary
Rob Thomas BSc (Hons), ACA - Head of Finance
Ian Thompson FCIB - Head of Treasury & Risk

The only other officer who held a directorship as at 31 October 2013 was Ian Thompson who was a Director of Education Business Partnership West Berkshire.

Auditor
KPMG Audit Plc
One Snowhill, Snow Hill Queensway, Birmingham B4 6GH

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

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

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

Staff

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

Branches

Abingdon	Helen McMahon • Charlotte Claydon • Faye Hook • Jenna Powell • Holly Stevenson • Laura Thorpe
Alton	Ellie Pearson • Becky Mountfield • Julie Pink • Daniel Shah
Andover	Brett Humphrey • Charlotte Barham • Kat Pearse • Hilary Sacree • Sheila Sandham • Trudi Smart
Basingstoke	Harriette Lane • Matt Long • Emily Lucas • Jessica McAuley • Lucy Parnell • Nicola Pope • Shannon Rigler
Didcot	Kate Rockall • Norma Banks • Heather Evans • Hannah Tame
Hungerford	Ella Bright • Sarah Hubbard • Sarah McNaught-Davies • Kayleigh Tingle • Paula Wheeler
Newbury	Jane Bosher • Jill Bennett • Pippa Bracey • Shingai Chipfupa • Pamela Dobson • Rachel Hawkins • Laura Heal • Nicola King-Head • Sue Mason • Jordan Sharpe • Emma Trincas
Thatcham	Eve McDowell • Suzanne Allen • Linda Ardis • Debbie Brockett • Amanda Conway-Jones • Amba Goodall • Karen Griffin
Whitchurch	Lisa Couch • Fiona Cornish • Anna Royle
Winchester	Sandra Smith • Emily Bourne • Becky Davies • Lisa Wedge • Leigh Yates
Wokingham	Debbie Gadd • Charlotte Hall • Mandi Clacey • Jac Goddard •Tom Kilminster
Area Managers	Karen Smith • Martin Yates
Business Managers	Diane Long • Paul Holt • James Sewell
Business Support Managers	Stacey Davies • Emma Lavers • Clare Taylor

Head Office

Compliance	Lynn Fiske • Charlotte Courtenay
Customer Services	Melanie Mildenhall • Nick Croxford • Sue Newcombe • Deborah Bailey • Joan Bennett • Chloe Brock • Rose Fishlock • Emma Franklin • Janet Jex • Melissa Kenah • Diana Lewis • Jane Mason • Louise McCormack • Laura Pitcher • Gemma Robinson • Katie Rocks • Lynn Small • Kim Smyth • Sian Stacey • Katie Stubbs • Elliot Walker • Hannah Westlake
Executives	Roland Gardner • Lee Bambridge • Geoff Knappett • Phillippa Cardno • Erika Neves • Philip Relf • Rob Thomas • Ian Thompson
Finance	Lynda Ralph • Ruth Bowden • Cheryl Bowers • Todd Gilmartin • Deborah Springer
Human Resources	Anne-Marie Goldsmith
ICT	Traci Anne Sharp • Ian Willson • Vicky Boyles • Lisa Dixon • Ben Egan • Seth Ford • Rose Hallett Piotr Jaworski • Nicola Martin • Shiv Stacey • Hayley Watt • Laura Wilson
Lending	Roger Knight
Marketing	Steve White • Liz Mead • Steve Scheja-Terry • Chloe Somerville • Daryl Wing
Personal Assistants to the Executives	Cara Holley • Jacky Reenan • Marie Stanley
Premises, Health and Safety	Sharon Golding • Peter Evans • Phillip Graham • Michael Goodall
Treasury and Risk	Louise Keep
Valuer	Ann Davidson

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