ANNUAL REPORT & ACCOUNTS

Year ended 31 October 2022









Newbury Building Society

OUR PERFORMANCE HIGHLIGHTS

PROFIT AFTER TAX*
£11.8M
2021: £6.0M

TOTAL CAPITAL RATIO*
22%
2021: 20.9%

GROSS MORTGAGE LENDING
£212M
2021: £214M

SAVINGS BALANCES GROWTH
£21M
2021: £110M

CUSTOMER AWARDS

INSTITUTE OF CUSTOMER SERVICE DISTINCTION ACCREDITATION

BEST SPECIALIST MORTGAGE PROVIDER - BRITISH BANK AWARDS 2022

CHARITABLE DONATIONS
£187K
2021: £63K

*Key performance indicators (KPIs). For information on how these are calculated please see page 26.

IN THIS REPORT

STRATEGIC REPORT

CHAIRMAN'S STATEMENT

> I'm pleased to report that the Society has delivered another strong performance in 2022 despite the challenging economic environment.
>
> **Piers Williamson**
> Chairman of the Board

In my first year as your Chairman, and in the Society's 165th year, I am pleased to report that the Society has delivered another strong performance despite the challenging economic environment. Our core purpose of helping our members build sustainable futures through the Society being the trusted provider of mortgages and savings in our communities has led to steady growth, improved profitability and a strong capital position, something which has characterised so many of our recent performances.

Domestic and global economic volatility, together with significant inflationary pressures leading to cost-of-living challenges and the tragic events taking place in Ukraine have all contributed to a year of uncertainty. The Covid-19 pandemic also continued to play a part in our fortunes and although we started 'Living with Covid' from March 2022, the first five months of our financial year commenced with us continuing to manage the business with reduced branch opening hours, colleagues working from home and restrictive trading conditions.

Notwithstanding the challenges, we delivered a strong financial performance and progressed our strategic investment programme which will continue to underpin our success and sustainability for many years to come. Strong attention to delivering excellent customer service, improving our digital capabilities and looking after our people remained a key focus.

MARKET CONDITIONS

Mortgages

The housing market remained relatively buoyant during the year given the after effects of Covid-19 on the wider economy, and the national market saw house prices rising on average by over 10% during the year, as demand for property exceeded supply, particularly in the suburban and rural markets.

However, global challenges, particularly the Ukraine/Russia conflict and significant increases in energy prices, continue to delay economic recovery, and have contributed to already significant inflationary pressures, the likes of which have not been seen in decades. There have been eight Bank Rate changes implemented by the Bank of England since December 2021 totalling 3.25% and therefore Bank Rate now stands at 3.5% (15 December 2022), in an effort to address inflation. The last time the Bank Rate was as high as 3.5% was October 2008 and many of our customers and employees have never experienced a rising interest rate market. The Bank of England has forecast that the economy will enter into recession as household spending is squeezed by higher inflation, a rising tax burden and higher unemployment.

Despite this backdrop, which unfolded in the second half of our financial year and remains current today, the Society achieved a solid mortgage growth performance of 4%, growing mortgage balances to £1.111bn (2021: growth of 5.4% to £1.068bn).

What is noticeable about this year's performance is that with rapid increases in Bank Rate and the market reaction to the 'mini-budget' announced in September 2022 (albeit most of which has been subsequently withdrawn), many lenders were forced to withdraw fixed rate mortgage products, which led to the Society attracting enquiries and applications on variable rate products at record levels, therefore, as we enter our new financial year we have a strong pipeline of mortgage business.

However, confidence is a fragile thing and with further increases in interest rates continuing to loom, potential rises in the level of unemployment and a decrease in the forecast for Gross Domestic Product, all resulting in households facing increasing costs, the outlook for the housing market is uncertain.

Savings
The requirement to raise funding through retail savings stayed low for the majority of the year as liquidity levels remained high, resulting in a modest shares and deposit balance increase of £21m (including capitalised interest) (2021: £110m). We ended the year with more liquidity than we would normally hold, representing 24.3% of total savings and deposits liabilities (2021: 24.5%), boosted by swap collateral receipts. This is planned to reduce to around 20% next year and in the region of 18% in the longer term.

Both a limited savings account product range and postcode restrictions remained in place for the majority of the year. This started to change in late summer as interest rates began to increase after more than a decade of a low interest rate environment with little return for savers.

We reacted to market changes and increased rates for all savers whilst balancing the need to protect mortgage borrowers at the same time. We reopened a number of products and lifted some postcode restrictions. As we head into our new financial year, the Society has a clear strategy in place to generate retail funding as we commence plans to repay the Bank of England's Term Funding Scheme (TFSME) which offered us the opportunity to borrow low-cost funding in the last decade, something which is now closed.

Our pricing for members remains competitive, but we have seen the market 'open up' in recent months with customers being more attuned to the different product offerings available in the market and how they can make their savings work harder for them. We will continue to be alive to customer needs and market changes and respond appropriately. Retaining the right balance between savings and lending is one of the key criteria of managing the Society successfully, and in doing so we have to consider what is best for the membership as a whole.

CUSTOMERS AND COMMUNITIES

Throughout the financial year the Society continued to support customers, both savers and borrowers alike. We upheld our excellent customer service delivery values, resulting in the Society achieving a Customer ServiceMark Accreditation with 'distinction', granted by the Institute of Customer Service, the only building society in the country to do so. We are immensely proud of this achievement, and it is testament of our strong customer centric culture and how helping you, our members, meet your financial needs, is part of our core existence.

Furthermore, in 2022 we won 'Best Specialist Mortgage Provider' at the British Banking Awards, further demonstrating our service capability and commitment to our members.

Investment in our branches continued. Following our newly refurbished and relocated branch in Abingdon in the previous financial year, we fully refurbished our Newbury branch which reopened to customers on 29 November 2022. Plans are underway to continue investing in our branch network as we head into our new financial year and beyond.

We provided cost of living support to our communities with £187k (2021: £63k) donated to a range of charities, in particular those needing most help and support as a result of high food and energy costs, and undertook additional volunteering days for employees to help and support our charity partners.

BOARD STRATEGY

The Board undertook a review of its strategy in the 2021/22 financial year which culminated with an agreement for our future plans in July 2022. The Board endorsed the existing strategy, which is to help our members build sustainable futures by being the trusted provider of savings and mortgages in our communities. In order to deliver this core aim, we specifically agreed to keep our focus on customer value over the long term, to continue to develop and accelerate our digital transformation, to deliver steady growth, to look after our employees and to demonstrate a community conscience.

BOARD CHANGES

The Board's responsibility is to ensure the Society delivers on long-term value for members. In parallel, we must make sure the Society is sustainable and has strong financial foundations. The Board functions best when it is made up of a diverse group of directors. As leadership and governance are key to the Society's success, we are pleased to have managed an orderly change of leadership between our previous Chair, Peter Brickley to myself, and our previous CEO, Roland Gardner, to our new CEO Phillippa Cardno.

Peter made an outstanding contribution, leading the Board through unprecedented risks in the past seven years. The role of chair has become increasingly complex and demanding, with greater expectations of the individuals holding it. Peter more than lived up to those expectations, leading the Board's contribution to our strategy development whilst also providing significant support to developing our technological capabilities. The growth of the Society in Peter's seven years in the chair has been a key feature and goal of his period in charge (£820m in assets at the beginning of 2015 increasing to £1.45bn now). Peter has also been instrumental in supporting the Society's technological efforts, initially during our core systems migration from Yorkshire Key Services to SOPRA, and in recent years, by encouraging the establishment of our Digital Advisory Panel and in the development of greater cyber security and operational resilience.

Roland Gardner retired in March, after 35 years at the Society and 15 of those as the CEO. Throughout his years as CEO our total assets have more than doubled, our capital reserves have tripled and overall membership has grown by approximately 50%, but most importantly everything he has done has been for the good of the membership. These are strong metrics underpinning the Society's strength in depth.

As CEO Roland led the Society through two global crises; the banking crisis of 2008, and the Covid-19 pandemic. These have been thorough tests of leadership and Roland handled each in an exemplary manner - calm, practical and rational. Under his care we opened two branches; Basingstoke and Winchester, and he has been an advocate of bricks (branches) and clicks (technology); a balanced strategy and one that remains at the heart of the Society today.

The Board thanks both Peter and Roland for their loyalty and commitment to the Society over many years and wish them well in their retirements.

We welcomed two new non-executive directors (NEDs) to our Board this year: Debbie Beaven is a Fellow of the Institute of Chartered Management Accountants with an extensive career in financial leadership roles across different market sectors, and Nailesh Rambhai is a qualified lawyer with significant experience across private, public, mutual and charitable sectors. Nailesh has been appointed as Chair of the Risk Committee. We are delighted to have secured their services and look forward to the benefit of their wisdom and experience moving forward.

This followed the resignations of two NEDs who joined our Board earlier in the year. Both Fiona Phillips and Nicola Bruce resigned to pursue other business interests. There is no question that the time demand on NEDs has increased in recent years, and I thank both Fiona and Nicola for their contributions despite their short tenures.

BOARD EFFECTIVENESS REVIEW

During the year the Board conducted a Board Effectiveness Review which was undertaken by an independent third party. The review concluded that the Society is a highly successful and effective organisation and creates and maintains a culture that is consistent with the Society's values and wider business strategy, with customers at the centre of everything we do.

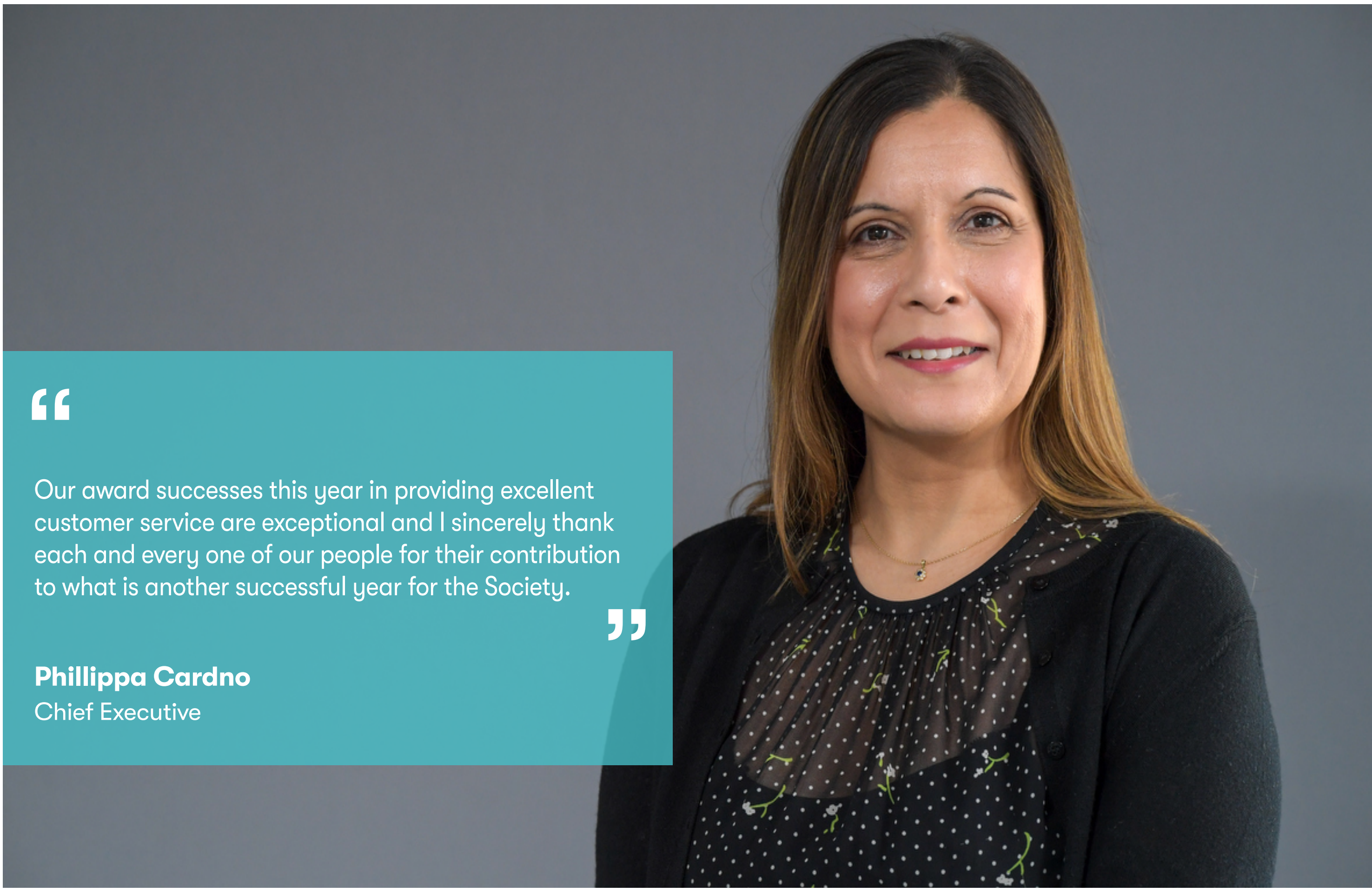
CONCLUSION

There are many challenges ahead as we move towards choppier economic waters (both domestically and globally), the strong likelihood of a recession, the ongoing increases in energy and fuel costs and higher prices for goods and services. Together with navigating how climate change affects us all, the need to continue to support our members and communities, the Society is in a strong financial position to weather the storms and deliver on our strategic aspirations.

To end I would like to thank the Board, the senior leadership team and all Society colleagues for making the Society the strong and successful organisation it is today and for their on-going commitment in ensuring we remain sustainable and successful in the years to come. I would also like to thank you, our members, for your continued support and loyalty.

Piers Williamson, Chairman
21 December 2022

CHIEF EXECUTIVE'S REVIEW



When I was appointed CEO in March 2022, I could not have predicted the economic challenges we have had to face in recent months, balancing the needs of savers, borrowers, and our people simultaneously. However, reflecting on this year's performance, I am immensely proud that the Society not only successfully navigated through the challenges, but that we continued to strengthen our financial standing for the future, as well as investing in a number of customer and digital initiatives to better serve the needs of our members. My colleagues have worked exceptionally hard to provide you, our members, with a level of care and attention you expect and deserve. As our Chair has mentioned, our award successes this year in providing excellent customer service are exceptional and I sincerely thank each and every one of our people for their contribution to what is another successful year for the Society.

From a business results and development perspective, this has been another extremely satisfactory year for the Society. Given the prevailing economic backdrop, the progress made is most rewarding, in terms of looking after our customers, continuing to develop our digital future to better support member needs and supporting our communities, as well as in terms of delivering the quality of financial results which strengthen the Society's capital base and grow the balance sheet. Every single employee of the Society has had to work hard to provide members with our usual standard of high service, and despite the challenges of recent months, the regular feedback from you, collected independently by Smart Money People, suggests we continued to be successful in doing so.

BUSINESS PERFORMANCE

The Society's mortgage lending proposition is based on the provision of a competitive range of fixed and discounted mortgages, mainly for owner occupiers but also for buy-to-let landlords. The Society believes its purpose and role as a mutual is to lend to all types of aspiring homeowners and therefore in addition to the traditional core residential market, we also offered loans in areas of the residential market where appropriate returns for risk can be made, such as the first-time buyer products in the Help To Buy Affordable Housing range, to customers with credible repayment plans who require interest only mortgages and to those seeking mortgages beyond normal retirement dates.

We started the financial year with a lower pipeline than previous years, partially as a result of the stamp duty exemption ending in September 2021 which resulted in a large flow of business completing at the end of the previous financial year. With a new Covid variant (Omicron) circulating at the time, and a lack of supply of properties coming onto the market, the market remained quiet until we started 'Living with Covid' from March 2022. At this point the market started to open up and business flowed in, with the Society ending the year with £212m of gross lending (2021: £214m) resulting in 4% growth of the mortgage book and concluding with total balances of £1.111bn. A lower performance than planned but given the competition for business in a finite sized market, significant market volatility with mortgage product pricing, increasing interest rates, consumer worry about affordability and cost of living pressures coupled with conveyancing delays outside of our control, the result is satisfactory.

As in recent years, we continued to focus on helping first-time buyers through Affordable Housing schemes, with Shared Ownership through Housing Associations being our particular specialism, whereby our borrower purchases up to 75% of the property and rents the remainder at a below private market rent.

This form of tenure is a vital option for first time buyers as the price of full property ownership is simply out of reach for the average first time purchaser.

Despite the challenges of the market, our arrears statistics actually improved during the year, with the number of cases two months or more in arrears decreasing from 42 to 34 albeit the arrears amount increased slightly from £142k to £152k, which out of a book of over £1.1bn, is simply a great position for the Society to be in. To date it is comforting that borrowers have been collectively able to withstand recent stresses created by the wider economy. The figures provide tangible evidence of the underlying quality of the book as a result of our prudent lending policy. We ended the year with one property in possession; a long standing arrears case.

However, we continue to be prepared for a rise in arrears next year, as cost of living challenges and rising interest rates continue to bite, although it is difficult to assess exactly where the level of arrears may move. What I can say, is we are well prepared for a stormy ride if house prices suffer a significant adjustment. We have significant headroom for any reductions in house prices caused by the likelihood of a recession, rising rates or even delayed reaction to Brexit for that matter. Our average loan to value ratio (LTV) at 31 October 2022 was around 28% (2021: around 30%) and less than 1% of the book is over 80% LTV (2021: less than 1%) and therefore the potential for losses is significantly reduced. Members should not be surprised therefore to learn that all our stress tests are comfortably passed.

We have responded to seven Bank Rate change decisions by the Bank of England since December 2021 by enacting five global rate changes, three in the last financial year and two in the new financial year, something we have not had to contend with from both a strategic and operational perspective since 2009. Looking after both borrowers and savers in a fast-changing interest rate environment is a key focus of the Society. We have to protect our interest margin to ensure we continue to be a sustainable organisation and add value to our members in the years to come. We have sought to protect our existing borrowers and to date we have only passed on 1.65% of the 2.90% move by the Bank of England. Whilst looking after borrowers, we have also been mindful of our savers and have paid out £2.9m more interest to our saving members, around £1.3m more than the additional income received from borrowers.

Our financial success in recent years has been aided by our use of the TFSME (Term Funding Scheme with additional incentives for SMEs) issued by the Bank of England. This borrowing is linked to Bank Rate movements, so will start to cost more as Bank Rate rises. As a result of this we made a first repayment of £5m to the Bank of England at the end of October, bringing down our borrowing of £155m to £150m and plan to continue with a repayment strategy until 2025 when full repayment must have concluded. As this repayment programme commences, we will reopen saving products and services to our members. In fact, a number of products have already become available for sale for both new and existing members.

FINANCIAL PERFORMANCE

The Society recorded post-tax profit of £11.8m, a marked increase from the £6.0m last year and higher than we had forecast, the result of a number of favourable factors all combining at the same time. The net interest margin improved, coupled with favourable fair value movements in the Society's derivatives as interest rates increased. These favourable fair value movements resulted from derivatives that are designed to hedge the financial risk associated with fixed rate mortgage lending. Excluding the gains from derivatives, pre-tax profit was £9.8m, an increase from £6.1m in 2021.

As a mutual organisation we do not seek to maximise profits. However, we do need to achieve a level of profitability that is sufficient to balance member value and retain a robust capital

position to fund future investment in our business. We have built up a strong capital position over many years by having a strategy of sustainable growth, low credit losses and sound cost control. This year's increase in profit has led to an uplift in the Society's capital ratio from 20.9% of Risk Weighted Assets to 22.0%, a good position for the Society to be in as we head into choppier economic waters and the strong likelihood of a recession.

Further detail on the Society's financial position and year on year performance is contained in the Financial Review on pages 25 to 30.

STRATEGY AND CHANGE HIGHLIGHTS

The Society's strategic plans continue to be underpinned by a digital agenda that is member-centric, service-driven and value-focused. Over the past year we have:

- modernised and introduced many digital services, with an emphasis of moving from traditional on-premises systems to consuming high-quality cloud partner services, but never losing the heart of what the Society does best – looking after our members.
- continued to work on a major system upgrade with SOPRA. Once the upgrade completes in 2023 and we have launched our mobile app, we expect to be in an improved position to push forward digital activities to provide better services to customers and easier processes for employees.
- implemented a new HR and payroll system – PeopleHub, providing our people with an interactive 'one-stop' shop for their data.
- started to utilise open banking functionality to digitally capture customers' financial data history, assisting both new lending case assessments and supporting customers in financial difficulty. By reducing the need for paper bank statements, we are becoming both faster and 'greener' in our service offering.

At work and home, we continue to face a heightened and relentless threat from a cyber incident. We constantly review, monitor, and enhance our defences to ensure that our members' interests are protected from a cyber-attack. We have introduced a number of additional security defence tools over the past year to help combat this threat, including significant investment in security devices and a security partner that continually monitors our systems and reacts to any potential incident day and night.

During the year, and concluding in November, we fully refurbished our flagship branch in Newbury. Members experienced the use of a temporary 'pop-up' branch for just over two months at our Head Office but will now be able to experience a new and modern environment with the personal face-to-face service we have always offered. Our 'customer first approach' supports the view that our customers want to borrow and save with an organisation that understands their needs. Providing core transactional services remains a key service offering but we want to provide our members with additional services that offer guidance and support to better understand their financial needs. This will be a key requisite as we develop our distribution strategy.

We are fully committed to a branch network and investment in our branches will continue as the years progress.

PEOPLE

Our people are key to us to offering the unique and meaningful customer experience that the Society is known and recognised for. We fully recognise the importance of our people to deliver our high standards of customer service within high quality policy and management standards. We have a strong vibrant culture, where our people feel empowered to deliver great customer service.

This year through an independently run employee survey, we achieved an employee net promoter score of +58 (previous survey: +36), based on the question, 'would you recommend the Newbury as a place to work?' I am incredibly proud of this achievement, and it is a great testament to the values and behaviours of our people and the culture within the organisation.

A focus on our employees' wellbeing has been maintained as we exited the challenges of the pandemic but entered the challenges of the cost-of-living crisis, and we continue to support our people through a range of options such as an Employee Assistance Programme (EAP), access to mental health first aiders and training sessions on financial wellbeing. Inclusion and diversity have continued to be an important area of focus for the Society. We set up a working party a number of years ago to help support fairness and inclusion in all we do, this work continues to this day.

This year we welcomed two new executives to our senior leadership team: Emma Jones, Head of People and Dean Scott, Head of Sales and Marketing. Both bring a wealth of knowledge and experience having worked most of their careers in financial services.

As we move forward, we continue to look after our people by investing in them and growing our talent. Providing managers with skills needed to manage today's workforce, growing agile mindsets to drive through improvements and efficiencies in all we do, and providing you, our members, with the service you need and want.

COMMUNITY

One of the joys of running a mutual business is that our owners are also our customers. A key component of the Society's purpose is to be socially responsible and to make a positive difference to the local community. We continued throughout the year to support those who live and work in our branch communities. As a member-owned business, community is close to our hearts and we offer support not only through the products and services we provide, but also by donating our time, skills, and resources. To mark our 165th year we provided further support to our branch communities by giving more donations and offering more of our time. Cost of Living help, mental health support and financial wellbeing were just a few of the areas we supported.

Pages 14 and 15 will give you further insights into this.

GREEN AMBITION

The focus and importance of environmental and climate change has never been more prominent, and the Board's three pillar approach to its Green Ambition Strategy is:

- To minimise our own carbon footprint by improving the energy efficiency of our buildings and conserving energy through new technology;
- To help our members lead greener lives by providing access to guidance, funding and support to help with home improvements; and
- To support initiatives to make the homes on which we lend more energy efficient and better prepared for regulatory and environmental change

Like many of you, we are navigating our way through the complexities that climate change is having on our world and do not have all the answers, let alone all the questions we need to ask. We have started to increase our knowledge and awareness and know we have a part to play, both as an employer reducing our own footprint and as a mortgage lender helping members improve their homes. Pages 18 to 24 share some of the things we have achieved to date together with what is next.

OUR FUTURE

As we look to the future the Society is well placed to steer through the many challenges ahead, as we continue to navigate through difficult trading conditions due to the current economic uncertainty facing us.

With digital solutions available to support people in managing their money, there are more options than ever for people to engage with. We have already started on our programme of digital activity to support our customer service proposition – from an online appointment system, to a live chat service for brokers and in due course the launch of a mobile app. Our plans for the future continue with the theme of digital transformation, embracing change by investing in our people and technological capabilities, and members will therefore continue to see changes and improvements in the way the Society delivers its products and services in the coming months and years. The growth and profitability of recent years has provided the foundations for the Society to make these investments, not only for the benefit of our current members, but also for those who will be our future members.

Whilst our ambition is to improve our customer service offering through the support of digital initiatives, our core goal of serving our customers in any way they choose remains. We will continue to support members through whichever channel best suits them; be it in-branch, by telephone, online or mobile. Technology acts as an enabler to our service proposition and whilst technological development remains a key focus, the Board also remains fully committed to a branch network, promoting a savings culture using fair and transparent products, which offer good value in the short, medium and long term. Together with a branch refurbishment investment programme we plan to deliver on these aims.

The Society will continue to provide a full mortgage and savings service in its branches, and we will operate in niches where the wider market lacks capacity or capability. Supplemented by the Society's online capability, members will enjoy the real advantages of a 'bricks and clicks' service. Our aspiration is for the Newbury brand to be instantly recognisable in our branch towns and synonymous with what differentiates the Society from banks: being a mutual, member centric, with relevant attractive products and exceptional customer service.

We have much to accomplish in the years to come and a focus on customer, digital and people remains at our core, however the need to become more efficient and productive has never been greater. Together with our financial strength, we are in a strong position to achieve our aspirations, and serve you, our members, with the products and services you need.

Phillippa Cardno, Chief Executive
21 December 2022

BUSINESS MODEL AND STRATEGY

BUSINESS OBJECTIVES AND PRINCIPAL ACTIVITIES

As a mutual the Society exists for the common benefit of its borrowing and savings members, who are collectively its owners. Members' interests remain at the heart of everything that we do and the Board continues to balance and serve those interests through operating in markets that deliver a sustainable financial performance within an agreed appetite for risk, whilst balancing the continued need to invest in the business for the benefit of future members.

The Society's principal activity is the provision of a range of long-term residential mortgages so that borrowing members can buy a home funded by personal savings from members through straightforward savings products.

Purpose and values

The Society exists to help our members build sustainable futures by being the trusted provider of savings and mortgages in our communities.

We are driven by our six core values, which represent what the Society stands for and form the basis for how it is governed. The values were developed by colleagues from across the Society and ensure the Society does the right thing by our customers, communities and people.

The Society's business model and strategy continues to serve us well and remains largely unchanged. As a building society, we have no public or private shareholders demanding we maximise profits for distribution. This means we can strike an appropriate balance between long-term investment and profit retention to support and strengthen the business for current and prospective members, operating in a socially responsible way in the communities in which we operate.

The Society's lending proposition is based on the provision of a competitive range of fixed and discounted mortgages in the UK offered through a network of approved mortgage brokers and directly from the Society.

The Society does not use credit scoring as all loans are individually underwritten by an experienced team, based in Head Office, who have the authority to exercise some flexibility with our lending criteria in appropriate cases. The UK mortgage market is fiercely competitive and so the Society not only operates in the low margin mainstream residential market, but also operates in segments of the residential market where appropriate returns for risk can be made, including shared ownership and buy-to-let.

Funding is provided through members' deposits, supplemented by funding from participation in the Bank of England's Sterling

Sustainability

financially secure, operationally strong and environmentally conscious

Trust

open and honest; a building society relied on since 1856

Respect

value uniqueness and treat everyone as an individual

Independence

remain member-owned for your benefit

Vibrancy

encourage a happy, healthy culture for our people to be the best they can be

Excellence

offer a first-class professional service where you are at the heart of what we do

Monetary Framework and, occasionally, by wholesale borrowings. Our philosophy for our savers is to operate fairly, with simplicity in product design, competitive terms and conditions, and to ensure existing members are treated at least as equally as new members.

Whilst our products and services are considered to be sustainable, the Society keeps its product offerings and market positioning under constant review and makes changes accordingly. The Board continues to believe that savings members have been well served by our pricing policy and that they receive above average returns, coupled with fair terms and conditions on their investments.

The Society's liquidity position is maintained to ensure sufficient cash is available to meet its obligations as they fall due and is principally held in the form of a deposit with the Bank of England.

Profit is generated through management of the net interest margin, cost efficiency and low risk lending to sustain the Society's strong capital position to allow it to continue to lend and invest with confidence.

The Society remains fully committed to its branch network and expects to continue a programme of modernisation which started with the opening of a new look branch in Abingdon, followed by the Society's branch in Newbury town centre. The Board also recognise that our members have a choice in how to access and manage their personal finances and will make further investment in technology that will enhance the delivery and accessibility of the Society's services. With retained profits the primary source of capital for the Society, the profitability of recent years has provided the foundations for the Society to confidently make these investments for the benefit of current and future members alike.

STRATEGY

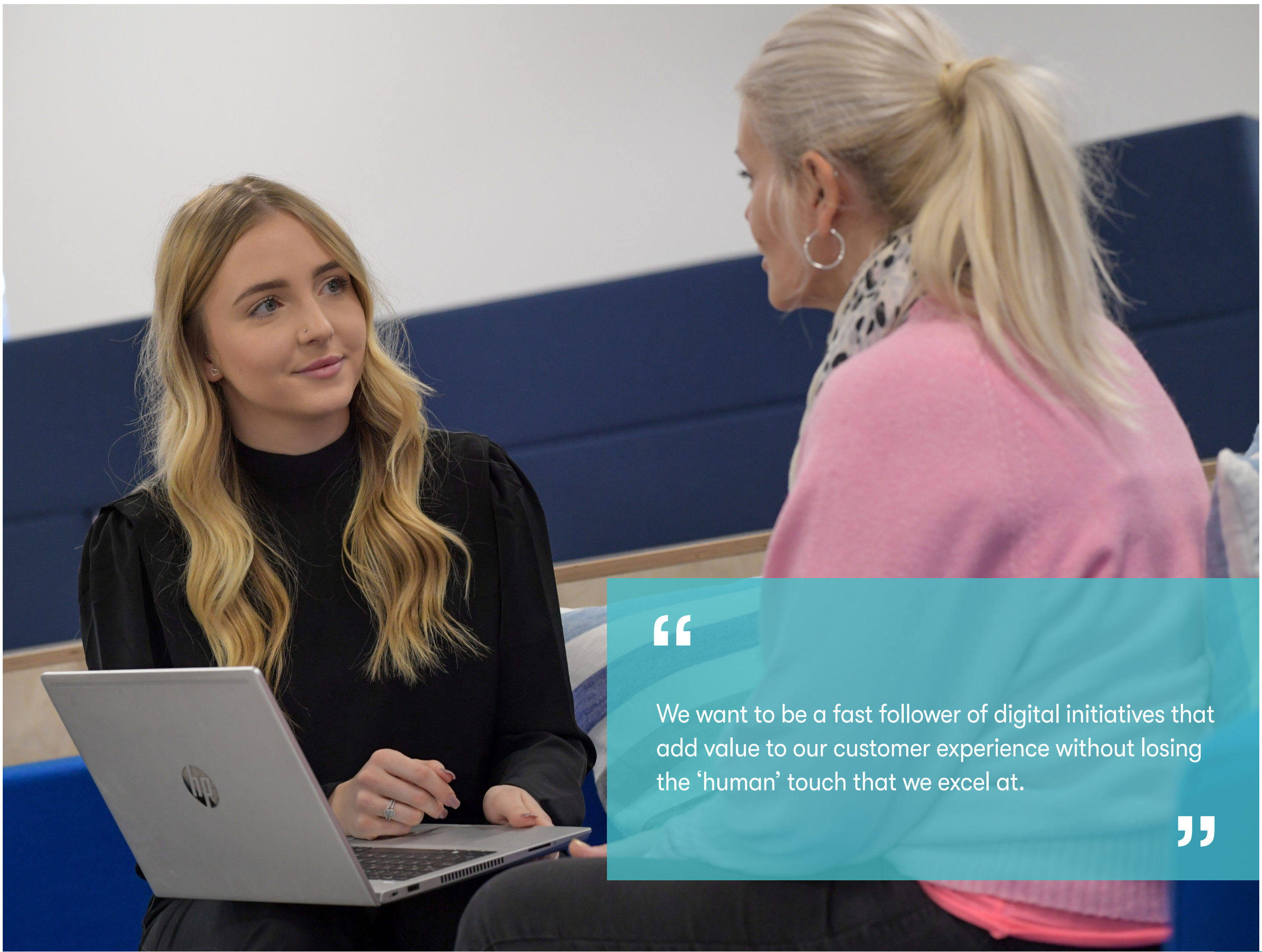
The Society's long term strategy, shaped around the Society's key stakeholders, is to deliver steady and sustainable growth through:

- A focus on **customer** value over the long term;
- Developing and accelerating the Society's digital transformation;
- Demonstrating a **community** conscience; and
- Looking after our **people**.

A focus on driving efficiencies and greater productivity through process optimisation and digital transformation is key to our future success as customer needs continue to change and adapt, and the manner in which customers want to receive a service crosses over both face-to-face and online methods. We want to be a fast follower of digital initiatives that add value to our customer experience without losing the 'human' touch that we excel at and we also need to leverage current systems further to gain greater process efficiencies to maintain the excellent service we provide.

In 2021/22 we commenced activity to invest in people and skills, increasing headcount across most business functions. We are acutely aware that continued investment in both people skills and technology remains a top priority, as both are key enablers to support our strategy going forward.

Delivery of the strategy is supported by financial objectives and clear business objectives within six key workstreams: customer, service, product, digital, data and people, with customer being the overarching workstream. The plan also recognises climate change on a long-term basis and continues to pursue our Green Ambition and understanding of climate change risk. Further details of our focus on customer, community, people and climate are set out on pages 12 to 24.



"We want to be a fast follower of digital initiatives that add value to our customer experience without losing the 'human' touch that we excel at."

LOOKING AFTER OUR CUSTOMERS

SUPPORT IN DIFFICULT TIMES

Our support for customers last year was still firmly focused on the impacts of Covid-19. Since then, we have faced new challenges, with instability on the world stage due to the conflict between Russia and Ukraine, and nationally with rising inflation, interest rates and cost of living.

The conflict between Russia and Ukraine brought financial services firms together, uniting to support borrowers who wanted to give displaced Ukrainians a safe haven in their homes. The Society was keen to support the "Homes for Ukraine" initiative and developed a barrier free process to ensure borrowers could easily participate.

To assist with cost of living, we have provided a raft of additional support for our customers and their communities. We introduced a new Cost of Living hub on our website to help those who may need access to support as a result of increased living costs. This includes debt support, information on where to go if fuel bills are difficult to pay and ideas on reducing outgoings. We have also donated a significant amount of money to support local community groups in five areas: food, energy bills, fuel and travel costs, debt and mental wellbeing. Our volunteering pledge for our 165th anniversary has also provided practical help for local charities and community-based organisations.

We are acutely aware of rising interest rates impacting our own borrowers. We need to pass on rate rises, not to do so would be unsustainable commercially, however as a mutual organisation these decisions are taken seriously to balance the needs of both savers and borrowers.

We know that some of our borrowers will struggle, and we have a dedicated and experienced payment support team who are equipped to help those who need it. The earlier contact is made with us, the more likely we can support borrowers through what we all hope will be temporary difficulties.

KEEPING STANDARDS HIGH

In January 2022, the Institute of Customer Service (ICS) conducted their regular survey measuring the quality of customer interactions and experiences with the Society. The last time this survey was conducted for the Society was in December 2020. The results were again outstanding.

Overall satisfaction scored 91.0, compared to the UK banks and building society average of 80.2* (Dec 2020: 90.8 and 78.3), and our net promoter score, which measures how likely a customer is to recommend an organisation, came in at 72.1 (Dec 2020: 70.2), compared to the UK banks and building society average of 30.4*. 9.3 out of 10 of those surveyed said they intended to remain a customer and 9.1 out of 10 said they would recommend the Society.

(* source: Institute of Customer Service UK Customer Satisfaction Index July 2021.)

Our exceptional ICS survey results made us eligible to elevate our ServiceMark accreditation to a distinction level. Following a comprehensive 3-day assessment of customer strategy, plans, customer feedback and interviews with employees, we were delighted to be awarded the distinction level ServiceMark accreditation in September this year; the only bank or building Society with this honour.

In May 2022, we were delighted to win "Best Specialist Mortgage Provider" at the British Banking Awards for the third year in a row. The British Banking Awards are entirely based on customer feedback, which makes us especially proud.

"I was impressed with how much focus is placed on developing and understanding soft skills. For example, how the language is used to navigate difficult conversations and deliver and obtain information from customers without coming across as distant and uncaring."

The Institute of Customer Service report
September 2022

> Customers are spoken about in warm and caring tones, often people described them as 'my customer' rather than 'our customers', clearly signalling taking personal ownership of delivering great customer experiences.
>
> The same standards apply internally. Employees understand the concept of internal customer service and treat their colleagues with the same care and consideration. There is a strong team approach, colleagues in all areas of the business consider customer first and work together to find the right solution for them.
>
> **The Institute of Customer Service report**
> September 2022

RESPONDING TO CUSTOMER FEEDBACK

The ICS surveys are conducted every 18 months to ensure that we are maintaining the ServiceMark accreditation standard. The surveys not only give us quantitative insight on the quality of our service but also qualitative insight into what customers value about us and what more they would like from us. To complement the ICS surveys, we also encourage customer feedback at various touchpoints in our savings and mortgage customer journeys through Smart Money People (SMP), a ratings and review service dedicated to financial services.

The qualitative feedback from the ICS and SMP, as well as root cause analysis from complaint handling, helps to prioritise our operational change and informs strategic business developments.

In the last few years, customer priorities have been about savings interest/product range, online services and branch environment. We have responded to customer feedback in the following ways:

- Bank Rate changes have given us an opportunity to reward savers with more interest on their savings and open up some of our popular accounts that were closed during the Covid-19 period.
- An online appointments service for savings has been implemented, adding to our existing mortgage appointment platform. This enables customers to book appointments directly with Savings Advisers through our website at a time to suit them.
- Integrated telephony between our head office and branch premises gives seamless customer handover, whilst retaining the personalised answering protocols our customers enjoy.
- Our Newbury branch has undergone a complete refurbishment and re-opened for business in November. During the refurbishment period we provided continuity of service through a temporary branch at our head office.

We also launched our Member Panel and onboarded over 100 customers who have volunteered to help us gain more insight on top of the feedback provided through the ICS and SMP. The Society receives consistently high ratings the Smart Money People service, with an average rating of 97.9% for the year ended 31 October 2022 (2021: 97.4%).

PLACING 'CUSTOMERS FIRST' INTO THE FUTURE

As we move forward, we will continue to centre our strategic plans around our customers. To grow and continue to be sustainable, we need to meet the needs of both existing and future customers.

Our "Customer First Approach" supports the view that customers want to borrow and save with an organisation that understands their needs and does good in the world and delivers value through products, supported by a first-class customer service underpinned by frictionless processes and appropriate digital solutions.

Our focus continues to be about providing customer excellence across all channels – branch, intermediary and online. In 2022/23 we plan to:

- Deliver a mobile app that elevates our myaccounts service to provide transactional functionality on mobile devices.
- Implement a live chat service to customers to provide generic information around savings and mortgages to complement existing communication channels.
- Refurbish at least one more of our branches in a style that supports how customers interact.
- Progress our process optimisation program focusing on frictionless and digital solutions.
- Upgrade our core system to enable us to take advantage of new technologies to support services.

We encourage customers to continue to give us feedback. The next ICS survey will be conducted next summer and customers can rate and review the Society any time at www.smartmoneypeople.com.

OUR COMMUNITIES

Whilst today's building societies are entirely different from the simpler entities founded in the 19th century, the principles of mutuality still hold true. This is especially the case with 'The Newbury' in its 165th year. One thing remains unchanged: our commitment in supporting those members and communities.

The last year has been a challenging one for many, and our support of and involvement in our communities in Berkshire, Hampshire, and Oxfordshire remains incredibly important to us. Now, more than ever, people living and working in our branch town communities benefit from the support we are fortunate to be able to provide.

To mark our 165th year we committed to donating £165,000 to charitable and community organisations in total and also to donate 165 days of volunteering to charities and local groups in need of help. In total this year, the Society made donations of £186,800 (2021: £63,000).

We launched a Cost of Living Support initiative in September, with the aim of supporting people in our branch communities with rising costs in food, energy, travel, debt or their mental wellbeing. We made donations to a total of 25 organisations across our branch towns, who are on the front line of delivering this support. These donations totalled £96,500 and assisted with enabling the organisations to provide more services, and to maintain physical premises enabling them to continue to provide front line support.

Our 165 Days of Volunteering initiative has seen our people utilising their two days of paid volunteering to go and help a range of organisations, including:

- Prior's Court, Newbury
- The National Animal Welfare Trust, Newbury
- Trinity Winchester
- The Brendoncare Foundation, Alton
- Swings and Smiles, Thatcham
- Hungerford Environmental Action Team

Our branches and head office have continued to each support their chosen charity partners through a blend of volunteering and fund raising, and the Society fund-matched the amounts raised to boost the total financial support to the community.

The Society's Charity account continued to be popular. The Society now makes an annual donation of 0.6% interest to each account member's preferred charity in addition to the interest paid to our savings members. This account generated £52,000 (2021: £24,000) during the financial year, and this was split between the nine partner charities.

The Society's Community Support Scheme, which provides donations and sponsorships to community projects, supported 22 different community organisations and groups during the year, donating a total of £10,500 (2021: £11,432). These donations aim to improve community life within the Society's ten branch towns. Projects which benefitted from the scheme in 2021/22 included:

- **Dingley's Promise,** a charity who support children and their families with special educational needs in West Berkshire.
- **Maggie's Oxford,** a cancer charity who provide free support and guidance to people living with cancer, as well as spaces to meet other people in similar situations.
- **Berkshire Vision,** who support blind and partially sighted people.
- **Francis Bailey Primary School,** to create a long-lasting mural to honour the Platinum Jubilee of Her Majesty Queen Elizabeth II.

Our people also undertook a range of fundraising activities during the year:

- Colleagues in Head Office baked for the Macmillan Coffee Morning and held a raffle which raised £390.
- Basingstoke branch raised £588 for St Michael's Hospice by completing a range of activities in celebration of the charity's 30th anniversary.
- Michael Harden, a member of our Marketing team, organised a charity photoshoot in Hungerford, from which proceeds went to support Prior's Court.

Other events and activities undertaken in our communities included:

- Our Junior Newbury Building Society initiative, which provides financial education to nine junior schools in Newbury and Basingstoke, assisting and encouraging children to develop savings habits.
- A collaboration with EVERFI inc to offer sustainability education courses to local schools in Hungerford, Newbury, and Thatcham.
- Basingstoke branch completed #WeSupportDeafAwareness training to support members with hearing loss.
- WizeUp financial education workshops provided financial awareness and budgeting courses for Sixth Form students at Park House School in Newbury.

COMMUNITY SUPPORT SCHEME

We are committed to supporting the communities in which our members and employees live and work. Each year we support a number of initiatives and events by giving donations and sponsorship to community organisations, groups, and teams. As part of our plan to become a greener building society, we also launched a 'Green' Community Support Scheme, supporting environmental and sustainability projects in and around our branch towns. Donations are made quarterly and can be applied for through your local branch or our website.

VOLUNTEERING

Each year our people can use two paid days to volunteer in their local communities with groups or charities of their choice. This year we have seen over 100 days of volunteering undertaken. Employees have been painting, gardening, building guinea pig hutches and cooking for the homeless, among many other tasks for over 20 different organisations.

FINANCIAL AND SUSTAINABILITY EDUCATION

Newbury Building Society is passionate about providing children with the right skills to become savvy with money management. For the last 15 years, our JNBS (Junior Newbury Building Society) initiative has encouraged children aged seven and older to save. More information can be found on our website. In the last year we also sponsored an online sustainability course called Sustainability Foundations for secondary schools in our branch towns.

COST OF LIVING

As people across the country feel the effects of rising prices, supporting our members, our people and our communities is more vital than ever and central to our mutual values. We have been providing this through financial support to charitable and community organisations who are currently helping local people in need of support with food, debt, travel, energy bills, and their mental health. We also created of a range of resources and information on our website for members to access.

PEOPLE

"92% of our employees are proud to work for the Society."

Employment engagement survey,
May 2022

Our people are the enabler to offering the unique and meaningful customer experience that The Newbury is known for. We continue to create an environment where our people are skilled, enabled, engaged and supported to be the best they can be.

We are focused on:

- Building a sustainable talent pipeline of key skills and competencies for the future
- Developing inspiring and empowering leadership
- Nurturing our inclusive and vibrant culture

"95% of our employees say we have a vision, mission and goals that encourage and deliver great customer service."

A VIBRANT CULTURE

Our employees are engaged in our purpose, supported to perform at their best and feel listened to.

Our bi-annual employee engagement survey results delivered in May 2022 demonstrate that The Newbury has a vibrant, inclusive and caring culture for all its employees.

Our employee net promoter score, based on the question "Would you recommend The Newbury as a place to work?" continues to steadily increase (a +22 increase at +58) evidencing that we have continued to enhance the employee experience at the Newbury.

In June 2022, we launched a new employee listening initiative to provide more dynamic feedback. Understanding our employees' views on things that really matter to them helps us to ensure we stay relevant. Teams are provided with a framework to discuss and feedback their ideas as well as being empowered to make changes.

"91% of our employees say we care about their wellbeing."

We continue to support our employees' wellbeing; we invest in Mental Health First Aiders alongside our Employee Assistance Programme and digital and face to face wellbeing initiatives to ensure employees have easy access to support and guidance. We are incredibly conscious of the Cost of Living challenges for both our customers and employees. In 2022 we brought forward our pay review as well as making a one-off payment of £1,250 to support our employees.

SKILLS FOR THE FUTURE

Our employees are demonstrating excellence, constantly learning and adapting to meet our future member needs.

We currently have two apprentices and have supported over 25 employees in gaining their professional qualifications. The Society remains strongly committed to the ongoing learning and development of our people, knowing that we cannot achieve our core purpose without investing in skills and development.

The competency framework puts our values at the heart of the relationship with our employees and over the last year we have strengthened recruitment procedures, hiring for the right values and skills. This coupled with our quarterly competency review process means we continue to monitor and manage skills progression.

"91% Our people are encouraged to improve their customer skills through training and development."

INSPIRING AND EMPOWERING LEADERSHIP

The Newbury has continued to strengthen its management team to drive forward our ambitious plans. This year Phillippa Cardno succeeded Roland Gardner as Chief Executive, and Emma Jones and Dean Scott were recruited into the trusted and experienced Executive Team to lead the People and Product and Marketing teams, respectively.

"98% of our employees say they respect their manager."

A SUSTAINABLE TALENT PIPELINE

We identify, attract and retain diverse talent to meet our future member needs.

As we have emerged from Covid-19 lockdowns, employees' expectations have changed significantly and the UK has experienced a particularly volatile, candidate led job market. The Newbury are proud that we have kept our attrition and retention stable during this period and been able to successfully attract and recruit talent in a difficult and competitive market. Hybrid working, our strong local brand, our attractive culture and our commitment to modernise working conditions continue to be an enabler of this. Internal career progression remains strong with over 25% of vacancies filled internally.

INCLUSION AND DIVERSITY remains at the heart of our people activities, ensuring we have the diversity of background and experiences in order to meet our customer and employee needs.

The Society's Diversity and Inclusion Working party sponsored by our Executives, increase employees' awareness, education and engagement.

The Board recognises the importance of embodying the Society's culture by role-modelling inclusivity and maintaining a diverse composition. This inspires the confidence of employees and members in both the Board's ability to reflect wider societal interests and employ robust decision making.

The Society continues to be committed to promoting diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths when recruiting directors to the Board.

As of 31 October 2022, the Society operates with 17 executives and senior managers, of which 10 (59%) are female.

"86% of our employees believe inclusion and diversity is taken seriously at the Society."

DIGITAL PEOPLE EXPERIENCES

This year we made significant investment in people-focused technology, which has improved the employee experience by bringing together our corporate goals, key development activities and pay and benefits into one place. Embracing digital is one of our core Society objectives and we have already begun to see the benefit of an intuitive, self-service, streamlined system on our capacity to focus on adding value where it matters – to our people.

THANK YOU

We thank all colleagues for their outstanding performance, commitment and customer care that they have shown over the last 12 months.

CLIMATE RISK

> The Society's corporate plan recognises the long-term risks of climate change and continues to pursue our green ambition and understanding of climate change risk.

Our climate-related disclosures provide more detail on our approach to climate change, including the understanding and mitigation of climate-related risks – the risks that may materialise in the future as a result of decisions taken today.

Collectively, we refer to our approach as our "Green Ambition".

STRATEGY

OVERVIEW

VISION	"To be a sustainable business which works in a socially responsible and environmentally friendly way"		
PILLARS	**GREENER NEWBURY BUILDING SOCIETY** Minimise our own carbon footprint	**GREENER HOMES** Improve the environmental standard of our borrowers' homes	**GREENER LIVES** Supporting our branch communities
TARGETS	Carbon neutral status by 2030 on Scope 1 and 2 emissions Green accreditation	Year-on-year improvements in EPC ratings	Support at least one green initiative in each of our branch towns every year

ACHIEVED TO DATE	FUTURE ACTIVITIES
STRATEGY	
• Climate change risk considered in annual strategic planning process and documented in the corporate plan • Established "Our Green Community" website hub • Demonstrated commitment to continuing improvement in climate risk management in our operations	• Develop wider range of green finance products • Develop member materials and information for website • Identify strategic partner(s) who can support the Society with its Green ambition • Volunteering activities in and sponsorship of local environmental projects
GOVERNANCE	
• Climate risk governance established, with Risk Committee and Board level engagement • Embedded into Senior Management Functions with the Finance Director having principal accountability • Society-wide engagement with climate-related matters	• Climate change impact considered in all appropriate policy statements • Widen climate change awareness across the Society through training and internal communications
RISK MANAGEMENT	
• Initial risk appetite for management of climate change risk established • Enhanced our understanding of potential future physical impacts on our mortgage portfolio	• Climate change risk embedded in ICAAP reporting • Finalise integration of climate risk across all risk categories in the risk management framework • Embed consideration of climate change into credit decisions
METRICS AND TARGETS	
• Developed our base case data on energy usage • Developed our mortgaged-property related risk data	• Implement systems to develop and capture internal metrics on climate change • Finalise more detailed targets • Continue individual projects to improve energy efficiency of Society-occupied premises

GREENER NEWBURY BUILDING SOCIETY – MINIMISING OUR CARBON FOOTPRINT

This element of strategy sees the Society continuing to improve the efficiency of our buildings and reducing the carbon emissions from our operations together with targeted reductions in the consumption of paper, water and plastics usage.

GREENER HOMES – IMPROVING THE ENVIRONMENTAL STANDARD OF OUR BORROWERS' HOMES

Our greener homes strategy involves: supporting initiatives to make the homes on which we lend to become more energy efficient and better prepared for regulatory and environmental change; and mitigating the impact on properties which are most at risk through new products together with policies and support for homeowners.

GREENER LIVES – SUPPORTING OUR BRANCH COMMUNITIES

Providing access to guidance, funding and support to help with home improvements and providing access to knowledge and resources to help consumers and customers lead greener lives.

PROGRESS MADE

Climate change risk management is integral to the Society's strategy and has resulted in a number of significant actions already being progressed in order to make the Society more sustainable, including:

- Purchase of 100% renewable energy
- Purchase and refurbishment of new Head Office site achieving EPC rating of B
- Improving EPC ratings of all branches
- Replacement of the Society's diesel vehicle with a new plug-in Hybrid vehicle
- Regular data collection of energy and water usage.

STAKEHOLDERS

Our climate strategy has been introduced with consideration of all principal stakeholders.

SUMMARY OF KEY CLIMATE RISK DRIVERS AND RELEVANCE AND THREATS TO THE SOCIETY'S BUSINESS MODEL

The Society is a financial mutual which operates across England and Wales as a residential mortgage lender. Although the Society operates a simple business model through a combination of independent data analysis and consideration at Risk Committee it has been determined that the following climate risk drivers are most of relevance to the Society.

Physical risks
Specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, principally properties held as security for lending but also the Society's own properties.

Driver	Current relevance to Newbury Building Society	Time horizon	Impact
Flooding	LOW	Long Term	Future rises in temperature have the potential to adversely impact the value of mortgaged properties and or the ability of borrowers to repay amounts owed Flooding could impact the Society's operations or those of suppliers through damage to our properties or infrastructure Wider disruption may lead to increases in unemployment and falling house prices adversely impacting the Society's profitability
Subsidence	LOW		
Coastal erosion	LOW		
Heatwaves	LOW		
Wildfires	LOW		
Hurricanes	LOW		
Water stress	LOW		
Desertification	LOW		

Transition risks
The process of adjustment towards a low-carbon economy leads to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers and the minimum EPC level that is acceptable on the properties on which it lends.

Driver	Current relevance to Newbury Building Society	Time horizon	Impact
Government policy	HIGH	Medium /Long term	Changes in government policy could adversely impact house prices where properties do not meet new minimum standards and/or due to cost of making required energy efficiency improvements
Carbon pricing	LOW		
Consumer sentiment	MEDIUM		Profitability could be reduced if the Society fails to adequately adapt to changing consumer preferences for "green" products
Technological change	LOW	Long Term	Rising carbon prices could lower profitability through increasing the cost required to offset carbon emissions

Time horizon:

- Short term: up to 5 years
- Medium term: between 5 and 15 years
- Long term: beyond 15 years

OPPORTUNITIES

Climate risk and the UK's transition to net zero also presents opportunities.

Opportunity	Description
Green products	Financial products supporting members to improve the energy efficiency of their homes and reduce their carbon footprint
Communications	Engagement with colleagues, members and suppliers to increase understanding and policies
Partnerships	Work with organisations to increase knowledge and develop best practice

SCENARIOS

The Society commissioned an external assessment of the Society's mortgage portfolio against three climate related scenarios, considering an increase in temperatures from 0.9 to 5.4 degrees centigrade, all of which were consistent with the CBES climate scenarios for Early Action, Late Action and No Action. The scenario results are included in detail in the Society's ICAAP and considered by the Risk Committee and Board when considering the longer term capital implications for the Society.

	Early action	Late action	No action
Emissions scenario	All countries implement Paris Accord	All signatories implement Paris Accord	Business as usual
Mean Global warming	1.7 to 3.2degrees	2.0 to 3.7degrees	3.2 to 5.4degrees

All scenarios considered the perils of Flood, Subsidence, Coastal Erosion, Height above Sea level and an Energy efficiency policy change over a long range view out to the year 2060.

Scenario Conclusions
The climate risk analysis provided the following insights for the Society:

- The Society has low potential exposure to the impacts of physical risks, even under the most severe (high emissions) climate scenario
- Transition risks pose a greater potential risk to the Society as the UK moves towards a low carbon economy requiring properties to undergo expensive remediation
- Modelling of climate change risks remains complex and uncertain. We intend to use the data obtained from the scenario to enhance internal reporting on climate related matters and to repeat the third party assessment periodically

GOVERNANCE

Senior Management Function

Responsibility for managing climate-related risk has been assigned to the Finance Director, as the appropriate Senior Management Function (SMF), under the PRA's Senior Managers Regime. This includes ensuring that climate-related financial risks are adequately reflected in risk management frameworks, and that the Society can identify, measure, monitor and report on its exposure to these risks.

Oversight of climate change risks

The table below describes how governance on climate risk operates. During 2022 the Society has further embedded appropriate governance arrangements to identify and manage the risks and assess opportunities with climate change. This required the development of existing governance arrangements rather than development of an entirely new committee structure or business model.

Body	Role	Activities and focus in 2023
Board	The Board has overall accountability for the Society's strategy, which includes the management of climate related risks. The Board may also discharge this duty through committees.	• ICAAP scenario analysis • Climate change MI • Green product launches
Committees	**Risk committee:** Oversee the development of overarching policy and risk appetite. Oversee the stress and scenario testing plans and policy. **Credit committee:** Oversee Lending Policy **Sales, Marketing & Product:** Oversee development of products (including "green" products)	• EPC reporting
Management /Executive	Oversee the development of operational risk and resilience policies including the operational risks to the Society from climate change. Oversee delivery of the Society's green ambition objectives.	• Climate change MI • Volunteering

Training and awareness

As part of its Green ambition the Society established working groups, comprised of employees from across the Society, to research and progress specifics activities. In 2023 the Society will continue to grow awareness and enhance learning opportunities across the organisation.

RISK MANAGEMENT

Risk Management Framework

The Society has an established Risk Management Framework that includes consideration of climate risks.

The Society's Green Ambition focuses on climate-related risks as a separate risk category however, the risk framework also considers risk factors that have a bearing on existing risks across the Society's principal risk universe. The management of climate-related risks and opportunities has been incorporated into existing governance and risk management processes, where appropriate, ensuring that risks are being managed in line with Board approved appetite.

Risk appetite

The Society's aim is to manage the impact of climate risk so that the Society's existing risk appetite across all its principal risks, but in particular in respect of credit and conduct risk, continues to be met, as climate risk materialises and matures. This will be achieved by gathering additional data, continuing to analyse, forecast and benchmark the risk and by making appropriate changes to policies, where necessary, to ensure acceptable appetite levels are maintained. In addition, the Society will continue to focus on reducing its own carbon footprint and in helping members and our communities to reduce theirs.

Three lines of defence

The Society adopts the three lines of defence approach to risk management, including climate change risk:

Line of defence	Description
Business	• Development of the Society's climate risk strategy and wider responsible business strategy • Identification, assessment, and management of climate change risks across all risk categories • Staff communication and awareness raising • Development of climate scenario analysis and stress testing
Risk function	• Maintenance of the Risk Management Framework, including climate change risk • Review of ICAAP scenarios and stress testing
Audit	• Independent assurance of the adequacy and effectiveness of first and second line risk management, on a risk-based approach • Supplemented by external assurance reviews as required

RISK IMPACT SUMMARY

RISK	PLANNING HORIZON
STRATEGIC RISK (Business risk)	**SHORT AND MEDIUM TERM**
Risk description	**Mitigants**
Physical and Transitional • Reduced profitability • Increased member expectations for greater climate change credentials and delivery of green objectives • Reduction in capital from changes in property values or changes to regulatory framework • Impairment of balance sheet assets	• ICAAP process considers the Society's risk profile and capital adequacy, including through use of scenarios and stress testing
CREDIT RISK	**SHORT AND MEDIUM TERM**
Risk description	**Mitigants**
Physical • Physical damage to properties • Affordability **Transitional** • Government policy e.g. Minimum EPC ratings	• Flood and subsidence risk considered in underwriting process • Appropriate insurance required • Use of third parties to provide periodic climate-risk assessment on mortgaged properties • Stressed affordability assessments • Consideration of EPC ratings
FUNDING AND LIQUIDITY RISK	**SHORT AND MEDIUM TERM**
Risk description	**Mitigants**
Physical and transitional • Inability to attract or retain sufficient balances due to member preference for green products • Increased cost of funding	• Daily monitoring of liquidity and funding position by the Treasury team through series of KPIs and early warning indicators • ILAAP and liquidity management practices
MARKET/INTEREST RATE RISK	**SHORT AND MEDIUM TERM**
Risk description	**Mitigants**
Physical and transitional • Changes in member behaviours or preferences in relation to their mortgages and savings balances • Changes in market value of financial instruments due to interest rate movements	• Interest rate risk appetite and policy • Regular reviews of mortgage behavioural lives • Stress and scenario testing • Treasury Policy
OPERATIONAL RISK	**SHORT AND MEDIUM TERM**
Risk description	**Mitigants**
Physical • Society premises damaged or inaccessible through damage caused by climate change **Transitional** • Reputational damage through relationship with a supplier with poor climate change credentials	• Society insurance policies • BCP and disaster recovery testing • Hybrid-working capabilities • Operational risk and resilience framework
CONDUCT RISK	**SHORT AND MEDIUM TERM**
Risk description	**Mitigants**
Physical and transitional • Increased contact from members calling to discuss climate-related issues with properties leading to decline in service • Risks associated with advising on green products	• Lending policy • Product manuals • Compliance monitoring (2nd line team) • Training

METRICS AND TARGETS

Risk targets and performance

We recognise that further targets will be required to help the Society progress its strategic aims and objectives to minimise and reduce our own emissions over the medium to longer term. Risk metrics are currently focused on two areas:

Measure	Purpose
Greenhouse gas reporting	• Reduce and eliminate the Society's own carbon emissions
EPC performance of mortgage properties	• Contribute towards UK-wide climate-change objectives • Capital risk management

Climate risk metrics

Physical risk

As at 30 June 2022 the Society's mortgage portfolio demonstrated a low current and future exposure to risk of flooding, subsidence and coastal erosion. The scenarios considered the number of properties expected to be impacted by a significant climate change-related event in 2060 using the high emissions scenario.

	CURRENT			HIGH EMISSIONS SCENARIO 2060		
	No. of properties	Expected value impact £m	% of mortgage exposure	No. of properties	Expected value impact £m	% of mortgage exposure
Flood	35	8.3	0.7%	49	11.4	1.0%
Subsidence	34	1.7	0.2%	46	2.3	0.2%
Coastal erosion	1	-	-	1	0.1	0.0%

The expected value impact assumes that a flood, subsidence or erosion event at a property is likely to decrease its value and make it harder to sell. The modelled value decrease is combined with the increased frequency of such events occurring to drive an estimated reduction in value. It does not represent the loss the Society would incur in the event of the properties being subject to repossession.

Transitional risk

The Society uses EPC data as a way of assessing transition risk. An assessment was carried out by a third party using data at 30 June 2022 to determine the current and potential EPC ratings for all the Society's mortgage properties.

Current EPC information is obtained either by retrieving records from the EPC register or derived using information from neighbouring properties. Potential EPC ratings reflect the highest

feasible EPC band for each property by undertaking improvements that reduce emissions.

EPC	CURRENT	POTENTIAL
A	0.7%	26.9%
B	49.3%	45.2%
C	17.4%	21.2%
D	21.2%	5.2%
E	8.5%	1.2%
F	2.4%	0.3%
G	0.5%	0.1%

The Society collects EPC information as part of the mortgage underwriting process and reports these to Credit Committee on a quarterly basis.

Greenhouse gas (GHG) reporting

The Society's GHG Reporting has been completed in accordance with requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Reported emissions have been calculated using the UK Government Conversion Factors, as supplied by the Department for Business, Energy Industrial Strategy and the Department for Environment, Food and Rural Affairs. The Society has set its organisational GHG emissions boundary using the operational control approach, which captures GHG emissions from operations under our control. Reported emissions encompass the seven GHGs defined under the Kyoto Protocol and are broken down into three main categories:

SCOPE	DESCRIPTION	SOCIETY
1 - Direct emissions	Direct emissions that originate from assets that the Society owns or controls	Natural gas consumed and travel with company owned vehicles
2 - Indirect emissions	Indirect emissions from the generation of purchased electricity.	Purchased electricity for own use
3 - Indirect emissions	All other indirect emissions that occur across Society operations. Scope 3 disclosures are voluntary.	Water consumption, employee business travel and contractor owned vehicles

The Society developed a suite of internal key risk indicators (KRIs) to help support the monitoring of climate risks through relevant internal governance forums. These KRIs will continue to be refined and built out over time, as more data becomes available and new risks emerge.

Energy Consumption

SCOPE			
		2022	**2021**
1 - Direct emissions	Natural gas consumed (thousand kWh)	114.9	202.3
	Travel with company owned vehicles	15.0	15.1
2	Purchased electricity for own use (thousand kWh)	372.2	408.1
Total scopes 1 and 2 energy consumption (thousand kWh)		**502.1**	**625.5**

Emissions assessment

SCOPE	tCO2e		
		2022	2021
1 - Direct emissions	Natural gas consumed and travel with company owned vehicles	28.9	45.3
2 - Indirect emissions	Purchased electricity for own use	72.0	87.6
Total scopes 1 and 2		100.9	132.9
3 – Indirect emissions	Water consumption, employee business, rail travel, electricity (transmission and distribution) and contractor owned vehicles	54.7	49.0
Total scopes 1,2 and 3		**155.6**	**181.9**

Notes:
1) t/CO2e means tonnes of carbon dioxide equivalent.

Measurement

Electricity: Kilowatt hours consumed from meter readings.

Gas: Kilowatt hours taken from the utility billing.

Travel: Business miles travelled by size of vehicle and fuel used.

Water consumption: Consumption in cubic metres from meter readings (prior year usage taken from the utility billing).

2) Scope 3 emissions

Scope 3 emissions data is voluntary and does not incorporate emissions information across the Society's value chain. It is restricted to emissions data on business travel and water consumption only and therefore may be difficult to compare with scope 3 emissions data reported by other organisations.

The Society does not currently purchase carbon offsets but is considering doing so.

The reduction in Scope 1 emissions can be almost entirely attributed to a reduction in natural gas consumption following the removal and non-replacement of seven gas boilers from the Society's premises. Lower Scope 2 emissions were also reported as following a reduction in the amount of electricity used by the Society resulting from smarter operation of head office heating and ventilation systems. In contrast, Scope 3 emissions increased following a rise in the amount of miles travelled by employees on Society business and reflect a full year of operating without covid travel restrictions.

WATER AND WASTE CONSUMPTION

Water
The Society monitors its water consumption across its head office and branch properties. Consumption data is derived from monthly meter readings for each property.

	2022	2021
Water consumption (m3)	974	2,360

The reduction in water consumption can be mostly attributed to the remediation of a leaking mains water pipe located underneath one of the Society's branch properties.

Waste
The Society does not currently have data available to report on waste materials across our head office and branch sites, however this is something that we plan to review and will provide an update in future disclosures at the appropriate time.

OTHER STAKEHOLDER ENGAGEMENT

REGULATORS

Regulators expect the Society to act within the law and regulation at all times, in the interests of customers and with integrity and transparency. The Society considers that it adheres to the highest level of governance with the Board and the senior management team maintaining open and transparent relations with the industry regulators and appropriate trade bodies. The Society monitors publications from a range of regulatory and industry/trade bodies and considers the impact on the Society's operations and future plans.

Regulators also expect the Society to be financially strong and maintain adequate levels of capital and liquidity. The financial review set out on pages 25 to 30 demonstrate how this requirement was met.

SUPPLIERS

The Society would not be able to serve its members without the help and support provided by third party suppliers, which includes brokers and industry bodies. Our suppliers expect us to be simple and straightforward to deal with and deliver a friendly and efficient service. Engagement with suppliers can take many forms including through specialist relationship teams as well as the more typical form of telephone calls and written communications. Wherever possible the Society will seek to select suppliers that are local to the communities in which the Society operates, can be trusted to operate to the standards expected by the Society and that share and embody the Society's core values.

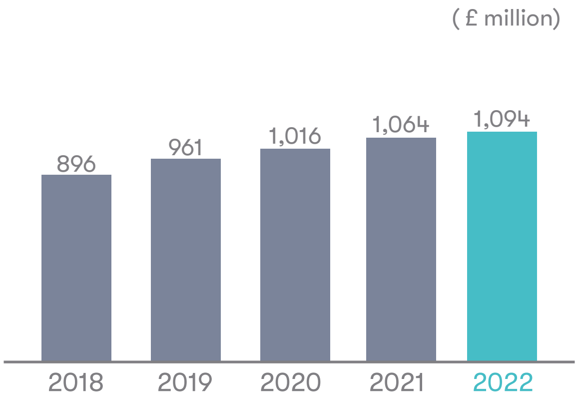
Over the course of the financial year the Society has purchased goods and services from 283 suppliers (2021: 271) with values ranging from less than £10 to over £137,000 (2021: range of less than £10 to £841,000). It is the Society's policy to pay suppliers within agreed terms providing the supplier performs according to the terms of the contract or agreement. The number of creditor days at 31 October 2022 was 12 (2021: 13).

FINANCIAL REVIEW

> The financial performance of the Society for the year ended 31 October 2022 represents another year of mortgage growth and further strengthening of the Society's capital position following a profit after tax of £11.8m, a record for the Society.
>
> **Darren Garner**
> Finance Director

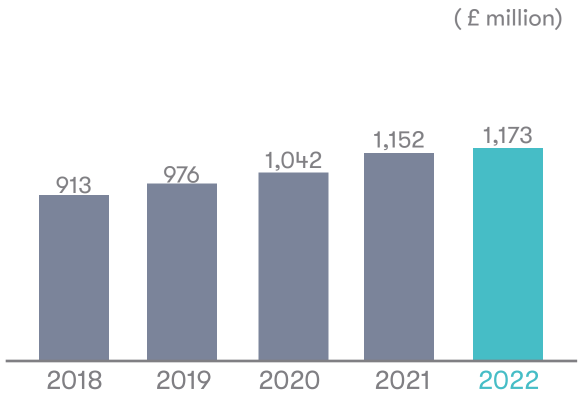
As a mutual the Society has no shareholders and does not seek to maximise profits. All profits are retained in the business to underpin the provision of fair, competitive and sustainable rates of interest to members – both current and prospective, and continued investment in infrastructure to provide outstanding service and support to members under all economic conditions.

MORTGAGE BALANCES



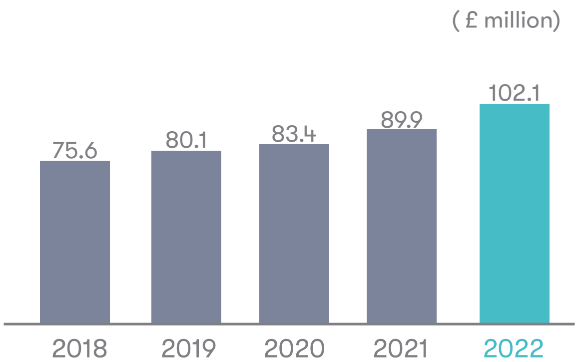
We achieved gross lending of £212m to mortgage customers (2021: £214m)

SAVINGS BALANCES



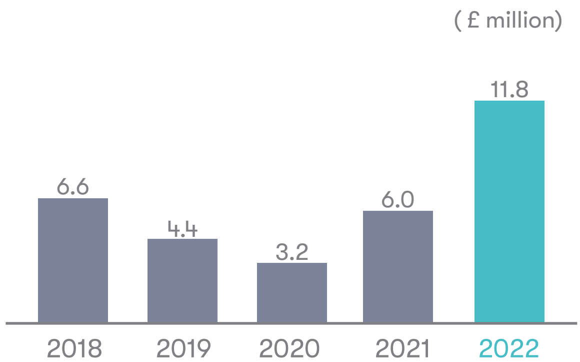
We increased savings balances by £21m (2021: £110m)

REGULATORY CAPITAL



Total capital ratio increased to 22.0% (2021: 20.9%)

PROFIT AFTER TAX



Management expenses ratio of 0.90% (2021: 0.94%)

KEY PERFORMANCE INDICATORS

One of the Board's roles is to set the Society's strategy. The Board manages the Society and oversees delivery of the agreed strategy using a set of performance and control reports, including use of key performance indicators (KPIs). The KPIs in use throughout 2021/22, with previous year comparatives are presented in the table below together with explanatory comment.

		2022	2021
Balance sheet	**Assets**	£1.45bn	£1.40bn
	Loans to Customers	£1.09bn	£1.06bn
	Retail Shares and Deposits	£1.17bn	£1.15bn
Operating performance	**Management Expenses** as a % of Mean Total Assets	0.90%	0.94%
	Interest Margin as a % of Mean Total Assets	1.60%	1.37%
	Mortgage Arrears - on accounts two months or more in arrears	£0.15m	£0.15m
	Profit After Tax	£11.8m	£6.0m
Financial strength	**Regulatory Capital**	£102.2m	£89.9m
	Total Capital Ratio	22.0%	20.9%
	Liquid Assets as a % of Shares and Borrowings	24.3%	24.5%
Members	**Members** - numbers	73,698	73,854
	Mystery Shopping - % score achieved	92%	94%
	Complaints - as a % of members	0.08%	0.07%

Measure	Explanation
Assets	Total size of the Society.
Loans to Customers	The total value of mortgage advances provided to customers. Mortgage advances are the primary source of the Society's income and core to its purpose of helping Members with their housing needs.
Retail Shares and Deposits	The total value of savings balances held by the Society. This is the Society's primary means of funding its lending activities. The increase of £21m helped fund the reported growth in mortgage assets and with liquidity management.
Interest Margin as a % of Mean Total Assets	Difference between interest received by the Society from its mortgages and other loans less interest paid on members' deposits and other borrowings. This is the principal source of income for the Society and needs to be at a certain level to generate profit for the Society whilst providing fair and consistent interest rates to members.
Management Expenses as a % of Mean Total Assets	This ratio measures the total costs of running the Society as a proportion of the mean average total assets and is an established measure of efficiency. The Board expects this ratio to increase in the short term as the rate of cost growth is expected to outpace growth in total assets.
Mortgage Arrears - on accounts two months or more in arrears	Responsible lending and individual underwriting are key to our lending and to the quality of our loan portfolio and our desire to minimise the risk of future default. The number of accounts on forbearance, including those previously subject to Covid-related payment deferrals, has significantly reduced with most returning to fully performing status and the level of arrears remained extremely low.
Profit After Tax	The amount earned and retained by the Society after taking into account all expenses and provision charges and taxation. Retained profits remain the primary source of capital for the Society. The Society must be profitable to demonstrate the sustainability of its business model and demonstrate financial strength to members, regulators and other stakeholders.
Regulatory Capital	Comprises the Society's reserves and collective provisions net of any required deductions for regulatory purposes. Retained profits are the highest quality of capital.
Total Capital Ratio	Regulatory capital expressed as a percentage of the Society's risk weighted assets (RWAs). Improvement in the ratio as the increase in retained profits of £11.8m was more than sufficient to cover the increased capital required to support the increase in RWAs.
Liquid Assets as a % of Shares and Borrowings	The proportion of savings and deposit liabilities ("SDL") held in the form of qualifying liquid assets. Marginal decrease as growth in retail savings and deposits and cash collateral receipts were offset by net mortgage lending and partial-repayment of TFSME.
Members - numbers	Strategy is to provide a strong service proposition with competitive interest rates. Decrease reflects net closure of savings and deposit accounts.
Mystery Shopping - % score achieved	Service to members is of paramount important to the Board. Mystery shopping allows the Society to monitor the level and consistency of service provided to Members. The results continue to demonstrate the consistent delivery of excellent service.
Complaints - as a % of members	We strive to provide a high-quality service to members in everything we do. This metric allows us to track our performance and identify areas where we haven't met expectations.

BUSINESS REVIEW

The Society prepares its results under Financial Reporting Standard (FRS) 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and elects to apply the measurement and recognition provisions of IAS39, "Financial Instruments: Recognition and Measurement". The Chief Executive's Review on pages 7 to 9 also contains information on the Society's performance for the year and factors affecting the results and should be read alongside this review.

OVERVIEW OF INCOME STATEMENT

The Society's profit after tax as a percentage of mean total assets increased from 0.46% in 2021 to 0.83% in 2022, as profits increased from £6.0m to £11.8m, a record for the Society. The increase in profits reflect an improvement in net interest margin, driven in part by greater returns from the Society's liquid assets, together with further gains on derivatives transacted to hedge interest rate risk following the increases in Bank Rate and market expectations for future increases.

Overview of income statement	2022 £000s	2021 £000s
Net interest income	22,795	17,948
Other income and charges	4,646	1,575
Administrative expenses (including depreciation and amortisation)	(12,906)	(12,328)
Loss on property revaluation	(30)	-
Loan impairment (charge)/credit	(68)	440
Profit before tax	**14,437**	**7,635**
Taxation	(2,628)	(1,635)
Profit after tax	**11,809**	**6,000**

NET INTEREST INCOME

Net interest income increased to £22.8m (2021: £17.9m). Interest received increased by £9.4m driven by a £2.9m increase in earnings on the Society's liquid assets and a £3.9m increase in mortgage interest receivable following a 4.0% growth in average assets and following increases in the Society's standard variable rate (SVR). The Society also experienced a decrease in the net cost of derivatives hedging fixed rate mortgages as the variable rate of interest received from the derivatives increased in line with changes to Bank Rate.

Interest expense increased by £4.5m to £11.7m (2021: £7.2m) as the Society increased rates paid on savings and deposit balances and as the rate payable on the Society's TFSME borrowings increased in line with Bank Rate.

NET INTEREST MARGIN

The Society's interest margin increased by 0.23% to 1.60% as the Society's assets and liabilities repriced into a rising interest rate environment. As Bank Rate increased from 0.1% to 2.25% at 31 October 2022 the Society sought at all times to strike an appropriate balance between rewarding savers with fair and sustainable rates whilst insulating borrowing members from the sharpest rises and protecting the Society's competitive positioning and over the year has increased savings rates by more than the increase in mortgage rates. Following the 0.5% increase in Bank Rate announced on 28th September 2022 the Society increased savings rates effective from 11th October whilst delaying any increase in SVR until early November 2022. With further increases in rates expected the Board will continue to take a balanced view in the best interest of the Society and its members.

A reduction in the net interest cost of derivatives and increase in the rates earned on the Society's liquid assets both referred to above also contributed to the improvement in net interest margin.

Maintaining margin remains an important element of the Society's financial strategy. The Board anticipates a reduction in margin next year through a continuation of pressure on mortgage pricing and an expectation of intensified competition for retail deposits and its future plans take this into account.

OTHER INCOME AND CHARGES

Other income and charges comprise fees and charges not accounted for within the Effective Interest Rate (EIR) methodology and bank charges. Also included within this heading are fair value gains on derivative financial instruments of £4,661k (2021: fair value gains of £1,526k).

Derivatives are used solely for risk management purposes and are an important tool for managing exposure to changes in interest rates from the Society's portfolio of fixed rate mortgages and savings products. The Society's derivatives are all in economic hedges with the majority in qualifying hedge accounting relationships however, hedge accounting does not remove all volatility. Until a derivative is placed into a qualifying hedge accounting relationship movements in its fair value are immediately reflected in the income statement without any corresponding offset.

The net gain of £4,661k (2021: gain of £1,526k) comprises:

	2022 £000s	2021 £000s
Accounting ineffectiveness in designated hedge accounting relationships	3,098	924
Gain on derivatives not in designated hedge accounting relationships	1,563	602

The increases in Bank Rate, together with consumer concern over rising mortgage rates resulted in strong and concentrated demand for fixed rate mortgages. The Society hedges the interest risk associated with these products through derivatives however these are typically transacted before the mortgage completes.

Throughout August and September, as the financial markets reacted to inflationary fears and fiscal policy announcements, the fair value of the derivatives increased significantly with no corresponding offset, a position further compounded by mortgages taking longer to complete.

These movements represent timing differences and are expected to reverse over the remaining life of the derivatives and be reflected in lower net interest charges in future periods.

MANAGEMENT EXPENSES

Management expenses comprise of staff costs together with all other costs and overheads necessary for the Society to function. Together with depreciation and amortisation they comprise the total operating costs for the Society.

The Board fully recognises that controlling costs is vital for the Society's competitive position in the marketplace. At the same time it remains strategically critical to continue to invest to ensure the sustainability and safety of the Society and to meet competitive challenges.

In total management expenses increased by £578k (4.7%) during the year:

	2022 £000s	2021 £000s
Administrative expenses	12,395	11,517
Depreciation and amortisation	511	811
Total	12,906	12,328

Administrative expenses increased by almost £0.9m. Staff costs, which represent over half the Society's total costs, increased by 8.9%, reflecting growth in average headcount and pay awards made during the year, including a one-off cost of living payment of £1,250 made to each employee (excluding directors) in October 2022. Of the £0.3m increase in other costs this can be attributed to a combination of additional costs notifying members of rate change decisions, costs associated with the refurbishment of the Newbury branch and additional community donations.

Despite closely monitoring and managing costs the Society cannot fully insulate itself from the impact of high inflation as the costs of goods and services increase and as the Society takes actions necessary to ensure salaries paid to its employees remain fair and sufficiently competitive in the prevailing economic climate.

Administrative expenses also includes any profits and losses from the disposal of fixed assets and any revaluation gains and losses. For the current financial year a gain of £38k primarily represents the gain on the sale of the unoccupied floors of the Society's branch premises in Thatcham, Berkshire. A gain of £81k was reported in the previous financial year for profits on the disposal of the Society's former branch premises in Abingdon, Oxfordshire, partially offset by the write off of property, plant and equipment assets disposed of with the sale of the Society's former Head Office. Net revaluation gains of £26k (2021: £nil) are in respect of the Society's freehold properties.

The reduction in charges for depreciation and amortisation arises following the change in accounting treatment to no longer classify certain types of software expenditure as intangible assets subject to amortisation charges and following the revaluation of the Society's freehold properties and property disposal referred to above. There has also been no material growth in fixed assets during the year, with the majority of additions taking place in the second half of the financial year and therefore not subject to a full year's charge.

The year ended 31 October 2021 also included a charge of £128k in respect of an unoccupied portion of the Society's head office which is available for commercial rental. This is now classified as an investment property.

The increase in total management expenses was proportionately less than growth in the Society's average total assets, resulting in an improvement to the management expenses ratio from 0.94% to 0.90%.

LOAN IMPAIRMENT

The Society maintains an appropriate provisioning policy designed to protect against difficulties in the housing market and makes provision for any estimated losses resulting from loans that are impaired on either an individual or a collective basis. For the year ended 31 October 2022 there was an impairment charge of £68k (2021: credit of £440k), analysed between collective and individual impairment as follows:

	2022 £000s	2021 £000s
Collective impairment charge/(credit)	84	(41)
Individual impairment (credit)	(16)	(399)
Total	**68**	**(440)**

At 31 October 2022 the Society held provisions totalling £1,601k (2021: £1,533k), analysed as follows:

	2022 £000s	2021 £000s
Collective provisions	1,483	1,499
Individual provisions	118	34
Total	**1,601**	**1,533**

The total amount set aside for loan impairment has increased by only £68k, despite growth in mortgage balances of £43.2m (4.0%). This can be attributed to a combination of increased house prices, further improvement in the underlying arrears performance of the Society's mortgage assets (covered in arrears section) and a lower level of assumed defaults.

In determining the amount of provision, whilst it is assumed that no further pandemic-related forbearance will be required, it is assumed that there will be an economic downturn in the near term with a rise in unemployment and a decline in property prices against a backdrop of inflationary pressures for households and rising interest rates leading to a greater number of loans being identified as impaired. See also section 1.15 of Note 1 to the Accounts, "Critical Accounting Estimates and Judgements".

At 31 October 2022 there were 26 accounts (2021: 34) where clients were benefitting from a forbearance action such as temporary interest only concessions, payment plans or reduced payment concessions. Forbearance cases represent total outstanding capital balances of £2.7m (2021: £4.9m).

MORTGAGE ARREARS

The value of arrears for cases more than two months in arrears remained at £0.15m (2021: £0.15m) with the number of borrowers in this category decreasing from 42 to 34 accounts. There were 8 cases in serious arrears of twelve months or more at our year-end (2021: 7 cases). The total amount of arrears outstanding on these accounts was £64k (2021: £65k) and the aggregate balances were £560k (2021: £555k).

The Society's arrears and possession statistics remain low both for the building society sector and for the industry as a whole. The Board considers the Society operates with a low risk business model and prudent underwriting approach, always seeking to ensure that customers can afford to meet their mortgage repayments from the outset and throughout the full duration of their mortgage term. It is this approach that has ensured arrears levels have remained below industry average and demonstrates the effectiveness of good quality counselling and the quality of underwriting processes over many years.

The low arrears position at 31 October 2022 reflects the macro-economic environment that has persisted for most of the financial year with low interest rates and low unemployment supporting the continued servicing of mortgages. However it is recognised that the full impact of the high inflation and the cost of living crisis may not yet be fully reflected in arears and possession statistics and it is highly likely that the Society may see an increase in borrowers experiencing a squeeze on household incomes. As a responsible lender, and as demonstrated through the Covid-19 pandemic, the Society is ready to assist and support members experiencing difficulty servicing their mortgage.

At 31 October 2022 the Society had one property in possession (2021: none).

Further details on forbearance can be found in Note 25 to the Accounts.

TAXATION

The Society's corporation tax charge for the year ended 31 October 2022 of £2,628k (2021: charge of £1,635k) represents an effective rate of 19% (2021: 21.4%). Further detail is provided in Notes 6 and 20 to the Accounts.

OVERVIEW OF STATEMENT OF FINANCIAL POSITION

Total assets increased by £52.3m (3.7%) (2021: £167.5m, 13.6%) and at 31 October 2022 stood at £1,453m. The increase was principally due to a £43m increase in mortgage balances and a net, combined increase of £8m in the fair value of derivatives and fixed rate mortgages.

As the primary source of capital generation for the Society profits of £11.8m allow the Society to continue to grow sustainably, necessary to protect itself against further cost increases and margin pressures and maintain its capital strength to support planned investment in the business and confidently meet any future capital challenges associated with increased regulatory requirements.

	2022	2021
	£000s	£000s
Liquid assets	320,862	319,890
Loans and advances to customers	1,094,211	1,064,427
Fixed and other assets	38,333	16,835
Total assets	**1,453,406**	**1,401,152**
Shares	1,139,837	1,118,616
Amounts owed to other customers	183,148	188,072
Other liabilities	29,646	5,688
Total liabilities	**1,352,631**	**1,312,376**
Reserves	100,775	88,776
Total liabilities and reserves	**1,453,406**	**1,401,152**

LIQUID ASSETS

Liquid assets comprise cash and other high-quality liquid assets as shown on the statement of financial position. The Society maintains a prudent level of liquid assets of appropriate quality, to meet its financial obligations as they fall due, under normal and stressed conditions.

Total liquid assets increased to £320.9m (2021: £319.9m) including £304m held in the form of deposits placed at the Bank of England (2021: £314m) and £5m as UK Government Treasury bills, (2021:£nil). As a percentage of shares and deposits liquid assets decreased to 24.3% (2021: 24.5%). The increase in liquidity arose as outflows associated with mortgage growth and operating expenses were more than offset by growth in savings balances and a £22.3m increase in cash deposited with the Society by swap counterparties as collateral in accordance with the terms of derivative contracts.

The two key measures of liquidity introduced under CRD are the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR'). As at 31 October 2022 the Society reported an LCR of 311% (2021: 372%) and a NSFR of 156% at the quarter ended 30 September 2022 (2021: 154%), both measures significantly in excess of minimum regulatory requirements.

LOANS AND ADVANCES TO CUSTOMERS

The Society's portfolio of loans and advances comprise almost entirely of owner-occupied mortgages, including shared ownership mortgages and buy-to-let mortgages. Gross lending of £212m compared with £214m achieved in the year to 31 October 2021.

A continued focus on retention activities helped the Society report net lending of £43m (2021: £54m), including the impact of mortgage repayments, voluntary redemptions and other movements. Stated after provisions and fair value adjustments, loans and advances to customers totalled £1,094.2m (2021: £1,064.4m).

Strong demand for the Society's range of standard residential owner-occupied products and affordable housing products accounted for 91% of gross lending and 112% of net lending. At 31 October the Society's mortgage book comprised of the following lending types:

	2022	2021
Residential owner-occupied	86.4%	85.4%
Buy-to-let	13.0%	13.9%
Other	0.6%	0.7%

The Society's book remains very high quality with an average indexed loan to value of 28% (2021: 30%) with less than 0.4% (2021: 0.9%) of the balances in the book more than 80% of the current indexed value of the properties on which their mortgages are secured. The Society's lending continues to be focused on its core operating areas with over 71% of the mortgage assets within the South East and London geographical areas (2021: 73%).

SHARES AND DEPOSITS

Retail savings and deposits continue to be the cornerstone of our funding and it remains a strategic priority of the Society to continue offering a range of good quality savings products paying competitive rates of interest relative to available market rates.

During the year ended 31 October 2022 retail savings and deposit balances increased by £21.0m (2021: £109.6m) taking the Society's total shares and deposits balances to £1,172.7m (2021: £1,151.7m), with the Society's ISAs, Senior Saver and Existing Member Account products showing highest balance growth. Whereas the larger net inflow recorded last year was considered representative of the more widespread impact of Covid-19, with the personal finances of many members boosted by reductions in spend on discretionary items, this year's inflow was achieved against a backdrop of rising inflation and a UK-wide cost of living crisis impacting savers' ability to grow balances.

Over the forthcoming financial years the Society is looking to accelerate growth in its stock of shares and deposit balances to fund planned mortgage growth over the medium term and repayment of remaining amounts borrowed from the Bank of England under the TFSME scheme.

WHOLESALE FUNDING

It is critical that the Society maintains access to funding from non-retail sources. The Society remains an active participant in the Bank of England's Sterling Monetary Framework ("SMF") which supports liquidity risk management within the Society, provides greater funding certainty and supports the overall cost of funding, all of which benefits members.

On 11 March 2020 the Bank of England launched the Term Funding Scheme with additional incentives for SMES ("TFSME"), providing four-year funding – subject to meeting certain criteria – at interest rates at or very close to Bank Rate. During the year ended 31 October 2021 the Society refinanced its TFS borrowings onto TFSME, drawing down an additional £58.6m to end the year with £155m. Amounts borrowed under TFSME mature between April 2025 and October 2025 however the Society repaid £5m in October 2022 and its growth and funding plans assume a further phased repayment profile continuing in 2023 and up to contractual maturity dates.

The Society has previously accessed funding from other financial institutions and local authorities with typical repayment profiles of up to one year however the Society had no requirement for such funding during the year.

CAPITAL

Capital consists of the Society's reserves plus collective provision balances, less any amounts which are required by capital regulations to be deducted from capital. The minimum level of capital required to be held is set by the Prudential Regulation Authority (PRA). The Board is conscious that both members and the Regulator require the Society to be financially secure. Financial strength protects the Society against its principal risks and uncertainties (see page 41) and safeguards member funds. Given the continuing emphasis on high quality capital by world banking authorities, the Board sets a strategy to ensure that capital is maintained at an appropriate level to cater not only for its day to day business needs but also for significant stresses in the marketplace. The strong financial results reported for the year ended 31 October 2022 have contributed to an improvement in capital and capital ratios.

After regulatory deductions, the Society's regulatory capital stood at £102.2m at 31 October 2022 (2021: £89.9m)

	2022 £000s	2021 £000s
Tier 1 Capital (after regulatory deductions)	100,744	88,370
Tier 2 Capital	1,483	1,499
Capital Resources	**102,227**	**89,869**

The increase of £12.4m comprised of retained earnings for the year, together with a decrease in amounts held in the revaluation reserve following updated valuations of the Society's freehold premises, offset by a smaller deduction for intangible assets.

At 31 October 2022 the Society's gross capital* ratio was 7.62% of shares and borrowings (2021: 6.79%). The free capital ratio* was 7.10% of shares and borrowings (2021: 6.17%).

* As defined in the Annual Business Statement on page 87.

A measure of capital strength commonly reported amongst financial institutions is the Common Equity Tier 1 (CET1) ratio. This ratio signifies the relationship between our strongest form of capital (accumulated profits held in reserves) against assets, weighted by the level of risk they are considered to carry. The Society's CET1 increased from 20.5% at 31 October 2021 to 21.7% at 31 October 2022.

Note 29 to the Accounts contains a reconciliation of capital per the Statement of Financial Position to regulatory capital. Further information on the Society's capital management can also be found in the Pillar 3 disclosures published on the Society's website.

FUTURE OUTLOOK AND UNCERTAINTIES

The risk management report on pages 41 to 44 set out the principal risks and uncertainties faced by the Society.

OUTLOOK

As reported above, profitability was a record for the Society. It also ended the year with its highest ever pipeline of mortgage business however this was partly due to mortgage completion activities taking much longer than for previous years. The large pipeline of business should support mortgage growth for the financial year ending 31 October 2023 however this is set against a backdrop of considerable uncertainty with regards the outlook for the UK economy. In the immediate term, the ultimate peak for Bank Rate remains uncertain as does the pace with which it is reached. Coupled with high inflation these conditions will increase the challenges on borrowing members and also have implications for UK mortgage lending more generally leading to house price reductions and possibly a slowdown in activity. The risk of higher unemployment will further compound the situation.

Darren Garner, Finance Director
21 December 2022

GOVERNANCE

THE BOARD OF DIRECTORS

"The Board's role is one of stewardship, running the Society for the benefit of future generations of members, as well as the current members, and therefore promoting the long-term sustainability of the Society."

Piers Williamson
Chairman of the Board

EXECUTIVE DIRECTORS

PHILLIPPA CARDNO
Chief Executive

Phillippa joined the Society in 1996. She joined the Executive team in 2007 and was appointed to the Board of Directors in February 2015. Phillippa was appointed Chief Executive in March 2022 and is responsible for the Society's strategic development and providing leadership and direction throughout the Society and for setting and maintaining culture and standards. Phillippa has many years of credit risk and housing sector experience, and also contributes to financial services nationally as a member of the UK Finance Mortgage Product and Service Board.

LEE BAMBRIDGE
Chief Risk Officer

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

DARREN GARNER
Finance Director

Darren joined the Society and the Board of Directors in August 2020. A qualified accountant, he has worked in financial services for over 20 years, almost half of which as a Finance Director in the building society sector. Darren is responsible for the Society's finance and treasury activities, ensuring the integrity of financial and regulatory reporting and managing the Society's liquidity, funding and capital positions. He holds executive responsibility for the premises department and, since 1 November 2021, IT and Business Change.

NON-EXECUTIVE DIRECTORS

PIERS WILLIAMSON
Non-Executive Director
Piers was appointed to the Board of Directors in January 2018 and appointed Chairman of the Board on 23rd February 2022. He has more than 35 years' financial markets experience specialising in treasury risk management and is Chief Executive of The Housing Finance Corporation, a mutual company that lends funds to Housing Associations. Piers is also Chair of the Nomination Committee, a member of the Remuneration Committee and attends and advises the Executive-led Credit Committee.

DEBBIE BEAVEN
Non-Executive Director
Debbie was appointed to the Board of Directors in February 2022. She is a Fellow of the Institute of Chartered Management Accountants with an extensive career in financial leadership roles across different market sectors, business models and structures, leading change programmes and improving performance outcomes. Debbie is an experienced board director, with her last executive role being Chief Financial Officer at Simplyhealth, a regulated financial services business providing health plans and services to the UK. Debbie is a member of the Audit Committee and attends and advises the Executive-led Assets & Liabilities Committee.

CHRIS BROWN
Non-Executive Director
Chris was appointed to the Board of Directors in June 2019. She is the Group IT Director of Manpower UK. She has 18 years' experience in le ading all aspects of technology and digital in commercial organisations, of which 11 have been spent in financial services. Chris is Chair of the Digital Advisory Panel and a member of the Audit, Remuneration and Nomination Committees.

NAILESH RAMBHAI
Non-Executive Director
Nailesh was appointed to the Board in September 2022. He graduated with a law degree from the University of Oxford in 1995, and has since practiced law at Linklaters LLP and McDermott, Will and Emery LLP before working at Coventry Building Society. Nailesh is currently a non-executive director at several organisations, including the Pension Protection Fund, and he is also a trustee of the charity United Way UK (United Kingdom), a network of over 1,800 non-profit fundraising organisations. Nailesh is Chair of the Risk Committee.

WILLIAM ROBERTS
Non-Executive Director
William was appointed to the Board of Directors in February 2015. He is a Chartered Accountant and is Finance Director of Hastoe Housing Association. William has more than 20 years' experience in the property sector and 15 years' experience in the Housing Association sector. William is Chair of the Audit Committee, Chair of the Remuneration Committee and a member of the Nomination Committee.

ALISTAIR WELHAM
Non-Executive Director
Alistair has more than 25 years' experience in marketing and digital communications having specialised in financial services, real estate, car retailing industries, and is an Executive member of the Financial Services Forum and programme faculty member of Imperial College Business School on digital transformation. Alistair also holds positions with NOW: Pensions as Director of Marketing and Communications and is a Trustee of the Brighton Student Union. Alistair is a member of the Risk and Nomination Committees and the Digital Advisory Panel. He attends and advises the Executive-led Sales, Marketing & Product Committee.

EXECUTIVE TEAM

The Executive Team comprises the Executive Directors, introduced on page 31, together with the individuals shown below. Meetings of the Executive Team are chaired by Phillippa Cardno, Chief Executive.

JIM BENDON
Head of IT and Business Change
Jim joined the Society and the Executive team in January 2020. Jim is responsible for delivering the Society's IT and Business change strategy whilst also being accountable for all technology and business change. Jim reports to the Finance Director.

EMMA JONES
Head of People
Emma joined the Society in March 2022 after a number of years in HR leadership roles at Nationwide Building Society and AXA UK. Emma is a Chartered Member of the Institute of Personnel and Development. As Head of People Emma is responsible for shaping and delivering the people strategy, ensuring the Society has the engagement of its people and the skills and talent necessary for the future. Emma reports to the Chief Executive.

MELANIE MILDENHALL
Head of Customer Service
Melanie joined the Society in 1994 and was appointed an Executive in January 2019. She is responsible for leading, developing and implementing the Society's Customer Service strategy. Melanie also heads the Branch, Mortgage underwriting and Customer Support functions and reports to the Chief Executive.

ERIKA NEVES
Head of Risk and Company Secretary
Erika joined the Society in 1991 and was appointed an Executive in 2002. She is responsible for developing and implementing the Society's Risk Management Framework. Erika leads the Risk Function, is the Company Secretary and reports to the Chief Risk Officer.

DEAN SCOTT
Head of Sales and Marketing
Dean joined the Society in May 2022 after 14 years in product and marketing roles at Nationwide Building Society. Dean leads Society's sales and marketing teams, with responsibility for intermediaries and broker introduced mortgages, direct mortgages and savings and the marketing team, with responsibility for external communications and community initiatives. Dean reports to the Chief Executive.

CORPORATE GOVERNANCE REPORT

The UK Corporate Governance Code 2018 (the Code) sets out the principles that emphasise the value of good corporate governance to long-term sustainable success. The Code is aimed at listed companies and is therefore not specifically applicable to mutual building societies, however the Prudential Regulation Authority expects building societies, when considering their corporate governance arrangements, to have regard to the Code. This report explains how the Society applies the principles in the Code so far as its provisions are relevant to building societies.

BOARD LEADERSHIP AND COMPANY PURPOSE

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

The Board's role is one of stewardship, running the Society for the benefit of future generations of members, as well as the current members, and therefore promoting the long-term sustainability of the Society.

The Board's effectiveness is demonstrated by the Society's performance which has been achieved by a focus on strategy and risk management in an environment where constructive challenge is encouraged.

There is a schedule of matters reserved for Board decision. The Board usually meets eleven times a year, together with a day focused on strategy which consolidates the Board's strategic debates throughout the year, to discharge these duties effectively. The Non-Executive Directors meet without the Executive Directors present at least once a year.

To ensure the long-term sustainable success of the Society the Board approves the corporate plan, which includes appropriate funding plans, sets limits on delegated expenditure, and monitors the risk profile of the organisation and its capital position. The Board also has responsibility for the overall structure of the organisation, including the appointment and dismissal of Directors and the Society Secretary. The Board approves major business developments as well as changes in key risk policies.

To support the Society's digital ambition, the Board established a Non-Executive-led Digital Advisory panel which oversees the development of the Society's digital capability and reports to the Board. The Digital Advisory panel comprises two Non-Executive Directors, two Executive Directors and at least two External Advisors with Digital competence from either commercial and/or research fields.

B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The board Chair is responsible for leading the Board's development of the Society's culture and the Chief Executive is responsible for overseeing the adoption of the culture. The Board is responsible for establishing the Society's purpose and values and creating a culture which delivers a sustainable long-term strategy. The Society's purpose statement was reviewed and updated in 2020, informed by feedback from the senior management team, employees and a panel of members to ensure alignment across the key stakeholders.

The assessment and monitoring of culture is through a suite of key performance indicators which are reported quarterly. During the year the Nomination Committee reviewed the annual culture report, which includes the Society's progress against the culture measures and planned actions. The assessment of culture is also included in the rolling internal audit programme, and in 2020 was favourably assessed as part of the HR and People Management internal audit.

The statement of purpose and Society values is on page 10.

C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

The Society's governance structure includes both Non-Executive and Executive-led committees. Each business area reports progress against the Society's objectives and key risks to the relevant committee, and this is subsequently reported through to the Board. The management information presented at each committee includes a dashboard of key performance and risk indicators which are aligned to the Board's risk appetite.

The main Executive-led committees are the Executive Strategic, Executive Operations, Credit, ALCO, and Sales Marketing and Product committees. The terms of reference of the Executive Operations committee includes Customer, Business Change, Operational Resilience, and Health & Safety. A Non-Executive Director is partnered with the Credit, ALCO, and Sales Marketing and Product committees to enhance the Board's understanding of the Society. The Executive Director, or Non-Executive partner provide feedback to the main Board or a Board committee following each meeting.

The Non-Executive-led committees are Risk, Audit, Nomination and Remuneration and are described in more detail below:

RISK COMMITTEE

The Risk Committee meets four times a year and is responsible for overseeing the Society's Risk Management Framework (RMF) including the risk appetite, risk monitoring, and policies to ensure they are appropriate, proportionate and in line with regulatory requirements and industry best practice. The Committee currently comprises three Non-Executive Directors, Nailesh Rambhai (Chair), Piers Williamson, and Alistair Welham. The Executive Directors and the Head of Risk and Company Secretary attend by invitation.

The Committee reviews the Chief Risk Officer's quarterly report which provides an assessment of the risks within the Society and how they align to the Board's risk appetite. The Committee also considers the emerging risk themes through regular horizon scanning activity and any actions that are required as a result.

During the reporting period the Committee's reviews included:

- the RMF;
- the Society's principal risk policies relating to treasury and lending;
- the Internal Capital Adequacy Assessment Process (ICAAP);
- the Internal Liquidity Adequacy Assessment Process (ILAAP);
- the Stress and Scenario testing policy and plan;
- the Recovery Plan;
- the Conduct Risk Framework;
- the Risk culture report; and
- the risk profile of the Corporate plan, before the plan was approved by the Board.

AUDIT COMMITTEE

The Audit Committee is responsible for providing appropriate oversight, independently of the Executive, to ensure that the interests of members and the Society's other key stakeholders are properly protected in relation to financial reporting and internal control. The Committee currently comprises three Non-Executive

Directors, Will Roberts (Chair), Chris Brown, and Debbie Beaven. The Executive Directors, the Head of Risk and Company Secretary and the Compliance Manager, as well as representatives from the internal and external auditors, attend by invitation. The Committee members have specialist expertise, including Will Roberts and Debbie Beaven who are Chartered Accountants with financial experience relevant to the remit of the Committee.

During the reporting period the Committee's reviews included:

- the accuracy and completeness of the annual report and accounts;
- reports from the internal auditor and satisfied itself as to the independence and objectivity of the assurance provided;
- the second and third line assurance plans;
- the regulatory reporting framework;
- the IT Security policy;
- the Third Party Arrangements policy;
- the Operational Risk and Resilience policy and self-assessment;
- the Conflicts of Interest policy and Code of Conduct;
- oversight of internal and external audit; and
- the Society's whistleblowing controls.

NOMINATION COMMITTEE

The Nomination Committee is responsible for succession planning for both Executive and Non-Executive Director positions. The Committee currently comprises four Non-Executive Directors, Piers Williamson (Chair), Will Roberts, Alistair Welham and Chris Brown. The Chief Executive, the Chief Risk Officer and the Head of People attend by invitation.

During the reporting period the Committee assessed the balance and diversity of skills, knowledge and experience of the Board.

It also reviewed the Board Diversity Statement, the Management Responsibilities Map and the HR Policy Statement.

The Committee pays due regard to the need for progressive refreshing of the Board and has appropriate succession plans in place. At least annually, it reviews the performance of Directors individually and collectively. The Committee held additional meetings during the year to discuss the recruitment of two new Non-Executive Directors.

Following a rigorous selection process two new Non-Executive Directors, Debbie Beaven and Nailesh Rambhai, were appointed.

The Committee commissioned an external Board effectiveness review, and approved the scope, objectives and supplier. The review was completed in the final quarter of the year and the results of the review will be considered by the Committee in the first quarter of the 2022-23 financial year.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for setting and monitoring adherence to the Society's remuneration policy. The Committee comprises three Non-Executive Directors who are currently Will Roberts (Chair), Piers Williamson, and Chris Brown. The Chief Executive, the Chief Risk Officer and the Head of People attend by invitation.

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

The terms of reference for the Board Committees are available on the Society's website, at the AGM or by writing to the Company Secretary. Proceedings of all Committees are formally minuted and minutes are distributed to all Board members. The Chair of each Committee reports on the key matters covered at the following Board meeting. The Society maintains liability insurance cover for Directors and Officers. Attendance records for the year to 31 October 2022 are set out below.

D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

As a mutual organisation the Society's membership consists of individuals who are also the Society's customers. The Society is committed to dialogue with members through regular newsletters, social media and events such as the AGM attended by Directors. Members are also invited to leave feedback about the Society through Smart Money People. The feedback is shared with employees and regularly reviewed to identify service improvements. The Society is a member of the Institute of Customer Service (ICS) and was awarded Distinction level accreditation from the ICS in 2022. This result was informed by the ICS independent survey of the Society's customers and employees. The purpose of this dialogue with members is to understand, and better serve, their needs.

The Society engages with employees in several ways. An employee engagement survey is conducted regularly, most recently in March 2022. The survey results are shared openly with employees and the Board and plans put in place to address any areas of improvement. Following the 2022 feedback the Society has introduced 'Teamswork' which provides a framework for teams to discuss and share ideas and issues.

The Society has working parties for Diversity and Inclusion, vulnerable customers, and green initiatives and all employees were invited to apply to be part of these. We also use intranet polls to gain additional insight into employee views and demonstrate to our employees that their views matter.

E. The board should ensure workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The overarching HR policy is reviewed and approved annually by the Board. Workforce policies and practices are regularly reviewed to ensure they remain consistent with the Society's values and the relevant legal frameworkand are available for all employees to access online and the HR team are available to provide support.

It is important that all employees have a voice and feel able to provide feedback and raise concerns. One way in which the Society facilitates this is through an anonymous biennial employee engagement survey. The most recent survey was in March 2022 and it was completed by 85% of employees.

Employee wellbeing is a key focus, and the Society provides support to employees in several ways. These include access to an Employee Assistance Programme which offers confidential counselling and advice on a wide range of work and personal issues, 'stress-less' workshops and access to mental health first aiders.

The Society has a Board-approved Whistleblowing Policy, and the Board receives an annual report on whistleblowing which includes details of how it fits the Society's values. Employees undertake learning and development activity to ensure they are aware of how to confidentially raise concerns without fear of victimisation. The Society's whistleblowing champion is Will Roberts, chair of the Audit Committee and Senior Independent Director.

The Society's Senior Independent Director, Will Roberts, can be contacted on william.roberts@newbury.co.uk should members or employees have any concerns that cannot be raised through normal channels.

DIVISION OF RESPONSIBILITIES

F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all Non-Executive directors, and ensures that directors receive accurate, timely and clear information.

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

The Society's Chair, Piers Williamson, was appointed as an independent Non-Executive Director in January 2018 following a rigorous selection exercise and was elected by the other members of the Board to become Chair on 23 February 2022. The Senior Independent Director has responsibility for leading the appraisal of the Chair's performance.

G. The board should include an appropriate combination of executive and Non-Executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

The Board currently comprises six Non-Executive Directors and three Executive Directors. All Non-Executive Directors are considered by the Board to be independent in character and judgement and the Chair has confirmed, following the formal performance evaluation process, that each individual's performance continues to be effective and to demonstrate commitment to the role. All Non-Executive Directors are considered to be independent as defined in the Code.

The offices of Chief Executive and Chair are distinct and held by different Directors. The Chair is responsible for leading the Board and the Chief Executive is responsible for managing the Society's business within the Board-approved policies and delegated authorities.

H. Non-Executive Directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Directors are informed of the time commitment in their letter of appointment. The Nomination Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment, considering information provided by referees, and once appointed there is a formal process in place for approving new requests to take up roles elsewhere. The formal appraisal process carried out by the Chair each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Directors at Board and Committee meetings is set out on page 38.

The Board spends a considerable proportion of its time on strategic matters. For example, the first part of each Board meeting is usually devoted to strategic topics or to training on topics that will help Directors make more informed strategic decisions. The Board has an annual strategy day which consolidates the Board's strategic debates throughout the year in order to develop the strategic plans. Following these sessions, the Executive Directors produced a four-year corporate plan which the Board scrutinised and approved, offering constructive challenge to ensure the Society has a robust and sustainable strategy in the long-term interests of the Society and its members.

I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

The Chair ensures that the Board receives sufficient information to enable it to discharge its responsibilities. The Board can access the Board-approved policies, Board manual, Committee packs, minutes and other relevant information through the online Board portal. The Society continuously improves management information to assist the Board and its Committees in discharging their terms of reference, and each Committee annually reviews its effectiveness, including the quality and sufficiency of this information.

The Society provides a formal induction for new Directors tailored to their needs. This includes the nature of building societies, Directors' responsibilities and duties, the management information they will be provided with and how to interpret this, information on the Society and the local market, meeting key members of the senior management, an overview of the regulatory requirements and details of significant current issues for the industry. The Chair reviews and agrees each Non-Executive Director's training needs on a regular basis and ensures that they are provided with internal briefings, on-line training modules and attend industry seminars and conferences in order to continually update their skills and knowledge. In addition, prior to their appointment, all new Senior Managers go through a comprehensive handover process to ensure they are fully aware of the specific responsibilities relating to their individual role.

The Company Secretary provides support on corporate governance matters and individual members of the Board have access to independent advice if required.

COMPOSITION, SUCCESSION AND EVALUATION

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The Nomination Committee is responsible for succession planning and appointments for both Executive and Non-Executive Director positions. The appointment process is formal, rigorous and transparent and includes objective assessment against the agreed criteria to ensure appointments are made on merit.

The Board has a diversity and inclusion statement which defines its commitment and goals in respect of diversity and inclusion. Newbury Building Society recognises that a quality Board is about selecting directors who think and communicate diverse thoughts, ideas and opinions and who have diverse backgrounds and education. The Board recognises the importance diversity and inclusion has on enhancing culture which directly impacts on attracting and retaining employees and members.

The terms and conditions of Non-Executive Director appointments are available for inspection at the AGM or at the Society's registered address.

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

The Board currently comprises the Chair, five independent Non- Executive Directors and three Executive Directors, who together provide a balance of skills and experience appropriate for the requirements of the business. Committee membership is reviewed annually to ensure there is appropriate expertise in each Committee to discharge its terms of reference.

The Society's Rules require that all Directors be submitted for election within a maximum of 16 months of, or at the AGM following, their appointment to the Board. The Rules also require that Directors must be re-elected every three years. However, the Board has resolved that in line with the recommendation of the Code, all Directors should seek annual re-election.

Non-Executive Directors will not usually serve more than nine years The Code also recommends that a Chair should not remain in post beyond nine years from the date of their first appointment to the Board. Although it does recognise that to facilitate effective succession planning this period can be extended for a limited time, particularly in those cases where the Chair was an existing Non-Executive Director on appointment. All the Society's non-Executive Directors, including the Chair, have served less than nine years.

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

There is a formal internal process to annually assess the performance and effectiveness of the Board and its members. This includes the Chair of the Nomination Committee appraising the Chief Executive's performance and the Committee reviewing the other Executive Director appraisals. The contribution of individual Directors is evaluated by the Chair using questions based on those recommended in the FRC guidance on Board Effectiveness and taking into account the views of the other Directors. The Chair's performance is evaluated by the Non-Executive Directors facilitated by the Senior Independent Director considering the views of the Executive Directors. Each Committee reviews its effectiveness annually and reports the outcomes to the Nomination Committee. Then with input from the Nomination Committee, the Board evaluates its overall performance and that of each Committee. This process is used to improve the effectiveness of Directors and the Board collectively, to identify training needs and to inform the decision whether to submit a Director for re-election.

The evaluation of Board effectiveness is externally facilitated on a periodic basis. An external assessment was completed in November 2022, and the outcomes will be assessed by the Nomination Committee during the first quarter of the 2022-23 business year.

AUDIT, RISK AND INTERNAL CONTROL

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The Audit Committee comprises three independent Non-Executive Directors. The Executive Directors, the Head of Risk and Company Secretary and the Compliance Manager, as well as representatives from the internal and external auditors, attend by invitation. The Chair is not a member but may attend by invitation. The Committee meets four times a year and once a year the external and internal auditors meet the Committee without the presence of the Executive Directors.

The Audit Committee report explains how it discharges its responsibilities in respect of internal and external audit functions, and the integrity of financial and narrative statements.

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The Board believes that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for Members to assess performance, strategy and the business model of the Society. The responsibilities of the Directors in relation to the preparation of the Society's accounts are contained in the Directors' Responsibilities on page 48. The Audit Committee Report describes the main areas of accounting judgement exercised.

O. The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

The Board has identified the principal risks and uncertainties that could threaten its business model, future performance, solvency or liquidity. These risks, together with the way in which they are mitigated, are explained in the Risk Management Report on pages 41 to 44. The Board, assisted by the Risk Committee, is collectively responsible for determining risk appetites, strategies for risk management and control as described in the Society's Risk Management Framework. Senior management is responsible for designing, operating and monitoring risk management systems and controls. The Society has a second-line Risk and Compliance team, headed by the Chief Risk Officer, which provides challenge and oversight of the first-line. The Executive Directors hold quarterly meetings to review the risk and control environment in their respective areas. The Risk Committee assesses the adequacy of the risk-related output of this process and the Society's internal auditor, provides independent and objective assurance regarding the design and performance of risk management systems and controls.

REMUNERATION

The Directors' Remuneration Report on pages 45 to 46 explains how the Society applies the Code Principles relating to remuneration.

Piers Williamson, Chairman of the Board
21 December 2022

DIRECTORS' ATTENDANCE RECORD

The attendance record for Board members is shown in the table below. The table shows the actual number of meetings attended with the number of meeting for which the directors were eligible to attend.

Board Member	Board	Audit	Risk	Remuneration	Nomination
Non-Executive					
Peter Brickley	3 (3)			*1 (1)*	*1 (1)*
Piers Williamson	11 (11)	*1 (1) A*	*4 (4)*	*4 (4)*	*4 (4)*
Debbie Beaven	8 (8)	3 (3)	*1 (1) A*		
Chris Brown	11 (11)	4 (4)		*3 (3)*	*3 (3)*
Nicola Bruce	1 (1)	*1 (1)*	*1 (1)*		
Fiona Phillips	8 (8)	*1 (1)*	*1 (3)*		
Nailesh Rambhai	2 (2)	*1 (1) A*			
William Roberts	10 (11)	4 (4)		4 (4)	4 (4)
Alistair Welham	11 (11)		4 (4)		*3 (3)*
Executive					
Roland Gardner	4 (4)	*1 (1) A*	*1 (1) A*	*1 (1) A*	*1 (1) A*
Phillippa Cardno	11 (11)	*4 (4) A*	*4 (4) A*	*4 (4) A*	*4 (4) A*
Lee Bambridge	11 (11)	*4 (4) A*	*4 (4) A*	*4 (4) A*	*4 (4) A*
Darren Garner	11 (11)	*4 (4) A*	*4 (4) A*		

A denotes attendee only.

AUDIT COMMITTEE REPORT

> The Audit Committee is responsible for ensuring that the Board receives appropriate assurance over the effective operation of the Society's internal control framework.
>
> **William Roberts**
> Chair of the Audit Committee

This report explains how the Society applies the principles of the UK Corporate Governance Code 2018 (the Code) relating to the operation of the Audit Committee and the system of internal control. The report details how the Committee discharged its responsibilities in line with the provisions of the Financial Reporting Council's 'Guidance on Audit Committees' (April 2016). It details the significant issues reviewed and concluded during the year including the Committee's assessment of those areas on which accounting judgement was exercised. The Audit Committee met four times during the year and in addition met with the external and internal auditors without the Executive Directors present.

AUDIT, RISK AND INTERNAL CONTROL

Audit Committee and Auditors

Code Principle:

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The Society recognises the importance of good internal control systems in the achievement of its objectives and the safeguarding of its assets. Good internal controls also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations. Management is responsible for designing an appropriate internal control framework and the Audit Committee is responsible for ensuring that the Board receives appropriate assurance over the effective operation of this framework. In order to achieve this the Audit Committee reviews the effectiveness of the Second and Third lines, approves their annual plans and reviews performance against these plans on a quarterly basis. The Committee also reviews their material findings and ensures the recommendations from assurance work are completed in a timely fashion. Consistent with these responsibilities, the Committee undertook the following activities during the year to satisfy itself over the robustness of the internal control framework:

COMPLIANCE ASSURANCE

The Society's Compliance function provides second line assurance on activities across the Society. The outputs of the Compliance function's activities are reported to the Committee, together with progress updates on management's implementation of any findings. During the year the Committee approved the Compliance function's annual plan of work which sets out the reviews the function intends to perform and the associated scopes of those reviews. The Committee reviewed the Financial Crime Prevention Policy, which sets out how the Society reduces the risks of money laundering, terrorist financing, sanctions and fraud. The Committee also considers the annual Money Laundering Reporting Officer's report before it is presented to the Board. The Committee satisfied itself that the Compliance function had the appropriate level of resource to carry out the approved assurance programme, and that any identified areas of improvement had been addressed.

INTERNAL AUDIT

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

EXTERNAL AUDIT

The Audit Committee is responsible for providing oversight of the external audit process by monitoring the relationship with the External Auditor (currently Deloitte LLP), reviewing its effectiveness, agreeing its remuneration and terms of engagement and making recommendations to the Board on their appointment, re-appointment or removal. As part of the external audit process, Deloitte provides the Society with internal control matters which have come to its attention during the audit. No material control weaknesses were included in such reports. The Committee is also responsible for monitoring the performance, objectivity and independence of the External Auditor, ensuring that the provision of non-audit services is appropriate and in accordance with the Financial Reporting Council's Ethical Standards. In respect of non-audit services, Deloitte LLP provided a TFSME Assurance Review at a cost of £25,000. In order to retain independence and objectivity, the Society's policy is to tender for audit services on a regular basis and at least every 10 years. The external auditors are required to rotate every 20 years. Deloitte LLP have held the role since February 2018.

OTHER ACTIVITIES

During the year the Committee also satisfied itself that the Society's whistleblowing arrangements are operating effectively and reassured itself as to the effectiveness of the Society's IT controls, including cyber security controls, and Regulatory Reporting framework. In respect of Operational Resilience it reviewed the Operational Risk and Resilience Policy, the Third Party Arrangements Policy, and the Operational Resilience self-assessment.

Code Principle:

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

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

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

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

Provisioning for loan impairment

The Committee monitored loan impairment provisions and considered the impact of the approach to forbearance adopted when managing the Society's mortgage portfolio. It considered the impact of the economic climate on the mortgage portfolio and other key assumptions contained in the Society's provisioning model on the level of provisions made, most significantly the assumptions for probability of default, and the relevant disclosure in the Accounts.

The Committee examined and challenged the assumptions adopted and is satisfied with the level of impairment provisions made.

Effective Interest Rate

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

Hedging

The Society issues fixed rate mortgage products which are mainly funded from variable rate savings. To mitigate the risk of a rise in funding costs the Society enters into interest rate swaps (derivatives) and uses hedge accounting to offset a change in the fair value of swaps against changes in the fair value of the corresponding fixed rate mortgages. During the year the Committee reviewed management's process to manage hedge accounting, the fair valuing of hedges and the underlying hedged items, as well as the processes for identifying and designating derivatives as effective. As a result of its enquiries the Committee is satisfied that the processes followed for hedge accounting have been applied in accordance with IAS 39.

Property Valuation

The Society's freehold properties are included in the balance sheet at fair value. The properties were revalued during the year and the Committee reviewed, and was satisfied with, the outcomes.

Intangible fixed assets

During the year the Society reviewed all contractual arrangements with software providers and software purchases from third party suppliers and changed its accounting policy for arrangements considered to meet the definition of Software as a Service and restated prior year comparatives (refer section 1.2 of Note 1 to the Accounts). The Committee considered the impact of the restatement on the financial statements and was satisfied with the outcome and with the disclosures being made.

Going Concern

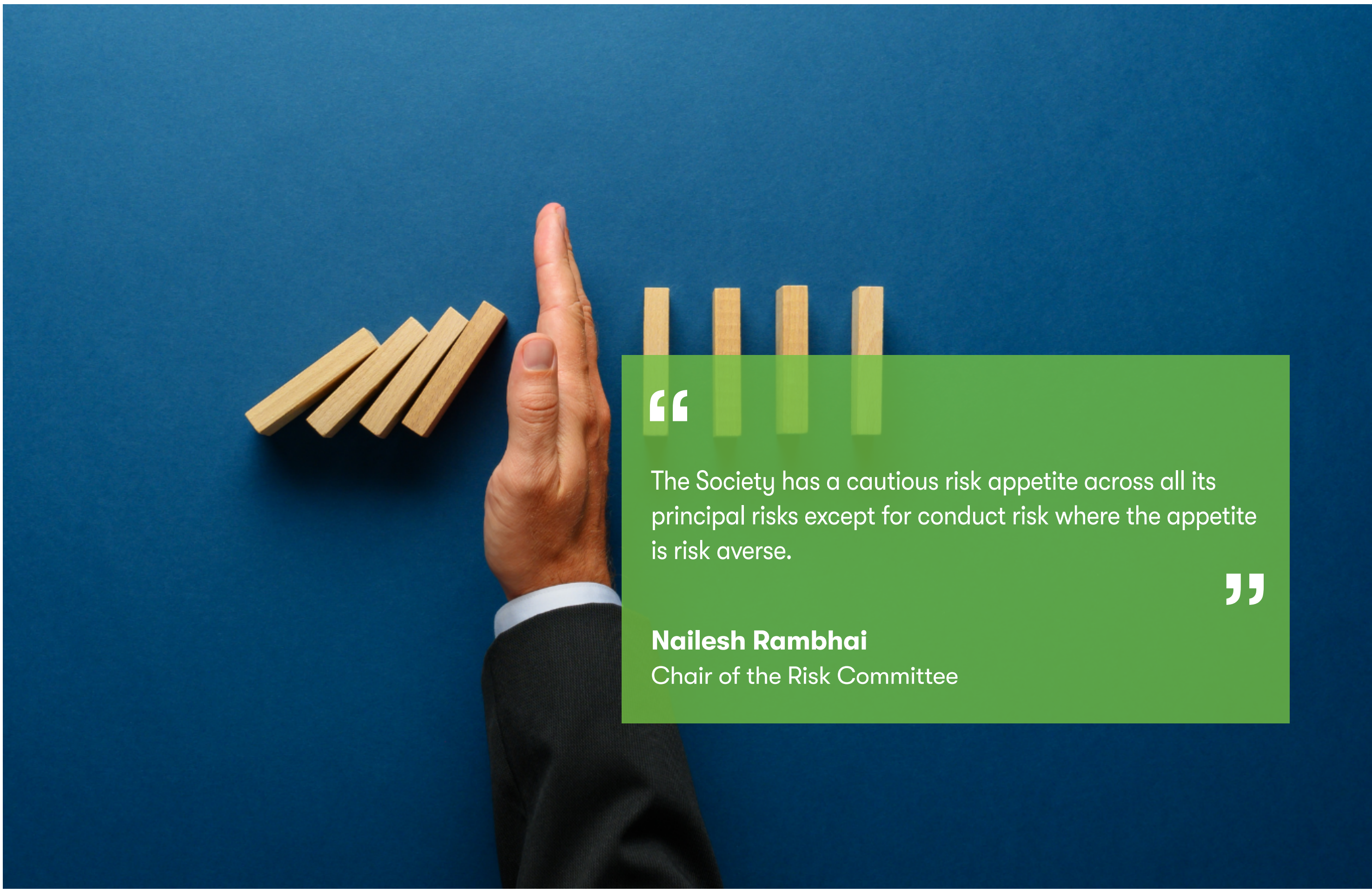
This involves rigorous consideration, based on reports as requested by the Committee, of the Society's current and projected liquidity and capital positions, together with the potential risks (for example strategic, credit risk, liquidity risk, operational risk and conduct risk) which could also impact the business, as well as consideration of potential stress scenarios relating to economic uncertainty caused by the direct or indirect consequences of high inflation and rising interest rates, focused on the Society's capital and liquidity position and operational resilience. Based on its review, the Committee concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate.

Statutory Audit

The Committee considered matters raised during the statutory external audit, through discussion with senior management of the business and the external auditor and concluded that there were no adjustments required that were material to the financial statements. Considering the enquiries above, the Committee is satisfied that, taken as a whole, the 2022 Annual Report and Accounts is fair, balanced and understandable and provides a clear and accurate presentation of the Society's position and prospects.

William Roberts, Chair of the Audit Committee
21 December 2022

RISK MANAGEMENT REPORT



> The Society has a cautious risk appetite across all its principal risks except for conduct risk where the appetite is risk averse.
>
> **Nailesh Rambhai**
> Chair of the Risk Committee

RISK MANAGEMENT FRAMEWORK

The Society operates in a business environment that contains a wide range of financial and non-financial risks which are managed under the Risk Management Framework (RMF). The RMF documents the Society's formal structure for managing risk and the Board's risk appetite.

The Board is ultimately responsible for the effective management of risk. The RMF, including the risk appetite statement, and principal risk policies are approved by the Board following a review and recommendation by the Risk Committee. The Board delegates oversight of the implementation of the RMF to the Risk Committee. The Chief Risk Officer, who is an Executive Director on the Board, oversees the effective implementation of the RMF, including the review of risks and uncertainties in the business.

The Society adopts a three lines of defence model which ensures a clear separation between the ownership and management of risk and controls (first line), oversight, support, and challenge (second line) and internal audit assurance (third line).

RISK GOVERNANCE ARRANGEMENTS

The Board approves the policies which set out how the principal risks are managed. The Risk Committee's terms of reference detail which policies are reviewed before recommendation to the Board for approval. These policies relating to credit risk, liquidity risk and financial risk management are reviewed and approved by the Board at least annually.

Each principal risk has a Risk Owner within the Society and there are Risk Champions in each business area to support the effective operation of the RMF.

RISK CULTURE

The risk culture is normal behaviour exhibited by all employees regarding risk awareness, risk taking, risk management and treating customers fairly. The Board sets the tone from the top with risk owners and risk champions implementing this tone throughout the Society. The overall tone set by the Board is underpinned by various policies and these policies enable risk champions, and their teams, to disseminate the Society's culture and values across all areas of the business. The Risk team conduct a biennial risk culture assessment which is reviewed by the Risk Committee and, where considered necessary, actions are implemented.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks to which the Society is exposed, along with how they are controlled and the associated policies, are set out below and remain unchanged from last year.

The Society has a cautious risk appetite across all its principal risks except for conduct risk where the appetite is risk averse. The Risk Committee reviews both the key risk indicators for each principal risk and the output from a range of stress and scenario testing on a regular basis to ensure that risk levels remain within the Society's agreed risk appetite. The Society maintains strong levels of capital and liquidity to provide financial resilience.

Risk and impact	Mitigation	Movement in risk profile	Progress
Strategic risk The risks resulting from the Society's strategic decisions which have the potential to reduce the Society's profit levels and contribution to capital, thereby threatening the financial strength of the Society. In particular, it is the risk on the Society's business model and strategic objectives as a result of macroeconomic, regulatory, political or other factors.	The Board will not seek out strategic options which have a potential to create losses to capital, although will consider options that could result in reduced profit in the short to medium term provided that the capital ratio remains within appetite.		The risk profile is increasing due to economic unpredictability which has seen a sharp increase in inflation, resulting in a cost of living challenge for our members and the expectation of recession. During the year the Board has: • reviewed the Society's strategy and confirmed it remains appropriate. The strategy is reflected in the Society's latest corporate plan which was reviewed by the Board and Risk Committee to ensure it meets the agreed risk appetite. • monitored the economic environment and considered the Society's actual and expected risk profile and recommended appropriate action where required.
Credit risk Credit risk is the risk that mortgage loan customers or treasury counterparties default on their obligation to repay the Society.	Mortgage credit risk is controlled in accordance with the Board-approved Lending Policy which is aligned with a cautious risk appetite. Lending is done on prudent terms, is maintained within carefully controlled limits and is subject to regular Credit Committee and Board reviews. Whilst the policy allows lending in a limited number of niche areas which may be considered to have a greater degree of risk, this is mitigated by the fact that these are areas where the Society either has significant experience or has set non-material limits. In addition, each mortgage application is manually underwritten by an experienced team. Counterparty credit risk is controlled through adherence to the Board-approved Treasury Policy which reflects a cautious risk appetite. It is regularly reviewed by the Assets & Liabilities Committee with oversight by the Risk Committee. The Policy defines prudent limits, relating to quality and quantity, on credit exposures to single counterparties and groups of counterparties. The counterparty limits are developed predominantly by reference to credit ratings and other market and financial data and any new counterparties are approved by the Assets & Liabilities Committee in accordance with the Treasury Policy.		The risk profile has been stable during most of the year with low levels of mortgage arrears and forbearance. However the current cost of living challenge is expected to result in more households struggling to meet monthly costs, including their mortgage, therefore the risk profile is increasing. During the year the Board: • reviewed and updated the Lending Policy to ensure the risk profile of new lending remains within the cautious risk appetite. • reviewed and approved changes to the affordability criteria to reflect increases in the cost of living. During the year the Society has continued to proactively manage arrears and provide forbearance to members with payment difficulties.
Liquidity risk Liquidity risk is the risk of the Society failing to meet its financial obligations as they fall due, ultimately resulting in the inability to support normal business activity and failure to meet regulatory liquidity requirements. This includes the funding risk of not being able to find new funding to replace outflows or maturing facilities.	The Liquidity Policy is contained within the Treasury Policy, which is reviewed by the Assets & Liabilities Committee and the Risk Committee, and annually approved by the Board. Liquidity is maintained within the Board-approved risk appetite limits. Regular stress tests are conducted which help to determine the level of liquidity required to withstand all reasonably foreseeable liquidity stresses. The Society also has a contingency funding plan in place to manage sudden or extreme outflows. The results of stress testing and the liquidity position are reported to the Assets & Liabilities Committee and the Risk Committee and appropriate action is undertaken, if required.		The risk profile has remained stable during the year. Over the past year the Risk Committee has: • reviewed and recommended the Treasury Policy to the Board for approval. • reviewed and recommended the ILAAP to the Board for approval. • developed the portfolio of liquidity stress tests to ensure all aspects of liquidity risks remain appropriately addressed.
Legal and Regulatory risk Legal and Regulatory risk is the risk of fines, public censure, limitations on business or restitution costs arising from failing to understand, interpret, implement, and comply with legal and regulatory requirements.	Legal and Regulatory change is closely monitored and reported to the Executive Committee and Board. Horizon scanning for legal and regulatory change is well embedded to ensure timely changes are made to any announced changes of law or regulation.		The risk profile has remained stable during the year. During the year all relevant legal and regulatory changes have been successfully implemented. This includes the implementation of the new Operational Resilience requirements, effective from March 2022.

Risk and impact	Mitigation	Movement in risk profile	Progress
Market risk Market risk includes interest rate risk and basis risk. Interest rate risk is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Society's assets and liabilities. Basis risk is the risk that assets and liabilities reprice on a different basis as interest rates change.	Market risk is controlled by setting Board-approved limits for non-administered business (e.g. fixed rate mortgages) therefore ensuring the majority of assets and liabilities are on administered interest rates. To mitigate the risks associated with non-administered assets, hedging contracts are used in accordance with the Board-approved Treasury Policy. Market risk is regularly reviewed by the Assets & Liabilities Committee. A detailed analysis of the Society's interest rate position at 31 October 2022 can be found in note 27 on page 84.	^	The risk profile has increased during the year due to the volatility of rates within the market. The Committee has continued to monitor the Society's exposure to interest rate and basis risk to ensure it remained within risk appetite even in a period of significant fixed rate mortgage demand.
Operational risk Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error, or external events. Therefore, operational risks can potentially arise from all the Society's activities, across all business areas.	The Society has robust processes and controls in place for all operational areas, which are designed to mitigate this risk and the Society uses software to help manage the risk by providing a single source of data for risk events, actions, horizon scanning and controls testing. Whilst effective operational risk management will help to mitigate the likelihood and impact of operational risk, it is not possible to eradicate the risk. To ensure operational resilience, the Society protects against disruption resulting from operational risk events (such as cyber or data loss) by having controls in place to reduce risk exposures (prevention), having clear tolerances on what can be absorbed and having actions in place to respond beyond these points (response), and having clear plans and arrangements in place to respond to and recover from incidents and to learn and adapt from operational disruption (recovery). A range of metrics and risk limits are used to monitor the Society's ability to recover from an operational risk event in line with the defined risk tolerances for key business services. The Operational Resilience Framework, which includes the Operational Risk and Resilience Policy, the Business Continuity Plans and the Third-Party Arrangements Policy, is reviewed by the Executive Operations Committee. The Risk Committee receive management information relating to operational risk and resilience. The Audit Committee is responsible for assessing the effectiveness of the system of inspection and control.	< >	The risk profile has remained stable during the year. The Board is aware of the significant operational issues that have occurred in other businesses, particularly relating to cyber attacks. The security of systems continues to be a key focus, with ongoing developments to ensure that we continue to meet best practice requirements. In respect of systems security, over the past year the Society has continued to strengthen its defences. The following are examples of the actions taken: • deployed multi-factor authentication • implemented additional controls to minimise the risk of cyber attack via email • introduced a more secure VPN client • conducted regular phishing tests to raise employee awareness of the risk The Operational Resilience Framework development continued during the year and the Board confirmed it met the new regulatory requirements in March 2022.
Conduct risk Conduct risk is the risk of developing systems, behaviour and attitudes within the Society which do not deliver fair customer outcomes, or which create an environment which does not result in employees being open, honest, and doing the right thing. This can result in the risk of reputational loss, customer redress or regulatory fines.	The Society is committed to treating customers fairly and this is underpinned by the Society's Conduct Risk Framework, which is regularly reviewed. The Executive Committee monitors conduct risk at an operational level, with oversight provided by the Risk Committee. The implementation of the new Consumer Duty, due in 2023, is being overseen by the Board.	< >	The risk profile has remained stable during the year. Over the past year the Society has continued to support borrowers, including those affected by the cost of living with suitable forbearance options. The Board approved the Consumer Duty implementation plan. The Society invites customers to leave feedback via Smart Money People, and this is regularly reviewed and acted upon to ensure customers continue to receive high levels of service and good outcomes. In 2022 the Society's Institute of Customer Service accreditation was independently reviewed and the Society achieved distinction level.

RISK OUTLOOK

Last year's report noted the ongoing risk of Covid-19 on the country and the potential impact on a number of the Society's principal risks. These risks did not develop in any material way. Forthcoming senior management changes were also noted, but the mitigating actions put in place at the time have resulted in a smooth transition to the new Management team.

Heading into the new financial year the Society faces a number of new challenges. Timely identification and monitoring of these emerging risks enables the Society to take steps to mitigate against the emerging threat. The Society has identified a number of risks which may have a future impact on the Society. These include:

Macro-economic conditions including a recession, continued high levels of inflation and higher interest rates than have been experienced in recent times, leading to house price corrections and increased borrower difficulties in making repayments. The Society is protected from the more significant impacts of such conditions by its prudent lending policy, including affordability checks and stress testing, which has resulted in an average LTV of the mortgage book being below 28%. A key factor in repayment difficulty relates to employment being maintained. The latest OBR forecasts indicate that unemployment will peak at 4.9% during 2024, before returning to 4% during 2027. It is expected that the Society is likely to see an increased level of arrears and forbearance arrangements.

Business model development for changing customer requirements and to source the employees with the skills to undertake the necessary change. Financial service providers are continuing to develop their offering to customers including the increasing use of digital solutions and applications to assist financial management. The Society therefore continues to evolve its own offering to meet changing customer expectations, but a risk exists that the speed and focus of change isn't sufficient which could be compounded by the inability to recruit people with the necessary skills. The Society has in place a Digital Advisory Panel and a competency framework to mitigate these risks.

Climate change. The Society also recognises the risks and challenges posed by climate change. Whilst the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming more apparent now. The Society recognises two key risks - physical and transitional:

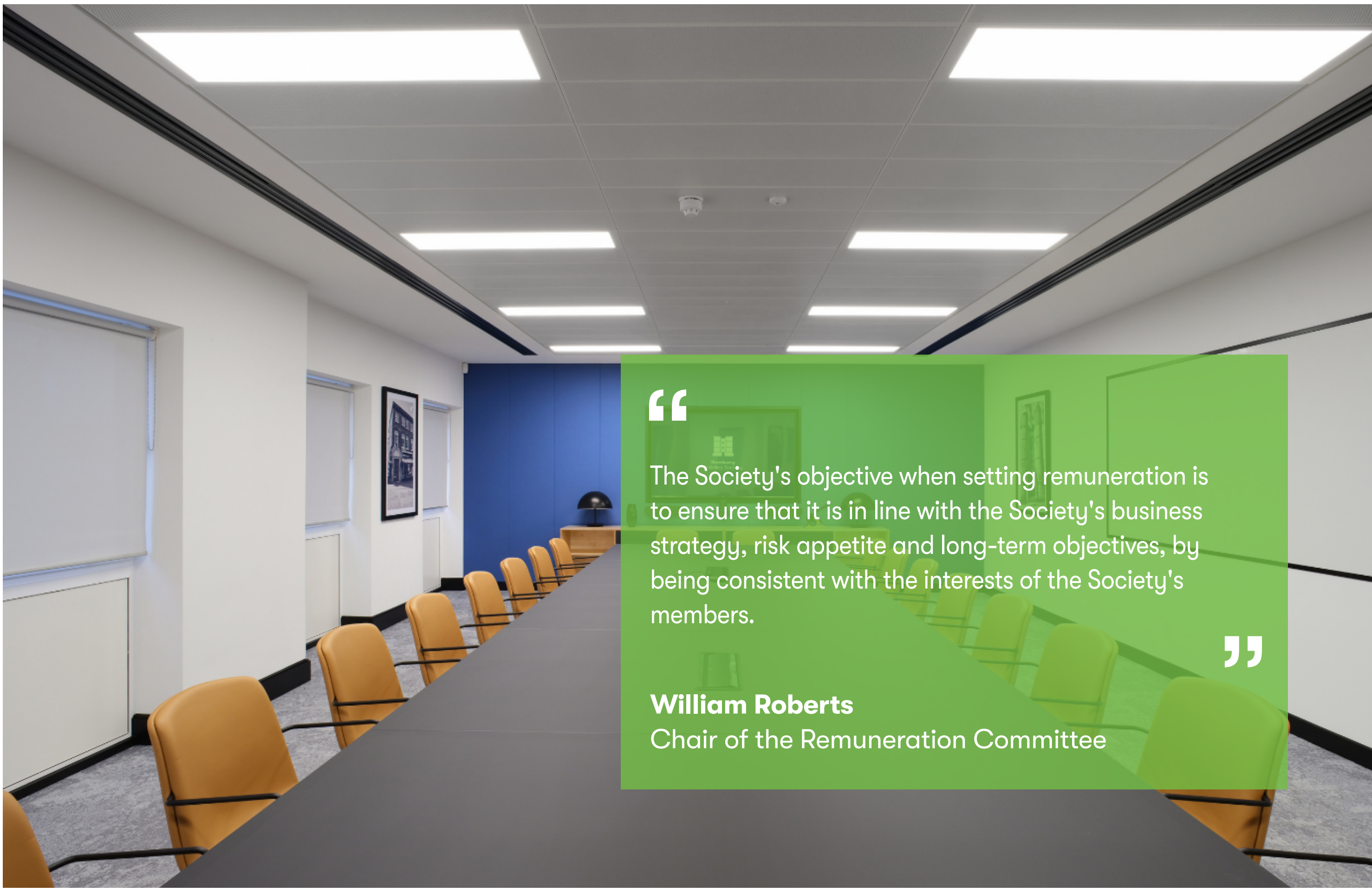
- Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. This year the Society commissioned an updated report to assess the risks to the mortgage portfolio from climate change. This did not highlight any concerning areas of risk within the portfolio, although it may lead to changes to lending policy and pricing strategy.
- Transitional risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of mortgaged properties.

The Society is increasingly mindful of these risks when making business decisions. The Finance Director has responsibility for monitoring climate change risk at an operational level, with oversight provided by the Risk Committee.

Further information on the Society's approach to climate change risk management can be found on pages 18 to 24.

Nailesh Rambhai, Chair of the Risk Committee
21 December 2022

DIRECTORS' REMUNERATION REPORT



This report explains how the Society applies the principles of the UK Corporate Governance Code April 2018 (the Code) relating to remuneration. It also explains how the Society's remuneration policy complies with relevant regulations including the Remuneration Part of the Prudential Regulation Authority's Rulebook and the Financial Conduct Authority's Remuneration Code for dual regulated firms (SYSC 19D). The Remuneration Committee has determined that, at 31 October 2022, all of the Non-Executive Directors and Executive Directors, as well as the other members of the Executive management team, were classified as Material Risk Takers (MRTs) and subject to the Remuneration Code. The Remuneration Committee does not consider that any employees who are not members of the Board or the Executive management team should be classified as MRTs.

THE LEVEL AND COMPONENTS OF REMUNERATION

Code Principle:

P. Remuneration policies and practices should be designed to support strategy and promote long term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

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

Executive Directors Emoluments

The remuneration of the individual Directors is detailed in note 8 on page 66. The remuneration reflects the Directors' specific responsibilities and comprises basic salary, annual performance related pay and various benefits detailed below.

Basic Salaries

Basic salaries are reviewed and benchmarked annually in line with comparable organisations across location, industry and job function.

Performance Related Pay Schemes

The Society operates two performance related pay schemes with objectives relating to a balance of financial performance, customer service and sustainable growth over a multi-year timeframe:

1. An annual scheme based on the Society's key performance measures of profitability, control of costs, risk management controls, growth in mortgages, and increases in member numbers. A maximum of 10% of salary (prior to any salary sacrifice) can be earned annually for achievement of these targets, which includes a maximum 3.5% of salary based on personal contribution.

2. A three-year medium term incentive plan based on business performance benchmarked against peer group societies and team and individual performance based on strategic development of the business. This pays a maximum of 15% of salary after three years (equivalent to 5% per annum) and includes a maximum 3% based on individual contribution.

It should be noted that the Remuneration Committee have made the decision to close the three-year scheme at the end of this financial year. A new medium term incentive plan will be in place for the Executives for the next two years that has a stronger link to the deliverables of our corporate plan. This is intended to pay a maximum of 20% over two years and removes the payment for individual contribution in favour of a collective team-based reward.

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

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

Benefits
The Society makes a contribution of up to 20.25% of salary (before salary sacrifice where applicable) to Executive Directors' private pension arrangements.

Executive Directors receive other benefits comprising private healthcare, death in service and income protection insurance. The Society does not provide concessionary home loans to Directors.

Executive Directors Contractual Terms
Phillippa Cardno, Lee Bambridge and Darren Garner each have a service contract with the Society, terminable by either party giving twelve months' notice.

The Society meets contractual obligations for loss of office and whilst the Remuneration Committee has discretion to provide better terms, this is disclosed to Members if used.

An Executive Director is permitted to take a role as a Non-Executive Director with another firm provided the firm is not a competitor and the associated time commitment can be accommodated. Any such arrangements must be agreed in advance by the Nomination Committee. There were no new arrangements of this nature entered into during the year.

Non-Executive Directors
The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations. Non-Executive Directors chose to forego the recommended increase in 2021 due to the uncertain trading conditions as a result of Covid-19. Their salaries were reviewed twice in 2022 to keep in line with competitors and the Society pay review cycles.

Remuneration comprises a basic fee with supplementary payments for the Chair of the Board and the other Non-Executive Directors classified as Senior Managers, for regulatory purposes, to reflect the additional responsibilities of these positions. Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any incentive schemes or receive any other benefits. Non-Executive Directors have letters of appointment and these are available for inspection prior to the AGM or at the Society's registered address.

Other Material Risk Takers
The Remuneration Committee is also responsible for determining the terms and conditions of other members of senior management, who are considered Material Risk Takers, in consultation with the Chief Executive. These are the Head of Customer Service, Head of Sales and Marketing, the Head of Risk and Company Secretary, the Head of People and the Head of IT and Business Change. These individuals are subject to the same variable pay performance targets and rewards as the Executive Directors and they also receive pension contributions from the Society of up to 15.25% of salary (prior to any salary sacrifice).

THE PROCEDURE FOR DETERMINING REMUNERATION

Code Principle:
Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration.

R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

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

The Remuneration Committee reviews and updates the Society's Remuneration Policy, principles and the PRA Policy Statement annually and maintains a list of the Society's Material Risk Takers detailing the composition of their respective remuneration. In setting remuneration, the Committee considers the remuneration levels and structure provide by building societies that are similar in size and complexity. Periodically, a report may be commissioned from external consultants to assist in this process. The Committee did not use the services of an external consultant during the reporting period. The Committee also ensures that variable remuneration does not undermine the objectivity of the risk and compliance functions.

Non-Executive Directors:
The fees payable to Non-Executive Directors are proposed by the Chief Executive, taking into consideration peer comparison and the views of the other Executive Directors. The proposed fees are then approved or otherwise by the Remuneration Committee with the Chair's fees being considered by the Committee in the absence of the Chair.

Executive Directors
The performance related pay schemes are designed to encourage the achievement of key business objectives relating to a balance of financial performance, customer service and sustainable growth over a multi-year timeframe. In setting variable remuneration targets the Committee considers the balance between the fixed and variable components of remuneration to ensure that the ratio is appropriately balanced and in line with the risk profile of the Society. The Committee believes that the performance related targets set for 2022 were suitably balanced and hence risk adjusted.

The Remuneration Committee assesses whether any performance related payments should be made taking into account reports, where applicable, from the Risk and Compliance functions.

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

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

William Roberts, Chair of the Remuneration Committee
21 December 2022

DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report together with the Annual Accounts and Business Statement of the Society for the year ended 31 October 2022. Certain information required to be included in a Directors' report can be found in the Strategic Report, which starts on page 4.

DIRECTORS

The following served as Directors of the Society during the year and to the date of this report.

Non-Executive directors	
Peter Brickley	Resigned as Chairman 23 February 2022
Piers Williamson	Chairman (from 23 February 2022)
Debbie Beaven	Appointed 1 February 2022
Chris Brown	
Nicola Bruce	Resigned 31 January 2022
Fiona Phillips	Resigned 30 June 2022
Nailesh Rambhai	Appointed 26 September 2022
William Roberts	
Alistair Welham	

Executive directors	
Roland Gardner	Resigned as Chief Executive 8 March 2022
Phillippa Cardno	Chief Executive (from 9 March 2022)
Lee Bambridge	Chief Risk Officer
Darren Garner	Finance Director

Biographies of the Directors appear on pages 31 and 32 and their attendance at meetings of the Board and Board Committees is set out in the Corporate Governance report on page 38.

None of the Directors had any beneficial interest in any connected undertaking of the Society as at the year end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986. There are no Directors' indemnities.

In accordance with the requirements of the new Corporate Governance code, to which the Society has due regard, all the Society's Directors are seeking re-election to the Board at the Annual General Meeting with the exception of Debbie Beaven and Nailesh Rambhai who are standing for election, having both been appointed to the Board since the last AGM.

OTHER MATTERS

CREDITOR PAYMENT POLICY

Please see page 24 of the strategic report.

CHARITABLE DONATIONS

During the year charitable donations of £187k were made to a number of organisations (2021: £63k). See also pages 14 and 15 of the Strategic report.

POLITICAL DONATIONS AND GIFTS

The Society has not made any political gifts or donations in the year to 31 October 2022 (2021: £nil).

STAKEHOLDER ENGAGEMENT

Contained within the strategic report on pages 12 to 24.

FINANCIAL RISK MANAGEMENT OBJECTIVES

Contained within the risk management report on pages 41 to 43.

PRINCIPAL RISKS AND UNCERTAINTIES

Contained within the strategic report.

EVENTS SINCE THE YEAR-END

The Directors do not consider that any event since the year-end has had a material effect on the financial position of the Society as disclosed in the Annual Accounts.

DISCLOSURE REQUIREMENTS UNDER CRD IV COUNTRY BY COUNTRY REPORTING

Please see Note 30 to the Accounts.

STATEMENT OF DISCLOSURE TO AUDITORS

The Directors who held office at the date of approval of this Directors' report confirm that:

- So far as they are each aware, there is no relevant audit information of which the Society's auditor is unaware; and
- Each Director has taken all the steps that should be taken by a director in order to be aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

AUDITOR

Deloitte LLP are eligible for re-appointment and have offered themselves for re-election. The Board is recommending that Deloitte LLP are re-appointed as external auditors of the Society for the financial year ending 31 October 2023. A resolution for their appointment will be proposed to the forthcoming Annual General Meeting of the Society.

GOING CONCERN

The Directors are required to consider whether the Society will continue as a going concern for a period of twelve months from the signing of the accounts. In making the assessment the Directors have reviewed the Society's corporate plan and considered risks that could impact on the Society's capital position, financial position and liquidity over that period.

The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions for a period in excess of 12 months from the date of approval of these financial statements. A range of sensitivities has also been applied to these forecasts, including stress scenarios relating to economic uncertainty caused by the direct or indirect consequences of high inflation and rising interest rates, focused on the Society's capital and liquidity position and operational resilience.

After considering all of this information, together with available market information and the Directors' knowledge and experience of the Society and markets in which it operates, after making the necessary enquiries the Directors are satisfied that the Society has adequate resources to continue in business for at least the twelve-month period from the signing of the accounts. Accordingly, the accounts continue to be prepared on a going concern basis.

PILLAR 3 DISCLOSURES

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

Piers Williamson, Chairman
21 December 2022

DIRECTORS' RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE ANNUAL BUSINESS STATEMENT, THE STRATEGIC REPORT, DIRECTORS' REPORT AND THE ANNUAL ACCOUNTS

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

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

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

In preparing the Society's annual accounts, the Directors are required to:

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

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

Directors' responsibilities for accounting records and internal controls.

The Directors are responsible for ensuring that the Society:

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEWBURY BUILDING SOCIETY

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. OPINION

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

- give a true and fair view of the state of the Society's affairs as at 31 October 2022 and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in members' interests;
- the cash flow statement; and
- the related notes 1 to 30.

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

2. BASIS FOR OPINION

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

We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Society for the year are disclosed in note 5 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Society.

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

3. SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition of interest receivable and similar income; and • Loan loss provisioning Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the financial statements was £1,007,000 which was determined on the basis of 1% of net assets.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We have increased our basis for materiality from 0.5% to 1% of net assets for FY22. The reason for the increase is due to a greater level of capital headroom at the Society, no significant changes to the internal control environment, the impacts of Covid-19 being less prevalent, while also aligning our basis more closely to those observed at peers.

4. CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the director's going concern assessment, which included consideration of the Society's operational resilience, in order to understand, evaluate and evidence the key judgements made by management;
- Evaluating the assumptions underpinning forecast projections;
- Assessing management's four-year business plan and all regulatory correspondence;
- Meeting with the Society's lead regulators at the Prudential Regulation Authority, and discussing their views on existing and emerging risks to the Society;
- Reviewing post year-end performance whilst assessing previous forecasting accuracy;
- Involvement of our in-house prudential regulation specialists, in evaluating the most recent ICAAP and ILAAP submissions and assessing management's capital and liquidity projections, including stress testing outputs; and
- Assessing the disclosures in the financial statements surrounding going concern and the principal risks and uncertainties that the Society is facing.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

5. KEY AUDIT MATTERS

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

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

5.1. Revenue recognition of interest receivable and similar income

Key audit matter description	The main revenue stream within the Society is interest receivable and similar income primarily derived from loans and advances to customers. The interest receivable and similar income recognised during the year was £34.5m (FY21: £25.2m). The directors apply the effective interest rate ('EIR') method to recognise interest income for loans and advances to customers. The EIR method requires the modelling of all cash flows, including directly attributable fees and costs, over the shorter of the behavioural and contractual life. The key assumption in the EIR models is the estimation of redemption rates used in the calculation of the behavioural lives of the mortgages and thus timing of the expected future cash flows over these lives. Given the complexity and judgement involved in accounting for EIR and given that revenue recognition is an area susceptible to fraud, there is an opportunity for management to manipulate the amount of interest receivable reported in the financial statements. Management's accounting policies are detailed in note 1.3 and 1.5 to the financial statements while the significant judgements involved in the revenue recognition process are outlined in note 1.15, with note 2 quantifying the interest receivable and similar income recognised during the year. The area of significant judgement is discussed by the Audit Committee as detailed in the Committee's report on page 40.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls that the Society has in place to manage the risk of inappropriate behavioural life assumptions being used within the EIR model. In conjunction with our IT specialists, we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the EIR balance. We challenged the appropriateness of the behavioural lives adopted by management by reference to historical customer redemptions, over which we performed accuracy and completeness testing over the underlying data on a sample basis. Additionally, we challenged any amendments made to the behavioural lives by management during the course of the year, based on recent customer redemption activity in light of the rising interest rate environment and wider economic uncertainty. We assessed the adequacy of management's disclosures regarding the increased risk of expected future cash flows being materially higher or lower than forecast, based on the level of market uncertainty being higher than normal. As part of our wider assessment of the key audit matter we independently recalculated a sample of EIRs and tested the adjustment posted to recognise revenue over the behavioural life on a sample of loans. We reviewed the treatment of fees and charges arising on loans and advances to customers and the appropriateness of their inclusion or exclusion in the Society's EIR models. We tested the inputs which are used to determine revenue by agreeing a sample of customer loans back to underlying source data.
Key observations	We concluded that the behavioural lives used within management's revenue recognition process were reasonable and the models to be working as intended. We determined the accounting for revenue to be materially appropriate and we made recommendations to management in relation to the methodology and the controls relevant to revenue recognition of interest receivable and similar income.

5.2. Loan loss provisioning

Key audit matter description	Under IAS 39, the directors are required to assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, management should recognise an impairment loss within the income statement immediately. The Society holds £1,111.0m (FY21: £1,067.8m) of loans and advances to customers on which a loan loss provision of £1.6m (FY21: £1.5m) has been provided for at year end. The provision comprises a collective provision for losses incurred but not observed and a specific provision for loans where there has been an observable impairment trigger. Key assumptions in determining the collective provision include the use of probability of default ("PD") assumptions, which are derived from third-party ratings agency data. Given the high level of directors' judgement required coupled with historically low levels of arrears, we identified a key audit matter in relation to the valuation of the collective provision and in particular the PD assumptions, including the possibility of management bias on the basis that amendments to these assumptions could give rise to a material misstatement due to fraud or error. Management's accounting policies are detailed in note 1.6 to the financial statements while the significant judgements involved in loan loss provisioning are outlined in note 1.15, with note 12 quantifying the loan loss provision at year end. The area of significant judgement is discussed by the Audit Committee as detailed in the Committee's report on page 40.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls that the Society has in place to manage the risk of inappropriate assumptions being used in the loan loss provisioning model. In conjunction with our IT specialists, we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the provision. We challenged the appropriateness of the key assumptions used within the collective provision, in particular the PD, by reference to the Society's historical loss rate data, third-party ratings agency data, and the wider macro-economic environment. We have also considered the relevance and reliability of the information used as evidence and derived from the third parties. Additionally and as part of our stand back assessment, we determined whether the provision held is commensurate with the loan book size and inherent risk in light of the current uncertain economic environment, particularly rising cost of living, cost of refinancing and affordability concerns. As part of our wider assessment of the key audit matter, we independently recalculated the loan loss provision for a sample of customer loans and compared the output to the amount provided by management. We also tested the accuracy and completeness of the inputs which were used to determine the loan loss provision back to underlying source data. We tested the completeness of the loan population identified by management as having incurred an impairment event by testing a sample of loans that were not in arrears for other indicators of financial distress. We also considered if any management adjustments were required to recognise impairment provisions held by the Society for impairment events that are not captured in its impairment model. We challenged the appropriateness of other assumptions used within the loan loss provision such as impairment triggers, expected future cash flows, time horizons to sale, expected costs to sell and house price indexation. Procedures performed included comparing to peers and performing independent recalculations. We also considered the appropriateness of the overall provision on the basis of the changing macro-economic environment.
Key observations	We concluded that management's view with regards to the loan loss provision and in particular the PD assumptions adopted was appropriate, with the provision being at the conservative end of an acceptable range. We determined the impairment events used by management in its impairment model to be appropriate and considered that this appropriately identifies customers for which a specific provision may be required. Overall, we found the loan loss provision model to be working as intended and consider the loan loss provision to be recorded in line with the requirements of IAS 39. We made recommendations to management in relation to the methodology and the controls relevant to loan loss provisioning.

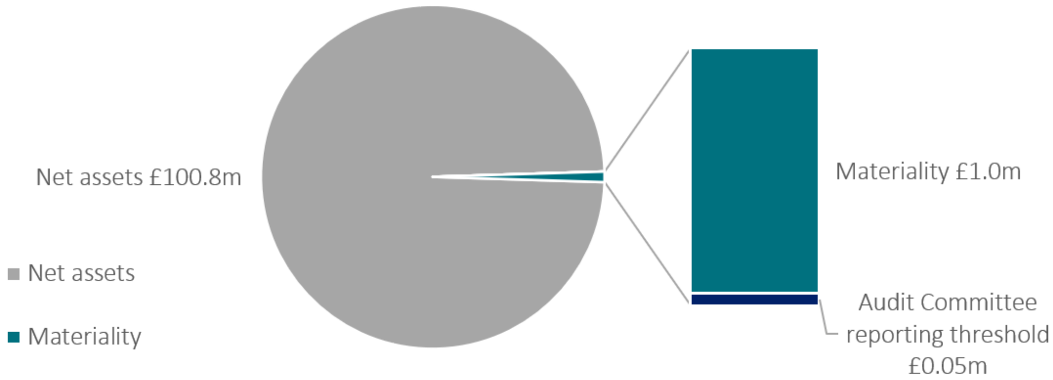
6. OUR APPLICATION OF MATERIALITY

6.1. Revenue recognition of interest receivable and similar income

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

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

	Society financial statements
Materiality	£1,007,000 (FY21: £452,000)
Basis for determining materiality	1% of net assets (FY21: 0.5% of net assets) We have increased our basis for materiality from 0.5% to 1% of net assets for FY22. The reason for the increase is due to a greater level of capital headroom at the Society, no significant changes to the internal control environment, the impacts of Covid-19 being less prevalent, while also aligning our basis more closely to those observed at peers.
Rationale for the benchmark applied	Net assets is a relevant benchmark to users of the financial statements and the Society's regulators and is a stable basis on which to determine materiality in the current economic environment.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2022 audit (FY21: 65%). In determining performance materiality, we considered that this continues to be appropriate in light of the level of uncorrected misstatements identified in the prior periods, as well as the strong control environment.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £50k (FY21: £23k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. Our consideration of the control environment

We identified key IT systems for the Society in respect of the financial reporting system and lending and deposits system. With the involvement of our IT specialists, we tested the general IT controls ('GITCs') associated with these systems and relied upon IT controls across the systems identified.

We planned to adopt a controls reliance approach in relation to the lending and deposits business cycles, with relevant automated and manual controls being tested across these cycles. Based on the completion of these procedures being satisfactory, we were able to adopt a controls reliance approach across the lending and deposits cycles when performing our substantive audit procedures.

We also obtained an understanding of relevant controls that relate to our identified significant audit risks. We have shared observations from our procedures with management and the Audit Committee.

7.2. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Society's business and its financial statements. The Society continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on pages 18 – 24.

As a part of our audit, we have obtained management's climate-related risk assessment which included consideration of the impact on impairment provisions and held discussions with the Society to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Society's financial statements.

We performed our own risk assessment of the potential impact of climate change on the Society's account balances and classes of transactions and did not identify any additional risks of material misstatement.

8. OTHER INFORMATION

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

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

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

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

We have nothing to report in this regard.

9. RESPONSIBILITIES OF DIRECTORS

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

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

10. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Society's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Society's documentation of their policies and procedures relating to:
- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
- the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, information technology, real estate and prudential regulation specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas of revenue recognition of interest receivable and similar income and loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Society operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included legislations imposed by the Building Societies Act 1986 and tax legislations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Society's ability to operate or to avoid a material penalty. These included legislations imposed by the Financial Conduct Authority ("FCA"), Prudential Regulation Authority ("PRA"), Anti-Money Laundering Regulations, the Consumer Credit Act 2006 and General Data Protection Regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition of interest receivable and similar income and loan loss provisioning as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

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

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

12. OPINIONS ON OTHER MATTERS PRESCRIBED BY THE BUILDING SOCIETIES ACT 1986

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

- the annual business statement and the directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

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

13. OPINION ON OTHER MATTER PRESCRIBED BY THE CAPITAL REQUIREMENTS (COUNTRY-BY-COUNTRY REPORTING) REGULATIONS 2013

In our opinion the information given in note 30 to the financial statements for the financial year ended 31 October 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

15. OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by Board of Directors on 26 February 2018 to audit the financial statements for the year ending 31 October 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 October 2018 to 31 October 2022.

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

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

16. USE OF OUR REPORT

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

Neil Reed FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
21 December 2022

INCOME STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2022

	Notes	2022 £000	2021 £000 (Restated)
Interest receivable and similar income	2	34,516	25,165
Interest payable and similar charges	3	(11,721)	(7,217)
Net interest income		22,795	17,948
Fees and commissions receivable		128	132
Fees and commissions payable		(170)	(113)
Other operating income		27	30
Total operating income		22,780	17,997
Net gain from derivatives	4	4,661	1,526
Total Net Income		27,441	19,523
Administrative expenses	5	(12,395)	(11,517)
Depreciation and amortisation	14/15	(511)	(811)
Loss on revaluation of investment properties		(30)	-
Operating profit before impairment and provisions		14,505	7,195
Impairment of loans and advances	13	(68)	440
Profit before tax		14,437	7,635
Taxation	6	(2,628)	(1,635)
Profit for the financial year	20	11,809	6,000

STATEMENT OF COMPREHENSIVE INCOME

Profit for the financial year		11,809	6,000
Property revaluation	14	195	-
Fair value movement on available for sale assets		(5)	-
Total comprehensive income for the financial year		11,999	6,000

The tax impact of the property revaluation in 2022 was to reduce the charge for taxation by £4k (2021: £nil).

No income has been reclassified to the income statement. The above results are all derived from continuing operations.

The notes on pages 59 to 85 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AT 31 OCTOBER 2022

	Notes	2022 £000	2021 £000
Assets			**(Restated)**
Liquid assets			
Cash in hand and balances with the Bank of England		304,052	314,317
Loans and advances to credit institutions	9	11,832	5,573
Debt securities	10	4,978	-
		320,862	319,890
Derivative financial instruments	11	24,183	3,639
Loans and advances to customers			
Loans fully secured on residential property	12	1,107,410	1,061,610
Other loans	12	5,017	5,650
Fair value adjustment for hedged risk	12	(18,216)	(2,833)
		1,094,211	1,064,427
Tangible fixed assets	14	8,296	9,606
Intangible fixed assets	15	31	48
Investment properties	16	1,384	-
Other assets	17	2,226	1,833
Prepayments and accrued income		2,213	1,709
Total Assets		1,453,406	1,401,152
Liabilities			
Shares	18/26	1,139,837	1,118,616
Amounts owed to credit institutions	26	150,276	155,010
Amounts owed to other customers	26	32,872	33,062
Derivative financial instruments	11	189	561
Other liabilities	19	24,489	2,152
Tax liabilities	19	2,067	967
Accruals and deferred income		2,250	1,412
Deferred tax	20	651	596
Total Liabilities		1,352,631	1,312,376
Reserves			
Revaluation reserve	21	786	1,029
Available for sale reserve		(5)	-
General reserves	21	99,994	87,747
Total Reserves	21	100,775	88,776
Total Reserves and Liabilities		1,453,406	1,401,152

The notes on pages 59 to 85 form part of these accounts.

These accounts were approved by the Board of Directors on 21 December 2022 and were signed on its behalf by:
Piers Williamson - Chairman
Phillippa Cardno - Chief Executive
Darren Garner - Finance Director

STATEMENT OF CHANGES IN MEMBERS' INTERESTS FOR THE YEAR ENDED 31 OCTOBER 2022

	Notes	General reserves £000	Available for sale reserve £000	Revaluation reserve £000	Total
Balance at 1 November 2021		87,747	-	1,029	88,776
Profit for the financial year		11,809	-	-	11,809
Other comprehensive income for the year		-	(5)	195	190
Transfers	21	438	-	(438)	-
Total comprehensive income	21	12,247	(5)	(243)	13,057
Balance at 31 October 2022		99,994	(5)	786	100,775
Balance at 1 November 2020		80,531	-	2,245	82,776
Profit for the financial year		6,000	-	-	6,000
Other comprehensive income for the year		-	-	-	-
Transfers	21	1,216	-	(1,216)	-
Total comprehensive income	21	7,216	-	(1,216)	6,000
Balance at 31 October 2021		87,747	-	1,029	88,776

CASH FLOW STATEMENT

	Notes	2022 £000	2021 £000
Cash flows from Operating Activities			**(Restated)**
Profit before tax		14,437	7,635
Depreciation and amortisation	14,15	511	811
Other non cash movements		4	-
Fair value movement on derivatives		(4,923)	-
Gain on disposal of property plant and equipment		(38)	(81)
Increase/(Decrease) in impairment of loans and advances	13	68	(444)
Total		10,059	7,921
Changes in Operating Assets and Liabilities			
Increase in prepayments, accrued income and other assets		(1,561)	(66)
Increase/(Decrease) in accruals, deferred income and other liabilities		23,130	(2,640)
Increase in loans and advances to credit institutions		(8,000)	-
Increase in loans and advances to customers	12	(45,235)	(48,003)
Increase in shares		21,223	106,082
(Decrease)/Increase in amounts owed to credit institutions		(5,000)	53,600
(Decrease)/Increase in amounts owed to other customers		(190)	3,452
Taxation paid		(1,545)	(854)
Net Cash (Used in)/Generated by Operating Activities		(17,178)	111,571
Cash flows from Investing Activities			
Purchase of debt securities		(4,953)	-
Purchase of property, plant and equipment	14	(245)	(1,365)
Purchase of intangible assets	15	(27)	(37)
Proceeds from disposal of fixed assets		288	2,240
Net Cash (Used in)/Generated by Investing Activities		(4,937)	838
Net (Decrease)/Increase in Cash and Cash Equivalents		(12,056)	120,330
Cash and cash equivalents at 1 November		319,890	199,560
Cash and Cash Equivalents at 31 October	22	307,834	319,890

NOTES TO THE ACCOUNTS

1. Accounting policies

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

1.1 Basis of Preparation

The Annual Accounts of the Society have been prepared:

- in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102). The Society has also chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement; and
- on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments classified at fair value through the profit or loss ("FVTPL") and property which is measured using the revaluation model and carried at fair value.

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

Going concern

The Society's financial position and business activities, together with the factors likely to affect its future development and performance are set out in the strategic report. The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions for a period in excess of 12 months from the date of approval of these financial statements. A range of sensitivities has also been applied to these forecasts, including stress scenarios relating to economic uncertainty caused by the direct or indirect consequences of high inflation and rising interest rates, focused on the Society's capital and liquidity position and operational resilience.

The resultant forecasts and projections showed that the Society will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. For this reason the financial statements continue to be prepared on the going concern basis. See also the Directors' Report on page 47.

1.2 Changes in accounting policies

(a) Relating to the interest rate benchmark reform

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments, which were also enacted into FRS102, modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks e.g. LIBOR are amended as a result of the on going interest rate benchmark reforms. The IASB has issued amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by the IBOR reform.

In August 2020 the ISAB issued Interest Rate Benchmark reform Phase Two. These amendments (effective for years beginning after 1 January 2021, but with early adoption permitted) address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). The amendments allow for modifications to be made to financial instruments to the extent that they are necessary to implement IBOR Reform and where the new basis for calculating cash flows is economically equivalent to the previous basis.

Phase 2 reliefs

Both IAS 39 and IFRS 9 require hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. Documentation in support of hedge accounting must be amended to reflect the changes and any changes in the fair value of the hedging instrument or the hedged risk are recognised immediately in the income statement. The Society previously adopted phase 2 for the year ended 31 October 2021 and has continued to do so for the year ended 31 October 2022.

The relief permitted the Society to amend its existing derivative contracts without the requirement to de-designate from their existing hedging relationship, which would otherwise have been required under IAS39, providing the amendments were made on an economic equivalent basis.

In July 2021 the Society transitioned all of its remaining LIBOR-linked interest rate swap contracts to SONIA-linked contracts on an economic equivalent basis and applied the IBOR Phase 2 reliefs to maintain all existing hedging relationships. At 31 October 2022 the Society has no LIBOR-linked exposures (2021: none).

(b) Intangible assets:

Following a decision by the International Financial Reporting Standards (IFRS) Interpretations Committee the Society has reviewed all contractual arrangements with software providers and software purchases from third party suppliers and changed its accounting policy for arrangements considered to meet the definition of Software as a Service (SaaS).

As a direct result of this change in accounting policy, in accordance with section 10.8 of FRS102, the Society has restated prior period financial information as described below.

Intangible assets

Under the previous accounting policy such costs incurred were included as intangible assets and amortised over a determined useful life. As a SaaS arrangement these costs are to be reported as a prepayment and expensed over the period or periods relating to the services provided. The Society has therefore restated a balance of £757k at 31 October 2021 from Intangible assets to Prepayments and Accrued Income (31 October 2020: £906k).

Depreciation and amortisation

Amortisation charges for intangible assets are included within depreciation and amortisation. Following the change in accounting policy described above the Society has restated £214k from Depreciation and amortisation to Administrative expenses.

Under the previous accounting policy an additional amount of £761k would have been capitalised during the year ended 31 October 2022 and there would have been total amortisation charges (including in relation to amounts previously shown as intangible assets) of £235k.

The change in accounting policy has been made as it is considered that the costs relate to SaaS arrangements where, following the clarification received from IFRS Interpretations Committee, the Society is not regarded as having acquired intangible assets.

1.3 Interest

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

Effective interest rates are recalculated when the Society changes its Standard Variable Rate (SVR).

1.4 Fair value changes on derivatives

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

1.5 Fees and commissions receivable and payable

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

1.6 Financial instruments

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

Recognition

The Society initially recognises loans and advances and deposits issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

a) Financial assets

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

i. At fair value through profit or loss

This category comprises financial assets designated by the Society at fair value through profit or loss upon initial recognition. Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. The Society uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational activities, mainly fixed rate mortgages. Recognition of any resultant gain or loss depends on the nature of the item being hedged. See 1.7 Hedge accounting.

ii. Available for sale assets

Available for sale assets are non-derivative assets that are intended to be held for an indefinite period of time. They may be sold in response to needs for changes in liquidity requirements or interest rates. The Society's debt securities are classified as available for sale assets. The Society measures debt securities at fair value, with subsequent changes in fair value being recognised through the Statement of Comprehensive Income, except for impairment losses which are recognised in the Income Statement.

Further information regarding how fair values are determined can be found in Note 24 to the accounts. Upon sale or maturity of the asset, the cumulative gains and losses recognised in other comprehensive income are removed from available for sale reserves and recycled to the Income Statement.

iii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

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

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

b) Financial liabilities

The Society classifies all its financial liabilities, other than derivatives, as measured at amortised cost.

Measurement

a) Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

b) Fair value measurement

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

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Debt Securities fall within level 1 and Derivatives within level 2.

Impairment of financial assets not measured at fair value

Impairment of mortgage loans and advances

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

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

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

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

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

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

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

Forbearance

The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The Society has various forbearance options to support customers who may find themselves in financial difficulty. During the financial periods ended 31 October 2020 and 2021 these options included the provision of support to borrowing members impacted by Covid-19, in accordance with FCA guidance. Details on the options offered by the Society can be found in Note 25 to the Accounts.

Derecognition of financial assets and liabilities

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

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

1.7 Hedge accounting

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

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

ii. Derivatives that do not qualify for hedge accounting – Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that do not qualify for hedge accounting are recognised immediately in the Income Statement.

1.8 Intangible assets

Computer software

Purchased software which is not an integral part of the related hardware is recorded as an intangible asset and stated at cost. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Society, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred.

Amortisation

Intangible assets are held at amortised cost, with amortisation charged to the Income Statement on a straight-line basis over the estimated useful life of between 3-5 years. The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date. Intangible assets are subject to regular impairment reviews in accordance with section 27 of FRS102.

1.9 Property, plant and equipment

Property, plant and equipment are initially stated at cost. All property is revalued to fair value, determined by market based evidence, at the date of the valuation less any subsequent accumulated depreciation and impairment losses. Full valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The Directors review the valuations to confirm that the valuations remain appropriate in the intervening years. A valuation exercise was performed in July 2022 by Quintons, an independent firm of Commercial property agents based in Newbury Berkshire. An assessment was also undertaken to consider whether these values could have materially changed at the balance sheet date in the light of the uncertain economic conditions. The review concluded there was no evidence to suggest that values had materially changed since the date the formal valuations were obtained.

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

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

Depreciation

Depreciation commences when the assets first become available for operational use and are depreciated using the straight line method (unless otherwise stated) to allocate their cost less their residual values over their estimated useful lives, as follows:

Building	50 years
Short leasehold properties	Straight line over the period of the lease or over 50 years, whichever is shorter
Equipment, fixtures and fittings and motor vehicles	Straight line 3 to 8 years
Office equipment	Straight line 3 to 8 years
Computer equipment	Straight line 3 to 8 years
Motor vehicles	Straight line 3 to 8 years
Building and mechanical equipment	Straight line 15 years

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The planned disposal of an asset before the previously expected date is an indicator of potential impairment.

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

1.10 Investment properties

Freehold land and buildings held for rental purposes or capital appreciation are classified as investment properties and held in the balance sheet at their open market valuation and not depreciated. Changes in the fair value are included in the Income Statement in the period in which they arise.

In the financial year ended 31 October 2022 the Society has reclassified a portion of its Head Office building in Newbury, Berkshire, as an Investment property as the Society no longer has plans to use the unoccupied portion in the medium term and expects to let the site on commercial terms. The Society has also reviewed its other freehold properties and separately identified the portion of the respective properties that are not occupied for the Society's own use. As a result of this review two further properties with a combined net book value of £267k have also been reclassified as Investment properties with effect from 1 November 2021. The change in presentation has been made to better reflect the commercial use of the properties, which are used to generate rental income rather than in furtherance of the Society's operations, now that the combined value of such properties represents a material portion of the overall value of freehold properties.

1.11 Cash and cash equivalents

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

1.12 Taxation

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

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

Deferred tax is stated without discounting and determined using tax rates (and laws) that have been substantively enacted by the year end date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

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

1.13 Provisions and contingent liabilities

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

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

1.14 Employee benefits

The Society operates a defined contribution pension plan funded by contributions from the Society and employees. Society contributions are recognised as an employee benefit expense in the Income Statement when they are due, in accordance with the rules of the scheme. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1.15 Critical Accounting Estimates and Judgements

In applying the Society's accounting policies, the Society makes estimates and applies judgements that can have a material effect on the reported amounts of assets and liabilities. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although the Society has internal controls in place to ensure reliable measurement actual results may differ from the estimates. In the course of preparing the financial statements, no judgements have been made in the process of applying the Society's accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised in the financial statements. As set out in the Climate Risk report on pages 18 to 24, climate change is a global challenge and an emerging risk to businesses, people and the environment. Therefore, in preparing the financial statements, the Society has considered the impact of climate-related risks on its financial position and performance. While the effects of climate change represent a source of uncertainty, the Society does not consider there to be a material impact on its judgements and estimates from the physical or transition risks in the short to medium term. The most significant use of accounting estimates relate to the matters described below.

Impairment Provision on Loans and Advances

The Society reviews its loans on a monthly basis to assess impairment. This requires the exercise of a significant degree of judgement. Provisions require judgement to be exercised in predicting future economic conditions such as house price movements and the length of time before impairments are identified (i.e. emergence period).

Accounting estimates relate to default rates. The accuracy of the provision is dependent on the assumptions regarding probability of default.

The Society determines loan probabilities of default informed by publicly available information obtained from a third party, Fitch Ratings. Applied to individual loans this takes into consideration specific factors such as borrower and loan attributes and property location. Management judgement is also applied in instances where it is considered that the derived assumptions do not adequately cover other risks known to exist at the balance sheet date. See below.

If the determined probability of default was doubled this would increase the impairment provision by £669k. A doubling of probabilities, whilst plausible, is considered to represent a severe outcome in response to an economic downturn and is consistent with the Society's stress testing.

House prices are included at actual valuation at time of mortgage origination, adjusted for movements in published house price indices. In determining any impairment these values management judgement is applied to consider how property values could be expected to move across the emergence period and then further adjusted by an amount to reflect the risk that such properties may not achieve full market price, together with appropriate sales costs. Given the higher degree of uncertainty around the economic outlook, it has been assumed that house prices could decline by 9.8% in the near term, compared with a decline of 1.4% assumed at 31 October 2021. This assumption increases the amount set aside for impairment by £784k. A further increase in the assumption to 15% would result in an additional provision requirement of £607k. A sensitivity of 5.2% is considered to represent a material increase and represents a price reduction greater than the last significant fall in 2009 when the house price index reduced by 14%.

The reduction in sales value applied to each property is informed by historic experience. Currently set at 36.5% for residential properties and 45% for commercial properties, a 3.5% increase in this assumption would result in an additional provision requirement of £536k. An increase of 3.5% takes the sales discount assumptions to 40% for residential properties and 48.5% for commercial properties which, whilst remaining within a range of discounts historically observed by the Society, is also considered to represent a material movement since it is additional to the discount already applied to house prices assuming an orderly possession and disposal, and in addition to declines expected between the balance sheet date and date of sale as described above.

The Society has also considered other factors when determining levels of impairment:

i. Buildings of over four storeys or more in height. The impairment assessment already makes an assumption for the combined forced sale discount and disposal costs however, to reflect the risk that a sale of these properties in the near term may require heavier discounting, due to the actual or perceived concerns over fire safety, an additional 25% forced sale discount was applied as a management judgement. A higher probability of default was also applied as a management judgement to reflect a greater risk of default arising from these borrowers potentially having to meet higher property servicing costs. This resulted in an increase in impairment provisions of £257k (2021: £226k).

ii. High inflation and macro-economic developments. The level of impairment provision was determined considering the economic outlook as at 31 October 2022, which was subject to a high degree of uncertainty due to inflationary pressures for households, rising interest rates, and concerns over increasing unemployment and a prolonged recession. These factors were judged to result in an increased likelihood of borrower default within the loss emergence period, the risk for which may not be fully captured in modelled assumptions, and resulted in a management overlay adjustment to increase impairment provisions by £367k (2021: £nil).

iii. Covid-19. The Covid-19 situation was a key factor in the determination of impairment losses at 31 October 2021, requiring consideration of the consequential economic risks that could materialise. In line with FCA guidance the Society put in place a series of forbearance measures to support any of its borrowing members impacted by Covid-19 and applied these forbearance measures throughout the financial years ended 31 October 2020 and 2021. The assessment of impairment in each of these financial years considered the ongoing impact of Covid-19 and resulted in a management overlay of £415k being made in the year ended 31 October 2021, with an increase in the probability of default in remaining Covid-19 forbearance cases being the key determinant of the management overlay impairment charge. As at 31 October 2022 there were 26 cases subject to the Society's forbearance measures (2021: 34 cases) with no cases considered to relate to Covid-19 (2021: nil). Accordingly, no overlay impairment charge has been made. Further information on forbearance can be found in Note 25.

iv. The level of impairment provision at 31 October 2021 also included the increased risks associated with loans made at higher loan-to-income multiples and resulted in a management overlay of £151k being applied. No overlay impairment charge has been made as at 31 October 2022 as this particular lending attribute is now considered to be adequately captured in the detailed individual loan default probabilities used to determine overall amounts of impairment.

Effective Interest Rate (EIR)

Under IAS 39, financial instruments carried at amortised cost are accounted for using the EIR method. The calculation of an effective interest rate requires judgements regarding the expected (behavioural) life of the underlying mortgage asset and affects the carrying value of loans and receivables. The Society assesses which mortgage products have similar characteristics to then be grouped to calculate their respective average behavioural lives. Average lives are then estimated based on behavioural repayment data. In determining the expected lives of mortgage assets the Society uses both historical and forecast redemption data as well as management judgement. These assumptions are regularly reviewed and reassessed for reasonableness and against actual performance.

Average lives can increase or decrease depending on economic and interest rate conditions. If the average lives of the mortgages were to increase by one month, the carrying value of mortgages would change by £1,219k (2021: £724k) with a corresponding change to income. Average lives are recalculated at least annually and usually vary between 0-2 months. In making judgements around EIR consideration was also given to how rising interest rates and a cost of living crisis could impact behavioural lives. This included consideration of the propensity for loans to redeem early i.e. before the end of a fixed rate or discount period, as well as any changes to behaviours where a loan reverts to the Society's standard variable rate. The review concluded that, whilst there are multiple factors that could result in the actual behaviour of mortgage lives being different to those used at 31 October 2022, these factors comprised both upside and downside risks that in aggregate would not cause behavioural lives to materially differ. Based on the level of market uncertainty being higher than normal the Society acknowledges that there is an increased risk of expected future cash flows being materially higher or lower than forecasted.

	2022 £000	2021 £000
2. Interest Receivable and Similar Income		
At amortised cost:		
On loans fully secured on residential property	30,737	26,786
On other loans	142	144
On liquid assets	3,116	236
	33,995	27,166
At fair value through profit and loss:		
Net income/(expense) on financial instruments	492	(2,001)
At fair value through other comprehensive income:		
On debt securities	29	-
	34,516	25,165
3. Interest Payable and Similar Charges		
At amortised cost:		
On shares held by individuals	9,774	6,875
On other shares	43	31
On amounts owed to other customers and credit institutions	1,904	311
	11,721	7,217
4. Net Gain from Derivatives		
Derivatives in designated fair value hedge relationships	18,481	6,744
Adjustments to hedged items in fair value hedge accounting relationships	(15,383)	(5,820)
Gain on derivatives not in designated fair value hedge accounting relationships	1,563	602
	4,661	1,526

The net gain from derivative financial instruments of £4,661k (2021: net gain of £1,526k) represents the net fair value movement on derivative instruments that are matching risk exposures on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges or because hedge accounting is not achievable on certain items.

5. Administrative Expenses		**(Restated)**
• Wages and salaries	5,832	5,332
• Social security costs	652	568
• Other pension costs	796	785
	7,280	6,685
Gain on disposal of fixed assets	(38)	(81)
Gain on property valuation	(26)	-
Other administrative expenses	5,179	4,913
	12,395	11,517
• Remuneration of auditor and its associates (excluding VAT)		
- audit of annual accounts	176	132
- non audit services	25	9
• Operating lease costs	148	153

Non-audit services for the year ended 31 October 2022 comprise entirely of amounts paid to Deloitte LLP to provide a TFSME Assurance Review (2021: Mandatory review connected with the Society's participation in the Bank of England's Sterling Monetary Framework).

Details of restatement of prior period amounts are set out in section 1.2. of Note 1 to the accounts.

6. Taxation

	2022 £000	2021 £000
The taxation charge for the year comprises:		
UK corporation tax on profits in the year	2,662	1,341
Adjustment in respect of previous year	(89)	(14)
Total current tax	2,573	1,327
Deferred taxation:		
Origination and reversal of timing differences	66	151
Adjustment in respect of previous year	(11)	14
Effect of change of tax rate	-	143
Total deferred tax	55	308
Tax on profit on ordinary activities	2,628	1,635
Factors affecting the tax charge for the year are:		
Profit on ordinary activities before tax	14,437	7,635
Profit on ordinary activities multiplied by 19% (2021: 19%)	2,743	1,451
Effects of:		
Difference between opening and closing tax rates	5	143
Adjustment in respect of previous year	(100)	-
Depreciation on non-qualifying assets	(34)	(37)
Disallowable expenses	14	78
Total tax	2,628	1,635

Current tax has been provided at the rate of 19%. The Finance Act 2022, which was enacted in February 2022, will increase the rate of tax from 19% to 25% from 1 April 2023. For the year ended 31 October 2022 deferred tax was provided at the enacted tax rate expected to apply when the related asset or liability is realised or settled.

7. Employees

	Full time 2022	Part time 2022	Full time 2021	Part time 2021
The average number of people employed during the year (including Executive Directors) was as follows:				
Head Office	78	25	73	22
Branches	47	27	45	26
	125	52	118	48

Financial Statements

8. Directors' Remuneration and Transactions

The emoluments for both Executive and Non-Executive Directors totalled £1,007,000 for the year (2021: £1,051,000).

Executive Directors' Emoluments

2022	Salary £000	Performance Related Pay £000		Taxable Benefits £000	Pension Contribution [1] £000	TOTAL £000
		Short Term	Medium Term [3]			
Roland Gardner (resigned 8/3/22)	100	-	19	2	-	121
Phillippa Cardno	183	16	19	4	39	261
Lee Bambridge	161	12	13	5	-	191
Darren Garner	163	15	16	1	34	229
TOTAL	607	43	67	12	73	802
2021						
Roland Gardner	243	21	-	5	-	269
Phillippa Cardno	151	17	-	4	32	204
Lee Bambridge	148	12	-	5	-	165
Darren Garner	146	15	-	1	31	193
TOTAL	688	65	-	15	63	831

Notes

1. The Executive Directors have the option to sacrifice part of their salary in exchange for the Society making additional pension contributions on their behalf. During the year Phillippa Cardno and Darren Garner took advantage of this option. Roland Gardner and Lee Bambridge, with agreement from the Society, took their pension contributions as salary.
2. Lee Bambridge also received £14,250 (resigned 31/07/2022) (2021: £18,300) from Sovereign Housing Association for his services as a Non-Executive Director.
3. Pro-rata amounts awarded following the early closure of the medium term incentive scheme. See Directors' remuneration report on pages 45 and 46 for further details.

Further details on the components of Directors' emoluments can be found in the Directors' Remuneration Report on pages 45 and 46.

Non-Executive Directors' Emoluments (comprising fees only)

	2022 £000	2021 £000
Peter Brickley (Chairman) (retired 23/2/22)	14	45
Piers Williamson (Chairman)	44	31
Debbie Beaven (appointed 1/2/22)	22	-
Chris Brown	29	28
Nicola Bruce (appointed 1/11/21) (retired 31/1/22)	7	-
Sarah Hordern (resigned 31/10/21)	-	31
Fiona Phillips (appointed 1/11/21) (retired 30/6/22)	21	-
Nailesh Rambhai (appointed 26/9/22)	4	-
William Roberts	35	31
Zoe Shaw (resigned 5/10/21)	-	26
Alistair Welham	29	28
TOTAL	205	220

Loans to Directors and connected persons:

The aggregate outstanding balance at the end of the financial year in respect of loans from the Society to Directors and connected persons was £nil (2021: £nil) representing loans to none (2021: none) person. The terms and conditions are in line with standard mortgage lending and the loan is secured on residential property with the nature of any final settlement being on a cash basis. There are no guarantees given or received. A register of loans to and transactions with Directors and connected persons is maintained. It is available for inspection by members at the Society's Head Office for the period of fifteen days prior to the Annual General Meeting and at the Annual General Meeting.

9. Loans and Advances to Credit Institutions

	2022 £000	2021 £000
Accrued interest	50	-
Repayable on demand	3,782	5,573
Other loans and advances by residual maturity repayable:		
In no more than three months	4,000	-
In more than three months	4,000	-
	11,832	5,573

10. Debt securities

	2022 £000	2021 £000
Accured interest	29	-
Treasury bills	4,949	-
	4,978	-

Movements during the year of debt securities	2022 £000	2021 £000
At 1 November 2022	-	-
Additions	4,983	-
Net movements in fair value recognised in the statement of comprehensive income	(5)	-
At 31 October 2022	4,978	-

11. Derivative Financial Instruments

	Contract/notional amount £000	Fair values Assets £000	Fair values Liabilities £000
At 31 October 2022			
a) Unmatched derivatives - Interest rate swaps	47,964	2,231	(189)
b) Derivatives designated as fair value hedges - Interest rate swaps	375,050	21,952	-
Total recognised derivative assets/(liabilities)	423,014	24,183	(189)
At 31 October 2021			
a) Unmatched derivatives - Interest rate swaps	33,929	544	(24)
b) Derivatives designated as fair value hedges - Interest rate swaps	305,595	3,095	(537)
Total recognised derivative assets/(liabilities)	339,524	3,639	(561)

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

12. Loans and Advances to Customers	2022 £000	2021 £000
Loans fully secured on residential property before adjustments	1,106,022	1,062,157
Other loans: fully secured on land before adjustments	5,017	5,650
Total loans before adjustments	1,111,039	1,067,807
Effective interest rate adjustment	2,989	986
Provision for impairment losses on loans and advances	(1,601)	(1,533)
Per note 25	1,112,427	1,067,260
Fair value adjustment for hedged risk	(18,216)	(2,833)
	1,094,211	1,064,427

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

Repayable:		
In not more than three months	49	2,875
In more than three months but not more than one year	5,487	4,643
In more than one year but not more than five years	64,594	75,704
In more than five years	1,025,682	982,738
	1,095,812	1,065,950
Less allowance for impairment (refer to note 13)	(1,601)	(1,533)
	1,094,211	1,064,427

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

At 31 October 2022 the Society had pledged £232.2m of mortgage assets to the Bank of England (2021: £274.4m) to cover the £150m (2021: £155m) of TFSME funding drawn plus available headroom to draw additional funding from Sterling Monetary Framework facilities where required.

	Loans fully secured on residential property		
	Collective £000	**Individual £000**	**Total £000**
13. Allowances for losses on loans and advances			
At 1 November 2021	1,499	34	1,533
Charge for the year	(16)	84	68
Utilised in the year	-	-	-
At 31 October 2022	1,483	118	1,601

14. Tangible Fixed Assets

	Land and Buildings £000	Equipment, fixtures, fittings & vehicles £000	Total £000
Cost / valuation (1)			
At 1 November 2021	6,635	4,762	11,397
Additions	488	138	626
Revaluation	138	-	138
Reclassification to investment properties (3)	(1,414)	-	(1,414)
Disposals (2)	(555)	(281)	(836)
At 31 October 2022	5,292	4,619	9,911
Depreciation			
At 1 November 2021	515	1,276	1,791
Charge for the year	13	480	493
Revaluation	(82)	-	(82)
Elimination in respect of Disposal	(325)	(262)	(587)
At 31 October 2022	121	1,494	1,615
Net book value			
At 31 October 2021	6,120	3,486	9,606
At 31 October 2022	5,171	3,125	8,296

Notes

1. Land and buildings consist of £3m of freehold property, £2m non-depreciable land and £0.3m of leasehold property. The net book value occupied for own activities at 31 October was £5.2m (2021: £5.1m). If the freehold properties had been held under the historical cost basis their net book value as at 31 October 2022 would have been £3.7m (2021: £4.1m). The Society's freehold properties were last revalued on 26 July 2022 on a market value and vacant possession basis by Quintons, Chartered Surveyors, who are considered to be independent of the Society. Other tangible fixed assets are included at cost.
2. Disposals comprise almost entirely of the disposal of the upper floors of the Society's freehold branch premises in Thatcham, Berkshire.
3. Reclassification to investment properties comprise freehold properties not held for use by the Society. See section 1.10 of Note 1 for further details.

15. Intangible Assets	Software £000
Cost / valuation	
At 1 November 2021 (Restated)	440
Additions	28
Disposal	(105)
At 31 October 2022	363
Amortisation	
At 1 November 2021 (Restated)	392
Charge for the year	18
Disposal	(78)
At 31 October 2022	332
Net book value	
At 31 October 2021 (Restated)	48
At 31 October 2022	31

Intangible assets are included at cost.

Details of restatement of prior period amounts are set out in section 1.2 (b) of Note 1 to the accounts.

16. Investment Properties	2022 £000	2021 £000
At November 2021	-	-
Transfer from tangible fixed assets	1,414	-
Revaluations	(30)	-
At 31 October 2022	1,384	-

Valuations of all investment properties were carried out in July 2022 on an open market value and vacant basis by Quintons, Chartered Surveyors, who are considered to be independent of the Society.

17. Other Assets	2022 £000	2021 £000
Cash collateral pledged against hedging contracts	-	-
Bank of England cash ratio deposit	2,226	1,833
	2,226	1,833

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

18. Shares	2022 £000	2021 £000
Held by individuals	1,139,706	1,118,432
Other shares	131	184
	1,139,837	1,118,616

19. Other Liabilities	2022 £000	2021 £000
Amounts falling due within one year:		
Corporation tax	1,824	794
Social security	244	173
Cash collateral received against hedging contracts	24,198	2,100
Other creditors	290	52
	26,556	3,119

	2022 £000	2021 £000
20. Deferred Tax		
At 1 November	596	288
Deferred tax charge (see note 6)	55	308
At 31 October	651	596
Comprising:		
Accelerated capital allowances	595	498
FRS102 transition adjustment	93	123
Head office project costs	(11)	(4)
Branch refurbishment provisions	(26)	(21)
At 31 October	651	596

All deferred tax balances have been recognised at 25% being the rate enacted at the balance sheet date at which the balances are materially expected to reverse.

	£000
21. Reserves	
General reserves	
At 1 November 2021	87,747
Profit for the financial year	11,809
Transfer from revaluation reserve	438
At 31 October 2022	99,994
Revaluation reserve	
As at 1 November 2021	1,029
Transfer to general reserve	(438)
Property revaluation	195
As at 31 October 2022	786

Transfers between reserves reflect the movement of amounts held in the revaluation reserve in respect of the Society's freehold properties that have been reclassified from Tangible fixed assets to Investment properties, as set out in section 1.10 of Note 1 to the accounts.

Available for sale reserve	2022 £000	2021 £000
As of 1 November 2021	-	-
Net losses from changes in fair value	(5)	-
As at 31 October 2022	(5)	-

22. Cash and Cash Equivalents	2022 £000	2021 £000
Cash in hand and balances with the Bank of England repayable on demand	304,052	314,317
Loans and advances to credit institutions	3,782	5,573
As at 31 October 2022	307,834	319,890

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

	2022 £000	2021 £000
23. Capital and Other Financial Commitments		
a. Capital commitments		
Capital expenditure contracted but not yet provided for in the accounts	171	58
b. Leasing commitments		
Total rental commitments on leases with a remaining term of	163	163
• Not later than one year	48	-
• Later than one year but not later than five years	74	122
• Later than five years	41	41

All above capital commitments relate to tangible fixed assets.

24. Financial Instruments

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

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

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

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

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

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

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

Carrying values by category 31 October 2022	**Held at amortised cost**		**Held at fair value**			
	Loans and receivables £000	Financial assets and liabilities £000	Available for sale £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Total £000
Financial assets						
Cash in hand and balances with the Bank of England	304,052	-	-	-	-	304,052
Loans and advances to credit institutions	11,832	-	-	-	-	11,832
Debt securities	-	-	4,978	-	-	4,978
Derivative financial instruments	-	-	-	21,952	2,231	24,183
Loans and advances to customers	1,094,211	-	-	-	-	1,094,211
Total assets	1,410,096	-	4,978	21,952	2,231	1,439,256
Financial liabilities						
Shares	-	1,139,837	-	-	-	1,139,837
Amounts owed to credit institutions	-	150,276	-	-	-	150,276
Amounts owed to other customers	-	32,872	-	-	-	32,872
Derivative financial instruments	-	-	-	-	189	189
Total liabilities	-	1,322,985	-	-	189	1,323,174

The amounts owed to credit institutions comprise borrowings from the Bank of England under the Term Funding Scheme with additional incentives for SMEs.

Carrying values by category 31 October 2021	**Held at amortised cost**		**Held at fair value**			
	Loans and receivables £000	Financial assets and liabilities £000	Available for sale £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Total £000
Financial assets						
Cash in hand and balances with the Bank of England	314,317	-	-	-	-	314,317
Loans and advances to credit institutions	5,573	-	-	-	-	5,573
Debt securities	-	-	-	-	-	-
Derivative financial instruments	-	-	-	544	3,095	3,639
Loans and advances to customers	1,064,427	-	-	-	-	1,064,427
Total assets	1,384,317	-	-	544	3,095	1,387,956
Financial liabilities						
Shares	-	1,118,616	-	-	-	1,118,616
Amounts owed to credit institutions	-	155,010	-	-	-	155,010
Amounts owed to other customers	-	33,062	-	-	-	33,062
Derivative financial instruments	-	-	-	537	24	561
Total liabilities	-	1,306,688	-	537	24	1,307,249

There have been no reclassifications during either year.

Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into levels 1 to 3 of the fair value hierarchy as defined within IAS 39 and FRS102.34:

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value.

Level 1 – The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Society's Level 1 assets comprise entirely of the Society's portfolio of debt securities in the form of Treasury bills issued by HM Government. Market prices have been used to determine the fair value of listed debt securities.

Level 2 – These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists, and quoted prices are available for similar instruments in active markets. The Society's Level 2 assets comprise entirely of the Society's portfolio of derivative financial instruments held for risk management purposes the fair value for which has been determined using generally observable SONIA yield curves derived from quoted interest rates which match the timings of the cash flows and maturities of the instruments.

Level 3 – These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. The Society has no assets or liabilities that qualify as Level 3.

25. Credit Risk

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

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

	2022 £000	2021 £000
Credit risk exposure		
Cash in hand and balances with the Bank of England	304,052	314,317
Loans and advances to credit institutions	11,832	5,573
Debt securities	4,978	-
Derivative financial instruments	24,183	3,639
Loans and advances to customers	1,112,427	1,067,260
Total statement of financial position exposure	1,457,472	1,390,789
Off balance sheet exposure - mortgage offers and retentions	61,056	42,032
Total	1,518,528	1,432,821

Loans and advances to customers are shown as gross of effective interest rate adjustment and net of provisions (see Note 12).

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property £1,106.0m (2021: £1,062.1m), split between residential, buy-to-let and commercial owner occupier loans, and £5.0m (2021: £5.7m) being secured on commercial property.

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

Residential Assets

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

	2022 £000	2021 £000
Concentration by loan type		
Prime owner occupied	962,004	913,791
Buy-to-let and commercial owner occupied	144,018	148,366
Gross balance	1,106,022	1,062,157
Impairment provisions	(1,601)	(1,533)
Fair value adjustments	(18,216)	(2,833)
	1,086,205	1,057,791

	2022 £m	2022 %	2021 £m	2021 %
Geographical analysis				
East Anglia	31.8	2.9	25.1	2.4
East Midlands	23.7	2.1	21.3	2.0
Greater London	157.3	14.2	150.5	14.2
North	5.4	0.5	3.9	0.4
North West	27.9	2.5	20.6	1.9
South East	632.5	57.2	627.4	59.1
South West	165.9	15.0	163.1	15.3
Wales	13.3	1.2	9.8	0.9
West Midlands	31.5	2.9	27.2	2.6
Yorkshire & Humberside	16.7	1.5	13.2	1.2
Total	1,106.0	100	1,062.1	100

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

	2022 £m	2022 %	2021 £m	2021 %
LTV analysis				
0% - 50%	865.7	78.3	778.0	73.3
50.01% - 75%	231.6	20.9	264.7	24.9
75.01% - 80%	3.9	0.4	9.5	0.9
80.01% - 85%	3.2	0.3	6.9	0.6
85.01% - 90%	1.3	0.1	2.8	0.3
90.01% - 95%	0.3	0.0	0.2	0.0
	1,106.0	100	1,062.1	100
Average loan to value of residential mortgage loans		27.5		29.8

The average LTV of 27.5% (2021: 29.8%) is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of the collateral held adjusted by an average of the quarterly movements in the Nationwide and HM Land Registry price indices.

The quality of the Society's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.35% (2021: 0.42%) of loans are three months or more in arrears and by value it is 0.22% (2021: 0.29%).

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

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

Arrears analysis	**2022 £m**	**2022 %**	2021 £m	2021 %
Not impaired:				
Neither past due or impaired	1,092.7	98.8	1,052.6	99.1
Past due under 3 months but not impaired	7.3	0.6	6.2	0.6
Past due 3 months and over but not impaired	2.2	0.2	3.0	0.3
Possessions	-	-	-	-
Impaired:				
Not past due	1.8	0.2	0.1	-
Past due under 3 months	1.8	0.2	0.1	-
Past due 3 to 5 months	-	-	0.1	-
Past due 6 to 12 months	-	-	-	-
Possessions	0.2	0.0	-	-
Total	1,106.0	100	1,062.1	100

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

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

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

	Indexed 2022 £m	**Unindexed 2022 £m**	Indexed 2021 £m	Unindexed 2021 £m
Value of collateral held:				
Neither past due or impaired	3,970.7	3,085.5	3,528.3	2,893.5
Past due but not impaired	42.8	28.1	33.4	24.0
Impaired	6.5	5.4	0.5	0.5
Total	4,020.0	3,119.0	3,562.2	2,918.0

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

The value of collateral held against loans 'Past due but not impaired' at 31 October 2022 is £42.8m (2021: £33.4m) against outstanding debt of £9.5m (2021: £9.2m). In addition, the value of collateral held against 'Impaired' assets at 31 October 2022 is £6.5m (2021: £0.5m) against outstanding debt of £3.8m (2021: £0.4m).

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

Commercial Assets

Concentration by loan type	2022 £m	2021 £m
Loans secured on commercial property	5.0	5.7
	5.0	5.7

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

	2022 £m	2022 %	2021 £m	2021 %
Club/social	0.1	2.3	0.1	2.3
Education	0.2	3.0	0.2	2.7
Industrial unit	0.9	19.1	1.1	20.1
Office	1.0	19.5	1.3	23.1
Shops	2.7	54.3	2.9	50.2
Other	0.1	1.8	0.1	1.6
	5.0	100	5.7	100

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

Geographical analysis	2022 £m	2022 %	2021 £m	2021 %
South East	4.9	98.1	5.6	98.2
South West	0.1	1.9	0.1	1.8
Total	5.0	100	5.7	100

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

LTV analysis	2022 £m	2022 %	2021 £m	2021 %
0% - 50%	1.9	38.4	2.6	46.5
50.01% - 75%	2.3	46.2	2.3	39.9
75.01% - 80%	0.8	15.4	0.8	13.6
	5.0	100	5.7	100
Average loan to value of commercial mortgage loans		30.1		32.2

The quality of the Society's commercial mortgage book is reflected in the number and value of accounts in arrears. By volume 0% (2021: 0%) of loans are three months or more in arrears and by value it is 0% (2021: 0%).

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

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

Arrears analysis	**2022 £m**	**2022 %**	**2021 £m**	**2021 %**
Not impaired:				
Neither past due or impaired	5.0	100.0	5.2	91.2
Past due up to 3 months but not impaired	-	-	0.5	8.8
Past due over 3 months but not impaired	-	-	-	-
Possessions	-	-	-	-
Impaired:				
Not past due	-	-	-	-
Past due up to 3 months	-	-	-	-
Past due 3 to 6 months	-	-	-	-
Past due 6 to 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Possessions	-	-	-	-
	5.0	100.0	5.7	100.0

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

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

	Unindexed 2022 £m	**Unindexed 2021 £m**
Value of collateral held:		
Neither past due or impaired	16.7	16.6
Past due but not impaired	-	1.0
Impaired	-	-
Total	16.7	17.6

The collateral consists of commercial property.

The value of collateral held against loans 'Past due but not impaired' at 31 October is £0m (2021: £1.0m) against outstanding debt of £0m (2021: £0.5m). In addition, the value of collateral held against loans 'impaired' at 31 October 2022 is £nil (2021: £nil) against outstanding debt of £nil (2021: £nil).

Forbearance

The Society has various forbearance options to support customers who may find themselves in financial difficulty:

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

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

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

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

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

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

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

Type of forbearance	2022 Number	2021 Number
Interest only concessions	9	20
Payment plans	18	10
Term extensions	-	2
Reduced payment concessions	-	2
Cases with more than one form of forbearance	(1)	-
Total	26	34

In total £2.3m (2021: £2.0m) of loans that are past due are subject to forbearance. Balance not past due subject to forbearance £0.4m (2021: £2.9m). An additional £0.9m (2021: £3.7m) of loans that are past due are considered likely subject to future forbearance. Balance not past due £15.3m (2021: £40.8m).

26. Liquidity Risk

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

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

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

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

The Society's liquid resources comprise high quality liquid assets, including deposits in a Bank of England reserve account and time deposits. At 31 October 2022 the ratio of liquid assets to shares and deposits was 24.3% compared to 24.5% at 31 October 2021.

The Society remains an active participant in the Bank of England's Sterling Monetary Framework.Included in Amounts owed to credit institutions is £150m borrowed under the Term Funding Scheme with additional incentives for SMEs (2021: £155m).

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

Residual maturity as at 31 October 2022	**On demand £000**	**Not more than three months £000**	**More than three months but not more than one year £000**	**More than one year but not more than five years £000**	**More than five years £000**	**No specific maturity £000**	**Total £000**
Financial assets							
Liquid assets							
Cash in hand and balances with the Bank of England	304,052	-	-	-	-	-	304,052
Loans and advances to credit institutions	3,782	4,000	4,000	-	-	50	11,832
Debt securities	-	4,949	-	-	-	29	4,978
Total liquid assets	307,834	8,949	4,000	-	-	79	320,862
Derivative financial instruments	-	160	1,327	22,696	-	-	24,183
Loans and advances to customers	-	49	5,487	64,594	1,025,682	(1,601)	1,094,211
Other assets	-	-	-	-	-	14,150	14,150
	307,834	9,158	10,814	87,290	1,025,682	12,628	1,453,406

Financial liabilities and reserves

Shares	1,023,500	94,369	16,531	5,235	-	202	1,139,837
Amounts owed to credit institutions	-	-	-	150,000	-	276	150,276
Amounts owed to other customers	15,693	17,179	-	-	-	-	32,872
Derivative financial instruments	-	-	-	177	12	-	189
Other liabilities	-	-	-	-	-	29,457	29,457
Reserves						100,775	100,775
	1,039,193	111,548	16,531	155,412	12	130,710	1,453,406
Net Liquidity gap	(731,359)	(102,390)	(5,717)	(68,122)	1,025,670	(118,082)	-

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

Residual maturity as at 31 October 2021	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	No specific maturity £000	Total £000
Financial assets							
Liquid assets							
Cash in hand and balances with the Bank of England	314,317	-	-	-	-	-	314,317
Loans and advances to credit institutions	5,573	-	-	-	-	-	5,573
Debt securities	-	-	-	-	-	-	-
Total liquid assets	319,890	-	-	-	-	-	319,890
Derivative financial instruments	-	-	77	3,550	12	-	3,639
Loans and advances to customers	-	2,875	4,643	75,704	982,738	(1,533)	1,064,427
Other assets	-	-	-	-	-	13,196	13,196
	319,890	2,875	4,720	79,254	982,750	11,663	1,401,152

Financial liabilities and reserves

Shares	1,000,218	95,080	17,028	6,086	-	204	1,118,616
Amounts owed to credit institutions	-	-	-	155,000	-	10	155,010
Amounts owed to other customers	15,565	17,497	-	-	-	-	33,062
Derivative financial instruments	-	83	157	320	1	-	561
Other liabilities	-	-	-	-	-	5,127	5,127
Reserves	-	-	-	-	-	88,776	88,776
	1,015,783	112,660	17,185	161,406	1	94,117	1,401,152
Net Liquidity gap	(695,893)	(109,785)	(12,465)	(82,152)	982,749	(82,454)	-

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

	Repayable on demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
31 October 2022						
Shares	1,023,500	94,538	16,602	5,358	-	1,139,998
Amounts owed to credit institutions	-	-	-	159,620	-	159,620
Amounts owed to other customers	15,693	17,186	-	-	-	32,879
Derivative financial instruments	-	-	-	190	17	207
Total liabilities	1,039,193	111,724	16,602	165,168	17	1,332,704
31 October 2021						
Shares	1,000,218	95,249	17,101	6,294	-	1,118,862
Amounts owed to credit institutions	-	-	-	160,901	-	160,901
Amounts owed to other customers	15,565	17,499	-	-	-	33,064
Derivative financial instruments	-	182	158	(40)	-	300
Total liabilities	1,015,783	112,930	17,259	167,155	-	1,313,127

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

27. Market risk

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

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

The following is the Society's sensitivity to an increase or decrease in market rates at 31 October 2022 assuming a parallel movement of 200bps in yield curves and a constant financial position. 200bps is considered to be an industry standard and therefore appropriate.

	+200bps Parallel	
	Increase	Decrease
2022	£000	£000
Net interest income impact	(763)	812

	+200bps Parallel	
	Increase	Decrease
2021	£000	£000
Net interest income impact	(1,093)	1,183

Financial Instruments

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

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

The fair value of derivatives designated as fair value hedges is set out in note 11 above.

28. 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 £796,000 (2021: £785,000). There were pension contributions payable at the year end of £62,000 (2021: £56,000). There was a prepayment at the year end of £25,000 (2021: £33,000) for the Society Death in Service Scheme.

29. Capital Structure

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

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

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

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

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

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

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

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

Common Equity Tier 1 Capital	**2022 £000**	**2021 £000**
General reserve	99,994	87,747
Revaluation reserve	786	1,029
Available for sale reserve	(5)	-
Intangible assets (1)	(31)	(406)
Total common equity tier 1 capital	100,744	88,370
Tier 2 Capital		
Collective provision	1,483	1,499
Total tier 2 capital	1,483	1,499
Total regulatory capital	102,227	89,869

Notes:
(1) Represents amount of intangible assets deducted from regulatory capital in accordance with Capital Requirements Regulation as amended following the European Union (Withdrawal Agreement) Act 2021.

30. Country by Country Reporting

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

- Name, nature of activities and geographical location: The Society has three dormant subsidiaries and was incorporated and operates only in the United Kingdom. Given the dormant status of these subsidaries they are not required to be consolidated. The Society has no ultimate controlling party or parent. The principal activities of the Society are noted in the Strategic Report on page 10.
- Average number of employees: as disclosed in Note 7 to the accounts.
- Annual turnover is equivalent to total operating income and along with profit before tax is as disclosed in the Income Statement on page 55.
- Corporation Tax paid: as noted in the Cash Flow Statement on page 58.
- Public subsidies: there were none received in the year.

OTHER INFORMATION

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity Coverage Ratio
The liquidity coverage ratio (LCR) refers to the proportion of highly liquid assets held by financial institutions, to ensure their ongoing ability to meet short-term obligations.

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

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

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

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

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

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

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

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

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

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

Residential loans
Residential mortgage loans secured against residential property.

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

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

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

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

ANNUAL BUSINESS STATEMENT AS AT 31 OCTOBER 2022

	2022 %	Statutory Limit %
1. Statutory Percentages		
Lending limit	3.1	25
Funding limit	13.8	50

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

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

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

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

	2022 %	2021 %
2. Other Percentages		
Gross capital as a percentage of shares and borrowings	7.62	6.79
Free capital as a percentage of shares and borrowings	7.10	6.17
Liquid assets as a percentage of shares and borrowings	24.25	24.48
Profit after tax as a percentage of mean total assets	0.83	0.46
Management expenses as a percentage of mean total assets	0.90	0.94

The above percentages have been prepared from the Society accounts:

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

3. Directors and Other Officers as at 31 October 2022

Name	Year of Birth	Business occupation	Date first appointed	Other directorships
Lee Bambridge BA (Hons), ACA, AMCT	1963	Building Society Chief Risk Officer	23/07/07	
Debbie Beaven FCMA, CGMA	1963	Non-Executive Director	01/02/22	Community Forest Trust; Leap Confronting Conflict; NHS Trust IOW
Chris Brown BA (Hons), Eng, Oxon	1961	Group IT Director	01/06/19	
Phillippa Cardno PGCert, CeMap	1969	Building Society Chief Executive Officer	19/02/15	Temptings Ltd; Newbury Mortgage Services Ltd; Newbury Insurance Services Ltd; Newbury Financial Services Ltd
Darren Garner FCCA	1971	Building Society Finance Director	03/08/20	
Nailesh Rambhai MA Oxon	1974	Lawyer and Non-Executive Director	26/09/22	The Pension Protection Fund; UCL Hospitals NHS Foundation Trust; Birmingham Womens and Children's Hospital NHS Trust; United Way UK Charitable Trust; Cholmeley Court Limited
William Roberts BSc (Hons), ACA	1970	Finance Director	19/02/15	Hastoe Capital Plc; Hastoe Homes Ltd; Sustainable Homes Ltd
Alistair Welham	1963	Head of Marketing Communications	24/02/20	Trustee Brighton Student Union
John Piers Williamson BA (Hons), FCT, ACIB	1961	Chief Executive	01/01/18	THFC Group Companies: The Housing Finance Corporation Limited*; T.H.F.C. (Indexed) Limited*; T.H.F.C. (Indexed 2) Limited*; T.H.F.C. (First Variable) Limited*; T.H.F.C. (Services) Limited; T.H.F.C. (Social Housing Finance) Limited*; T.H.F.C. (Capital) PLC; UK Rents (No.1) PLC; UK Rents (Holdings) Limited; UK Rents Trustee Limited; HFP 2019 Limited THFC Managed Companies: T.H.F.C. (Funding No.1) PLC; T.H.F.C. (Funding No.2) PLC; T.H.F.C. (Funding No. 3) PLC; Haven Funding PLC; Haven Funding (32) PLC; Harbour Funding PLC; Sunderland (SHG) Finance PLC; Affordable Housing Finance PLC; Blend Funding PLC *Community Benefit Society

Lee Bambridge and Phillippa Cardno each have a service contract with the Society terminable by either party giving 12 months' notice. The agreements were signed on 30 July 2018. Darren Garner has a service contract signed on 5 April 2022 with the Society terminable by either party giving 12 months' notice.

Other Officers

Jim Bendon - Head of IT and Business Change

Emma Jones - Head of People

Melanie Mildenhall - Head of Customer Service

Erika Neves - Head of Risk and Company Secretary

Dean Scott - Head of Sales and Marketing

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