



# MEMBERS' REVIEW

**INCORPORATING SUMMARY FINANCIAL STATEMENT  
YEAR ENDED 31 OCTOBER 2015**

# Members' Review

The Directors have pleasure in presenting the Members' Review incorporating the Summary Financial Statement of the Group for the year ended 31 October 2015.

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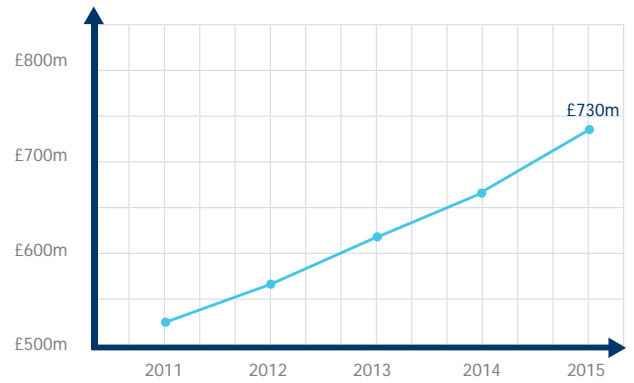
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# Our Highlights

## Mortgages

- Our mortgage book increased £68m to £730m
- We lent £183m for mortgages to members (2014: £143m)
- Strong demand for our residential, first time buyer and buy to let products drove this growth

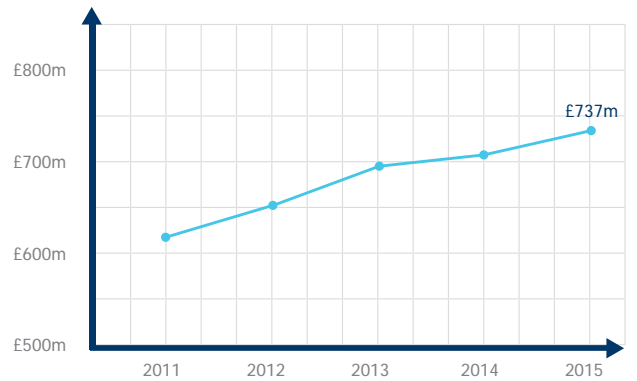
Mortgage Balances



## Savings & Funding

- Savings balances increased £25m to £737m
- The performance of our ISA, Existing member and Instant premium accounts were significant factors in the growth
- We borrowed a further £15m from the Bank of England Funding for Lending Scheme

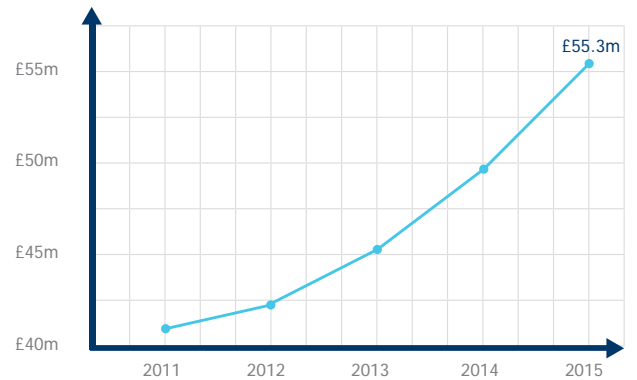
Savings Balances



## Financial strength

- Our capital grew to £55.3m (2014: £49.7m)
- Our profit after tax increased to £5.6m (2014: £4.8m)
- We held £133m of liquidity at year end

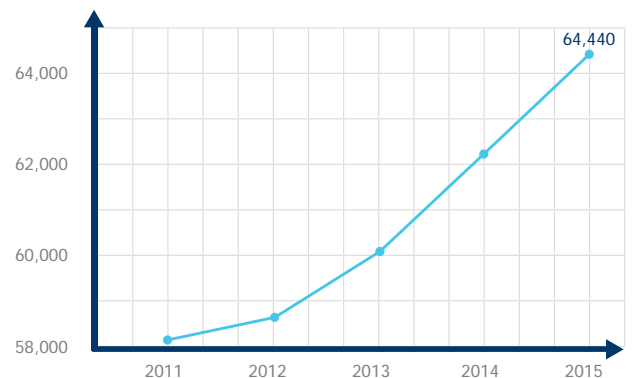
Capital



## Members

- Our member numbers increased by 2,251 to 64,440
- Our mystery shopping scores averaged 95%

Member Numbers



# Purpose, Vision and Culture

## Our Business

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



Julie Pink from Alton branch presents a cheque to Alton Covenant Youth Choir, for money raised in memory of musician Bob Symonds.

## Our Members



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

## Our Staff

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



Discovery Programme graduates at their award ceremony.

# The Year in Pictures



Business Manager Paul Holt and our mascot Barry Bear presenting a cheque to Oxford Children's Hospital for money raised.



Training Programme nomination at this year's Thomson Reuters Compliance Awards.



Basingstoke branch celebrates its 5th birthday.



The Society took part in a charity netball tournament to raise money for The Pink Ribbon Foundation.



Jonathan Prince from the Pink Ribbon Foundation receiving a cheque from the Society for money raised.



Staff abseiling to raise money for The Children's Hospitals Fund.

# Summary Financial Statement

This Financial Statement is a summary of the information in the Audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand from all Newbury Building Society offices from 3 February 2016 or can be downloaded from [www.newbury.co.uk](http://www.newbury.co.uk) from 1 January 2016.

## Summary Directors' Report

### Key Performance Indicators

		2015	2014
Balance sheet	Loans to Customers	£730m	£662m
	Retail Shares and Deposits	£737m	£712m
Operating performance	Management Expenses as a % of Mean Total Assets	0.93	0.97
	Interest Margin as a % of Mean Total Assets	1.82	1.79
	Mortgage Arrears - on accounts two months or more in arrears	£0.16m	£0.12m
	Group Profit After Tax	£5.6m	£4.8m
Financial strength	Capital	£55.3m	£49.7m
	Liquid Assets as a % of Shares and Borrowings	16.4%	19.9%
Members	Members - numbers	64,440	62,189
	Mystery Shopping - % score achieved	95.0%	92.4%
	Complaints - as a % of members	<0.1%	<0.1%

### Business Review

This has been an exceptional business year for the Society, with the two most significant achievements being mortgage balance growth of just over 10% and profitability of £5.6m after tax. Both of these figures exceed those achieved in 2013-14, which was in itself an excellent year. The key element to the success is the fact that the Society has managed simultaneously to achieve a high level of balance sheet growth and to improve capital strength. With these twin objectives both ahead of our targets for the year, the Board is delighted to report on such a positive set of results.

For the second successive year, the profit after tax figure is a record. This level of profitability is required not only to support the lending growth, it also reflects the Society's ongoing need to boost its capital strength in response to the higher capital levels needed under the Capital Requirements Directive. The size of the profit figure also reflects favourable trading conditions in the retail savings market, where interest rates have remained subdued, and the Society has therefore had to manage account availability and interest rates carefully, in order to facilitate a return to a lower level of liquidity than that required in the aftermath of the banking crisis. Savings balances have grown by 3.5%, although as the Society had access to

low cost funding through the Funding for Lending Scheme (FLS), larger savings balance inflows were not actively sought during the year. As last year, our policy for savings in this unusual environment has been to prioritise and protect the interests of existing members, by restricting access to new customers to our higher-paying savings accounts, therefore enabling us to maintain interest rates ahead of the market average for our existing clients. Unlike many of our competitors, the Society did not lower any interest rates during the year but this is unlikely to be sustained into 2016 as competition in the mortgage market continues to drive pricing downwards on both sides of the balance sheet. Therefore, going forward, the Board does not anticipate the margin, and hence profit levels, being maintained at the current level.

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

The Board is mindful that controlling costs is vital for the Society's competitive position in the market place and is therefore pleased to report that the Society's management expenses ratio has reduced from £0.97 to £0.93. The fact that the ratio reduced demonstrates that balance sheet growth coupled with careful management of expenses does bring about the economies of scale which will make the business stronger in the long term. This will continue to be a major area of focus for us as we seek an appropriate balance between investment in the business and providing high quality and value products and services for members.

While financial performance is very important, the Board recognises that as a membership organisation the service to our members is paramount. It is therefore pleasing that our mystery shopping scores have increased in the year to an average of 95% across all our branches and that we received complaints from fewer than 0.1% of our members. In addition, the number of members in the Society has grown to 64,440 in the year, re-enforcing the fact that the combination of a strong service proposition with competitive rates is an effective strategy for the Society to follow.

“ The number of members in the Society has grown to 64,440 in the year ”

The Society's performance in 2015 has reflected a confidence in the domestic economy and in the housing market in particular, where house prices continue to rise well ahead of inflation in reaction to the shortage of stock and the overall lack of transactions. The Society's strategy and planning has been to take advantage of those favourable conditions, and with the Society not restricted by the type of legacy issues which have hindered the progress of several of the bigger participants in our markets, Building Societies generally, and Newbury in particular, have thrived. Against this backdrop, your Board is pleased to be able to present such a solid business and financial performance.

### **Mortgages (Loans to Customers)**

The Board is very satisfied with mortgage balance growth of £68m during the year, representing an

increase in balances of 10.3% of the total book. Gross lending at £183m was a record, comfortably exceeding last year's total of £143m when lending was reined back somewhat over the late summer (because the Society was migrating to its new core computer system). Without the distraction of such a major computer project, management was able to fully focus on balance sheet growth. This growth was achieved against the backdrop of a market where competition has intensified significantly, with the major lenders all returning to the market after a period of consolidation and recapitalisation, and with a number of new challenger banks entering the market with aggressive lending targets.

The Society's success was based on providing a competitive range of fixed and discounted mortgages mainly for owner occupiers but also for buy to let landlords. With competition in residential lending proving intense, in order to sustain the profitability and deliver fair returns for savers, the Society has also operated in areas of the market where appropriate returns for risk can be made. For instance, in addition to what might be reasonably described as universally mainstream business, the Society is also willing to lend to borrowers who have the ability to continue paying mortgages into retirement, to customers with credible repayment plans who require interest only mortgages, to self-builders who need stage releases and to first time buyers utilising the Help To Buy schemes.

The Society has also provided buy to let mortgages for the growing number of individuals seeking to diversify their investment portfolios by becoming landlords, as well as to more seasoned property investors. With private sector renting representing its highest ever percentage as a proportion of the housing market in total, the Society's growth in buy to let lending demonstrates our response to the local demand. With Government policy firmly based upon owner occupation, it will be interesting to see if the new fiscal measures announced in this year's budget and autumn statement and the Bank of England's increased focus in this area will dampen the market or whether buy to let will continue to grow. Either way, the Society will react appropriately and will continue to provide the type of products required by the market.

The Society's mortgage book comprises 82% residential owner-occupied loans, 15% buy to let, and 3% commercial lending and lifetime mortgages. The Society does not actively seek to grow the commercial and lifetime books.

The book remains of the highest quality with an average indexed loan to value under 35%. Less than 3% of the balances in the book are over 75% of the value of the properties on which their mortgages are secured, and lending over 75% loan to value at inception is insured through a mortgage indemnity policy, which covers the Society from losses incurred after a property is taken into possession during the first ten years of the loan.

The Group's arrears and possession statistics remain low both for the sector and for the industry as a whole. While there has been an increase in the amount of arrears from £0.12m to £0.16m during the year and the number of cases over two months in arrears has increased from 43 to 49 accounts, the Board is pleased to report that the Group's overall position in both arrears cases and those where forbearance is being deployed is essentially stable. There were nine cases in serious arrears of twelve months or more at our year-end (2014: seven cases). The total amount of arrears outstanding on these accounts was £65,000 (2014: £52,000) and the aggregate capital balance was £590,000 (2014: £405,000). As at 31 October 2015 the Group had one property in possession (2014: nil). The Group has incurred no mortgage losses during the year (2014: one loss of £749), thus maintaining our enviable record of total mortgage losses under £50,000 in the last ten years. The Society shows forbearance to as many borrowers as possible, where appropriate, and there were 26 accounts at 31 October 2015 where clients were benefitting from a forbearance action such as term extension, payment holiday or temporary interest only arrangement (2014: 30). These figures continue to demonstrate the quality of your Society's mortgage book and the quality of underwriting processes over recent years.

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

2014/15 was the first full year of operating under the rules of the Financial Conduct Authority's Mortgage Market Review. The Society was well prepared for this regulation, whose two main provisions were the introduction of a mandatory advice process for face to face interactions and

new prescriptive rules on affordability. As the Society had been offering advised sales since Mortgage Conduct of Business regulation was first introduced in 2004 and had also adopted practices similar to the new affordability rules several years ago, the Society was able to be agile and maintain its normal service standards during the first 18 months of MMR, which contributed to the strong performance this year.

In March 2016, further regulation in the form of the Mortgage Credit Directive will apply to residential mortgages. Again, the Society has been working hard in preparation for this new European driven regime, where although there are no major changes in the areas of advice, responsible lending and arrears management, there are major changes in the rules on disclosure, where a European Standard Information Sheet will replace the Key Facts Illustration.

### **Retail Shares and Deposits**

The Society's retail balances increased by 3.5% during the year, an appropriate level of growth in view of the Society's reduced liquidity requirements given the availability of the Bank of England's FLS and Discount Window Facility. The Society could undoubtedly have achieved significantly higher levels of growth in savings balances this year had we not restricted new adult members to the Welcome To Newbury, Square Deal ISA and Instant Premium accounts for nearly all the year. No new corporate accounts were opened during the year either, as we concentrated on servicing our existing depositors.

The decision to maintain the suspension of the majority of our product range to new investors was taken to protect interest rates for existing members, whilst simultaneously preventing the Society from being overwhelmed by demand from clients experiencing interest rate cuts or low interest rates elsewhere. In October, the Society lifted its restriction on the Senior Saver and Treasure Plus accounts, but the ISA range (except Square Deal), the Access range (notice accounts) and company accounts remain closed as management continues to seek the right balance between mortgage funding requirements and generating appropriate levels of savings. This also meant that the Society restricted its one year fixed rate bonds to those members with maturing bonds.



Despite the restrictions to product availability, membership increased by 2,251 during the year with both the Welcome To Newbury account (for adults) and the Barry Bear account (for children) proving popular. The most popular account during the year was the Existing Members Account, where balances increased by over £18m. We were pleased to increase the annual subscription limit from £3,000 to £4,000 in April to help loyal members improve their returns.

Our philosophy for our savers is to operate fairly, with simplicity in product design, competitive terms and conditions, and to ensure existing members are treated at least equally with new members. In other words we do not offer short term bonus accounts (often described as 'teaser' accounts) or 'new customer only' products. The reality in recent years has been that existing members have experienced better terms and conditions than new members, as the Society has maintained above average rates for savers.

Given that the Bank of England base rate has remained at 0.5% since March 2009 and seems likely to remain low for another year, we believe strongly that our savings members have been well served by our pricing policy.

## Capital and Liquidity

The Board is conscious that both members and the Regulator require the Society to be financially secure. Financial strength protects the Society against its principal risks and uncertainties (see below) and safeguards members funds. The Board therefore sets a strategy to ensure that both capital and liquidity are maintained at appropriate levels. The continuing emphasis on high quality capital by world banking authorities has meant that the level of profitability this year was necessary for two reasons: firstly to continue the process of building our reserves for the Capital Requirements Directive, and secondly to reflect the 10% increase in mortgage balances. The reserves now stand at a record level for the Group.

This strategy has resulted in the following position as at 31 October 2015:-

Capital	2015 £000s	2014 £000s
Tier 1 Capital	55,311	49,672
Tier 2 Capital	868	799
Capital Resources	56,179	50,471
Total Capital Ratio	18.2%	18.1%

- Liquidity: Liquid assets (which comprise cash and investments as shown on the Summary Statement on page 13) decreased to £133m (2014: £153m). Liquid assets as a percentage of Shares and Borrowings decreased to 16.4% (2014: 19.9%). The Board decided to reduce the liquidity percentage during the year as the Society has access to both the Bank of England's FLS and Discount Window facilities.

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

## Governance

There have been a number of changes to the Board this year. As announced last year, Adrian Rann, who had been Chairman since 2009, retired following the AGM in February 2015. Non-Executive Director Brian Eighteen resigned in May 2015, and Development Director Geoff Knappett accepted an offer of voluntary redundancy in January 2015, following the completion of a review of the senior management structure. I and the Board take this opportunity on behalf of all members to thank all three for their service to the Society and wish them well for the future.

As a result of three directors leaving the Board, and to reflect the Society's growing size and the degree of specialist skills required, four new directors were appointed in February 2015. Three non-executive directors, Abigail Gammie, Sarah Hordern and William Roberts, joined the Board following an extensive recruitment process. Phillippa Cardno was also appointed to the Board following her promotion from Head of Operations to Operations & Sales Director. Their biographical details appear on pages 16-17.

The Board is committed to best practice in Corporate Governance. The report on pages 14 to 17 of the Annual Report and Accounts explains how the Society applies the principles contained in the UK Corporate Governance Code as well as setting out the changes in Committee chairs and membership as a result of the Board membership changes

## Newbury Mortgage Services Ltd (NMS)

During the year, the decision was taken to stop any further trading activity in NMS to avoid ongoing administrative tasks and costs. NMS therefore sold its remaining mortgages to the Society. As a result NMS borrowers have become

members of the Society, a benefit they did not enjoy as borrowers in the Society's subsidiary company. During the year a dividend of £1.8m was paid by NMS to the Society.

## Employees

The Society's service proposition is founded upon well qualified staff, motivated to act in the best interests of our customers, with the time and the tools to do the job properly. As the business continues to grow, we have strengthened our resources to meet the needs of the business, recruiting new managers in the areas of Regulatory change, Project management and Marketing & Communications. Recruiting suitably qualified employees has become more of a challenge in recent years, as we compete with firms in Reading and London to acquire the best talent. As the Society continues to grow, there is a regulatory expectation that the Society's management is suitably strengthened to handle the risks and challenges of being a larger corporate entity in the Financial Services world. We have therefore welcomed new managers this year, who bring the necessary expertise to complement the existing skills and knowledge of our experienced long serving members of staff.

Members naturally expect Society staff to be knowledgeable and efficient in their service provision. This year the Society, in party with a training solutions company, took a significant step in improving staff training with the introduction of a Society-wide learning programme, which has dramatically improved the effectiveness with which staff acquire and retain regulatory and compliance knowledge. The quality of the programme has been recognised nationally, with the Society being one of only three finalists at the recent Best Training in Compliance awards, and the Society has also been nominated for the 2016 Distinction in HR awards in the Innovative Use of Technology category.

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

## The Communities We Serve

The communities in which our branch network operates form the heart of the Society. We

have continued to give something back to the communities where our members and employees live and work, by supporting local projects, taking part in a whole host of community events and offering sponsorship.

Events this year included:

- Ongoing support of the Pink Ribbon Foundation, the Society's nominated charity for 2015.
- Wokingham branch volunteers carried out improvements at the Westmead Centre in Wokingham, a day care centre for adults with disabilities.
- Brave staff volunteers from Abingdon and Didcot branches abseiled down the side of the John Radcliffe Hospital, raising over £800 for The Children's Hospital's Fund.
- Alton branch staff helped raise money for charities supported by All Saints' Church and the Royal Marines School of Music.
- In Basingstoke, the Society hosted a charity Netball tournament, raising over £350.
- Head Office staff hosted a bake-off for Macmillan, raising £130.
- Basingstoke branch staff attended the popular Basingstoke Half Marathon to raise money for St. Michael's Hospice, with the help of a giant inflatable obstacle course.
- At Christmas, several branches had giving trees where members donated presents, which were then given to disadvantaged children over the festive period.
- Abingdon branch supported the Play2Give football tournament, an Oxfordshire based organisation raising funds for the Oxford Children's Hospital.

Our Junior Newbury Building Society programme has expanded from 18 to 24 primary schools in the past year. This programme is at the heart of the Society's Corporate Social Responsibility programme and offers primary schoolchildren the opportunity to run their own branch for their fellow pupils. The aim is to help the children learn how to save and understand basic personal finance matters.

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

Hospital Building Trust and Sovereign Housing Association.



Pupils of Hungerford Primary School participating in the JNBS programme

This year the Society has made donations totalling £24,582 in support of local charities and community organisations. No contributions were made for political purposes.

### **The Future**

Delivering the Society's strategic vision took another significant forward movement in 2015 as a result of our greatest asset growth since the banking crisis, and an all-time record profit. The strengthening of the Society's capital ratio provides the base for further growth and investment in the business, for the benefit of all members.

There has been a noticeable increase in regulatory activity in the last year and this is unlikely to change in the foreseeable future. As a result, the Board sees balance sheet growth as an important element of strategy in order to defray the costs of running a deposit-taking and mortgage lending business in the modern era. In order to help achieve this growth, the Society is investing significantly in new technology to improve how members and intermediaries can operate their savings or mortgage accounts. Members are likely to start to see the benefits from this exercise during 2016.

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

There are challenges ahead as large banks and a number of new 'challengers' are looking to

attract market share, which means competition is increasing. This can only be good for members and it will remain our intention to offer fair-priced relevant products, to lend responsibly and to support borrowers achieve their housing aspirations. We will continue to provide advice in our branches and operate in niches where the wider market lacks capacity or capability. The Board is also aware that the housing market is currently subject to an abnormally high level of Governmental intervention to promote owner occupation. The Society will continue to pay particular regard to the quality of its mortgage lending to ensure that there are no shocks when the level of Governmental support is unwound in future years.

The Board believes that as the Society approaches its 160th birthday in 2016 a successful future lies ahead as an independent, branch-based and vibrant mutually owned business.

### **Principal Risks and Uncertainties**

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

#### **Credit Risk**

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

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

#### **Liquidity Risk**

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

## Interest Rate Risk

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 Group's assets and liabilities. This risk, which includes basis risk, is managed utilising financial instruments where appropriate in accordance with the Liquidity & Financial Risk Management Policy. This is regularly reviewed and approved by the Assets & Liabilities Committee. A detailed analysis of the Group's interest rate sensitivity at 31 October 2015 can be found in note 20 on pages 35 to 37 of the Annual Report and Accounts.

## Operational Risk

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

## Financial Services Compensation Scheme (FSCS) Risk

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

## Regulatory Risk

Regulatory risk is the risk that the volume and complexity of regulatory issues may impact the Society's ability to compete and grow. This is regularly reviewed by the Audit Committee.

## Directors

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

- Peter Brickley
- John Parker
- Roland Gardner
- Lee Bambridge
- Tracy Morshead
- Ron Simms
- Phillippa Cardno - from 19/2/15
- Abigail Gammie - from 19/2/15
- Sarah Hordern - from 19/2/15
- William Roberts - from 19/2/15
- Geoff Knappett - to 31/1/15
- Adrian Rann - to 23/2/15
- Brian Eigheten - to 27/4/15

Biographies of the Directors appear on pages 16 and 17. None of the Directors has any beneficial interest in any connected undertaking of the Society as at the year-end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986. The Directors retiring at the Annual General Meeting are Phillippa Cardno, Abigail Gammie, Sarah Hordern and William Roberts who, being eligible, offer themselves for election and Roland Gardner and Tracy Morshead who, being eligible, offer themselves for re-election.

## Other Matters

### Creditor Payment Policy

It is Group policy to pay suppliers within agreed terms providing the supplier performs according to the terms of the contract. The number of creditor days at 31 October 2015 was 15 (2014:18).

### Going Concern

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

### Events since the Year End

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

### Auditor

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

Peter Brickley Chairman	Roland Gardner Chief Executive	Lee Bambridge Finance Director
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16 December 2015

# Summary Statement

**October  
2015  
£000s**

**October  
2014  
£000s**

## Group results for the year

Net interest receivable	15,375	14,353
Other income and charges	168	129
Administrative expenses	(7,831)	(7,752)
Operating profit before provisions	7,712	6,730
Provisions for bad and doubtful debts	(130)	(59)
Operating profit before FSCS levy	7,582	6,671
Provision for FSCS levy (note 1)	(425)	(500)
Profit for the year before taxation	7,157	6,171
Taxation	(1,518)	(1,353)
Profit for the year	5,639	4,818

## Group financial position at the end of year

Assets		
Liquid assets	132,656	153,004
Mortgages	729,870	661,699
Fixed and other assets	6,370	6,053
Total assets	868,896	820,756
Liabilities		
Shares	691,738	657,003
Borrowings	119,051	111,296
Other Liabilities	2,796	2,785
General reserves	53,886	48,247
Revaluation reserve	1,425	1,425
Total liabilities	868,896	820,756

## Key financial ratios

	%	%
Gross capital as a percentage of shares and borrowings (note 2)	6.82	6.47
Liquid assets as a percentage of shares and borrowings (note 3)	16.36	19.91
Profit for the year as a percentage of mean total assets (note 4)	0.67	0.60
Management expenses as a percentage of mean total assets (note 5)	0.93	0.97

# Notes to the Summary Statement

## 1. Financial Services Compensation Scheme (FSCS)

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

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

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012. The provision at 31 October 2015 includes an estimate of the management expenses levy for the scheme year 2015/16. The compensation levy for 2015/16 was paid in the year to 31 October 2015. No provision has been made for any compensation levy relating to 2015/16 and subsequent scheme years.

2. The gross capital ratio measures the Group's capital as a proportion of its shares and borrowings. The Group's gross capital consists of general reserves and revaluation reserve which have been accumulated over many years.

3. The liquid assets ratio represents the total of cash, deposits and government securities held by the Group as a proportion of the Group's shares and borrowings. Liquid assets are held by the Group for prudential purposes in order to meet investor withdrawals from their accounts, make mortgage advances to borrowers and to fund general business activities.
4. Profit for the year as a percentage of mean total assets represents the Group's profit for the year (after tax) as a proportion of the average total assets held during the year. Subject to the overriding need to maintain a strong capital position, the Group seeks to minimise this figure for the benefit of members.
5. The ratio of management expenses to mean total assets is one of a range of ratios, widely used in the industry, to measure administrative efficiency.

# Independent Auditor's Statement to the Members and Depositors of Newbury Building Society

We have examined the summary financial statement of Newbury Building Society for the year ended 31 October 2015 set out on pages 6 to 14.

This auditor's statement is made solely to the society's members, as a body, and to the society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the society's members and depositors those matters we are required to state to them in such a statement 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 and the society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

The Directors are responsible for preparing the summary financial statement within the Members' Review, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Members' Review, with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

## Basis of opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 October 2015, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual

accounts, the Annual Business Statement and Directors' Report of the Society for that year;

- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 October 2015.

We also read the other information contained in the Members Review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Our report on the Society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

## Opinion on summary financial statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 October 2015 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

**Simon Clark**  
**for and on behalf of KPMG LLP**  
**Statutory Auditor**  
*Chartered Accountants*

One Snowhill, Snow Hill Queensway  
Birmingham, B4 6GH  
16 December 2015

# Non-Executive Directors



## **Peter Brickley**

**Chairman of the Board**

Peter was appointed to the Board of Directors in July 2008 and was elected Chairman in February 2015. He is the Managing Director for Global Business Services for a global brewer. Peter is Chairman of the Strategic Risk and Nomination Committees and member of the Remuneration Committee.



## **John Parker**

**Vice Chairman**

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



## **Abigail Gammie**

**Non-Executive Director**

Abigail was appointed to the Board of Directors in February 2015. She is currently Managing Director International Financial Services for a global advisory and consulting firm. Abigail has an extensive background in financial services with specific experience in Treasury and Risk. She is a member of the Assets & Liabilities, Audit and Strategic Risk Committees.



## **Sarah Hordern**

**Non-Executive Director**

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



## **Tracy Morshead**

**Non-Executive Director**

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



## **William Roberts**

**Non-Executive Director**

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



## **Ron Simms**

**Non-Executive Director**

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



## Executive Directors



### **Roland Gardner**

#### Chief Executive

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



### **Lee Bambridge**

#### Finance Director

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



### **Philippa Cardno**

#### Operations & Sales Director

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

## Executives



### **Nigel Briggs**

#### Head of Compliance & Company Secretary

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



### **Erika Neves**

#### Head of Risk & Conduct

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



### **Ian Willson**

#### Head of IT

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

## Directors' Attendance Record

	Board	Assets & Liabilities	Audit	Credit	Remuneration & Nomination	Sales, Marketing & Development	Strategic Risk
<b>Peter Brickley</b>	11 (11)	3 (3)	2 (2)		3 (3)		4 (4)
<b>John Parker</b>	11 (11)	9 (10)	4 (5)		3 (3)		4 (4)
<b>Lee Bambridge</b>	11 (11)	10 (10)					
<b>Phillippa Cardno</b>	8 (8)			7 (7)		4 (4)	
<b>Brian Eigheten</b>	6 (6)		2 (2)	5 (6)			2 (2)
<b>Abigail Gammie</b>	7 (8)	6 (7)	2 (3)				3 (3)
<b>Roland Gardner</b>	11 (11)	10 (10)		11 (11)		6 (6)	
<b>Sarah Hordern</b>	8 (8)			6 (7)		4 (4)	3 (3)
<b>Geoff Knappett</b>	2 (2)			2 (2)		1 (1)	
<b>Tracy Morshead</b>	11 (11)	3 (3)		7 (7)		6 (6)	4 (4)
<b>Adrian Rann</b>	3 (3)				1 (1)		1 (1)
<b>William Roberts</b>	8 (8)		1 (3)	7 (7)			3 (3)
<b>Ron Simms</b>	8 (11)	5 (7)	2 (3)	4 (4)	2 (2)	2 (2)	3 (4)

## Directors' Remuneration Report

This report explains how the Society applies the principles of the UK Corporate Governance Code September 2014 (the Code) relating to remuneration. It also explains how the Society's Remuneration Policy complies with relevant regulations including the Remuneration Part of the Prudential Regulation Authority's Rulebook and the Financial Conduct Authority's Remuneration Code for dual regulated firms (SYSC 19D).

The Remuneration Committee has determined that, as at 31 October 2015, all of the current seven Non-Executive Directors and the three Executive Directors, as well as three other members of senior management reporting directly to the Executive Directors, are designated as being subject to the Remuneration Code.

### The Level and Components of Remuneration

#### Code Principle:

*D.1. Executive Directors' remuneration should be*

*designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.*

#### Board Comment:

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

#### Executive Directors' Emoluments

The remuneration of the individual Directors is detailed in note 6 on page 20. The remuneration reflects the Directors' specific responsibilities and comprises basic salary, annual performance related pay and various benefits detailed below.

## **Basic Salaries**

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

## **Annual Performance Related Pay Scheme**

The annual scheme is based on the Society's key financial measures of profitability, control of costs, growth in mortgages, retail funds and total assets. A maximum of 5% of salary can be earned for achievement of these targets together with a maximum 5% of salary based on personal contribution. The Committee believes that the targets set for 2015 were suitably balanced and risk adjusted.

The Society does not operate a multi-year incentive scheme and as a mutual the Society has no share option scheme. None of the Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of, any connected undertaking of the Society. Performance related payments are not pensionable and are paid in cash through payroll.

## **Benefits**

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

## **Executive Directors' Contractual Terms**

The Executive Directors each have a service contract with the Society, terminable by either party giving twelve months' notice. The Society meets contractual obligations in the event of providing compensation for loss of office. The Remuneration Committee has discretion to provide better terms, which are disclosed to Members if used.

## **Non-Executive Directors**

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations. Remuneration comprises a basic fee with supplementary payments for the Chairman, Vice Chairman and Chairmen of the Committees to reflect the additional responsibilities of these positions. Fees for Non-Executive Directors are not

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

## **Other Material Risk Takers**

The Remuneration Committee is also responsible for determining the terms and conditions of other members of senior management, after consultation with the Chief Executive. These roles are the Head of IT, the Head of Compliance & Company Secretary, and the Head of Risk & Conduct. These individuals are subject to the same variable pay performance targets as the Executive Directors.

## **The Procedure for Determining Remuneration**

### **Code Principle:**

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

### **Board Comment:**

The remuneration of the Non-Executive Directors, Executive Directors and other members of senior management is determined by the Remuneration Committee, which consists of three Non-Executive Directors and which meets four times a year. The Chief Executive attends by invitation but takes no part in the discussion of his own salary. Minutes of the Committee's meetings are distributed to all Board members.

The Remuneration Committee reviews the Society's Remuneration Policy annually. In setting remuneration, the Committee takes account of fees and salaries payable and other benefits provided to directors and other senior management of building societies that are similar in size and complexity, and other relevant organisations. Periodically, a report may be commissioned from external consultants to assist in this process. The Committee also ensures that variable remuneration does not undermine the objectivity of any member of staff including those in risk and compliance functions.

The Remuneration Committee assesses whether any performance related payments should be made taking into account reports, where

applicable, from the risk and compliance functions. Fundamental prerequisites for any performance related payments include compliance, ethical standards and appropriate risk management. Although it is not required to do so, the Committee defers a proportion of any payment to Executive Directors to discourage inappropriate risk taking in accordance with good practice in remuneration policy. Misconduct would lead to the non-payment of variable remuneration.

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

John Parker  
Chair of the Remuneration  
Committee  
16 December 2015

### Executive Directors' Emoluments £s

2015	Salary	Performance Related Pay	Taxable Benefits	Pension Contribution	TOTAL
Roland Gardner	165,726	17,700	1,575	43,646	228,647
Lee Bambridge	158,680	14,000	1,185	-	173,865
Phillippa Cardno (from 19/2/15)	66,748	6,959	740	11,977	86,424
Geoff Knappett (to 31/1/15)	23,966	-	483	7,906	32,355
<b>TOTAL</b>	<b>415,120</b>	<b>38,659</b>	<b>3,983</b>	<b>63,529</b>	<b>521,291</b>
<b>2014</b>					
Roland Gardner	161,804	16,434	1,522	42,490	222,250
Lee Bambridge	149,227	22,281	1,066	-	172,574
Geoff Knappett	95,673	9,326	1,868	31,314	138,181
<b>TOTAL</b>	<b>406,704</b>	<b>48,041</b>	<b>4,456</b>	<b>73,804</b>	<b>533,005</b>

The Executive Directors' emoluments decreased by 2.2% in the year which included a 2% annual salary increase for the Chief Executive. Total employee costs increased 7% in the year due to increased staff numbers and an average annual salary increase of 3.3%.

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 two of the Executive Directors took advantage of this option. Lee Bambridge, with agreement from the Society, took his pension contributions as salary.

Lee Bambridge also received £13,500 from Sovereign Housing Association for his services as a Non-Executive Director.

Geoff Knappett received compensation of £168,660 for loss of office of which £128,660 was contractual.

Further details on the components of Directors' emoluments can be found in the Directors' Remuneration Report on page 18.

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

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
Peter Brickley (Chairman)	34,792	27,463
John Parker (Vice Chairman)	28,600	27,463
Brian Eighteen (resigned 27 April 2015)	12,292	24,730
Abigail Gammie (appointed 19 February 2015)	15,686	-
Sarah Hordern (appointed 19 February 2015)	17,386	-
Tracy Morshead	24,592	21,971
Adrian Rann (resigned 23 February 2015)	13,383	40,794
William Roberts (appointed 19 February 2015)	15,686	-
Ron Simms	27,683	24,730
<b>TOTAL</b>	<b>190,100</b>	<b>167,151</b>

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

Loans to Directors and connected parties:

The aggregate outstanding balance at the end of the financial year in respect of loans from the Group to Directors and connected persons was £1,247,769 (2014: £1,294,256) representing loans to six (2014: six) persons. A register of loans to and transactions with Directors and connected persons is maintained. It is available for inspection by members at the Society's Head Office for the period of fifteen days prior to the Annual General Meeting and at the Annual General Meeting.





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