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BEVERLEY

BUILDING SOCIETY

Building Better Futures

Beverley Building Society
57 Market Place, Beverley HU17 8AA

Call 01482 881510

Visit beverleybs.co.uk



Protected



The Society is a member of the Building Societies Association.
It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
Registered Number 206064.



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BEVERLEY

BUILDING SOCIETY

Building Better Futures

Annual Report & Accounts

for the year ended
31 December 2020

Customers like Simon Jenson,
Dawn & Peter Goldthorpe, Pat & Tim Beckley,
and mortgage brokers David & Louise Dunning,
are the beating heart of the Society.
They tell us they are delighted by the
personal service they receive.



Our Vision

To be a strong independent mutual, which is trusted and respected by members and non-members, because we offer straightforward, value for money products, that are easy to understand, and supported by an unrivalled level of personal service.

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Chairman's Statement

for the year ended 31 December 2020



While your Society has experienced much in its 155-year history, there will be few years that stay in the memory for as long as 2020. The physical and financial wellbeing of our country has been significantly challenged and almost all will have been affected in some way by the consequences of the Covid-19 pandemic. Our thoughts are very much with those members, friends and families across our communities who are suffering ill health or have lost loved ones because of the virus, and with those having financial difficulties due to the economic challenges that the repeated lockdowns have created.

Your Society, while not immune, was resilient and agile, maintaining a clear focus on genuine personal attention and excellent service to our members, while ensuring a safe environment for all. This was underpinned by strong financial management and control, enabling us to end the year having made continued strategic progress and financially stronger, with increased profits, reduced arrears, strengthened capital and reserves and total assets at an all time high.

The first lockdown, last March, was unprecedented in its impact both on our markets and on our ways of working and managing the organisation. Your Society adapted quickly, with almost 70 per cent of colleagues enabled to work from home, while maintaining a branch service and full mortgage offering throughout the year. Your Board adapted in line, moving to virtual meetings from March onwards, meeting more frequently and ensuring that we provided our ongoing support and necessary oversight. In all aspects, your Society has proved itself adaptable in the face of this unprecedented scale of operational and business change.

Despite the interruptions of three lockdowns, when functioning, the housing market has remained strong throughout the year, with house prices rising both nationally and across our region, supported by the government's stamp duty holiday. In the second half of the year we gave further support to self employed borrowers and re-entered the fixed rate mortgage market, helping higher loan to value borrowers and first-time buyers in our region get onto the housing ladder.

We look to the future with cautious optimism, mindful of the potential impacts of increasing unemployment, business failures and the conclusion of various government support schemes.

While the trade agreement with the European Union has reduced some level of uncertainty, we wait to see how this will translate into economic impact.

Returns for savers have been further reduced due to the Bank of England's base rate cut in March 2020, but demand for our accounts has remained strong, as our members seek safe havens from increasingly volatile investment markets. We are mindful of the challenges that such low returns present for savers and have sought to minimise the impact of rate cuts and maintain a competitive offering throughout the year, including launching our first fixed rate bond, all resulting in the strong cash inflows from savers, which in turn support our lending aspirations.

Members will find further details of the progress we have made over the past year in delivering our strategy and plans in our Chief Executive's Review and Directors' Report.

Your Board has continued to evolve during 2020, ensuring that we have the necessary skills and capabilities to meet our obligations, pursue our strategy and serve our members interests.

Esther Morley joined us in January 2020, bringing significant lending and executive experience from her previous role as Managing Director of Secure Trust Bank's mortgage division. As planned, Esther became our Risk Committee Chair during the year. Martin Cocker, having served as our Audit & Compliance Committee Chair for three years, left the Board in March 2020, having accepted a full time Executive role, with his role being taken up by Mike Heenan, one of our longest serving and most experienced non-executives. We thank Martin for his service and commitment to the Society and wish him well.

In response to the market and economic volatility, Richard Pattinson agreed to extend his tenure for a further twelve months, to September 2021, ensuring the Board continued to benefit from his invaluable knowledge and experience. Looking to the future, we also welcome Karen Wint to the Board in February 2021. Karen brings strong sector experience and knowledge of our region, having served as Leeds Building Society's Chief Operating Officer for seven years. We look forward to utilising Karen's skills as we seek to further embed our strategy in the years ahead.

I hope the continued roll out of the Covid-19 vaccines means that we will all be able to start returning to more normal times at some stage in the near future. In the meantime, to the staff of the Society, the importance of their contribution and of the service they provide to our members has never been higher. I sincerely thank each one of them.

I would also like to thank all our members and community partners for their continued loyalty and support and wish you all a happy, healthy and safe twelve months ahead.

Stuart Purdy
Chairman

04 February 2021

Chief Executive's Review

for the year ended 31 December 2020



"We look forward to the future, mindful of the uncertainty that lies ahead."

2020 has been a year like no other, challenging us all in ways we would not have imagined 12 months ago. I am extremely proud of the job colleagues have done to ensure our doors remained open for members and we maintained the excellent service and personal support they have come to expect from us throughout the year.

While the unanticipated consequences of the COVID-19 pandemic significantly impacted our plans at various points, the outstanding commitment of our colleagues is reflected in our strong financial and business performance, growing our profit before tax to £462,000 (2019: £177,000), reducing mortgage arrears to a six-year low and moving our total assets to beyond £200m (2019: £192m) for the first time.

To help protect us from market and economic volatility, we have strengthened capital reserves to their highest point in five years, while our stress testing during 2020 indicates that we could withstand even the most extreme of market shocks.

You will find further details of the economic environment and our strategic and financial performance in the Directors' Report.

Despite the substantial operational and financial challenges COVID-19 has presented, we have achieved consistently-excellent customer feedback; a healthy mortgage demand from customers and brokers; enviable mortgage scheme retentions and mortgage arrears levels, and strong savings balances, all showing that we remain very relevant to our members and markets.

We see our role in the ongoing sustainability and prosperity of our region as integral to our purpose as a member-owned organisation. As well as remaining open and available, and supporting our members and local community, we kept all colleagues employed, without resorting to furlough, and retained all our local suppliers. We also provided additional support to a number of regional charities, giving essential help to organisations that contribute to the richness and sustainability of our area.

Economy

Economic pressures were felt early in the year when the Bank of England (BoE) reduced its bank base rate to 0.10% in March. This low rate has prevailed, with the BoE refusing to rule out the potential of negative interest rates in the future. March also saw the introduction of furloughing, business loans and mortgage payment deferrals, as the Government sought to support the economy during what

became a constant period of lockdowns and restricted business activity. As a result, we have seen a dramatic fall in the UK's Gross Domestic Product and rising unemployment, with forecasters anticipating worse to come for unemployment as and when the many government interventions end.

The UK and European Union finally reached a trade agreement in late December 2020 and we now wait to see what this deal will mean in practice for our members and the wider UK economy in the weeks and months ahead.

Operational resilience

The sudden move to essential services and instruction to 'stay at home' in late March demanded an immediate response, as we enabled the technology, processes and communications required for the majority of colleagues to work from home, while continuing to provide our customers with the necessary essential services. Our response was fast and efficient, with no material disruption to members' services, while enabling most of our colleagues to work remotely.

We have continually reviewed and adapted our approach throughout the year to reflect developing circumstances, tweaking our processes, controls and lending criteria to ensure we remained open for business in a 'Covid-secure' manner for members and customers alike at all times.

Lending

Our focus for new lending remains on those niches relevant both to our region and replicated across England and Wales, with a focus on those areas generally underserved by the bigger lenders, such as later life, self-employed and self-build, along with targeted support for first time buyers in our locality.

In a market where decision making is increasingly automated and formulaic, we continue to prosper by using the skills, knowledge and experience of our underwriting team to consider each individual borrower and property on their merits and make an individual assessment of the risks they present. This allows us to consider and lend in situations that might not quite fit the mould applied by mainstream lenders, a situation increasingly common as people's lives and finances become ever more complex.

It was a start-stop-start year in terms of our new lending, with an encouraging first quarter being thwarted by a seven-week lockdown in quarter two. We emerged steadily in quarter three, stimulated by the stamp duty waiver, borrowers seeking homes more appropriate for home working and our own new self-employed and fixed rate initiatives, all of which helped us to regain momentum and finish the year strongly.

Covid-19 restrictions have seen an understandable build-up of backlogs and delays in the provision of new lending services by valuers, solicitors and planning authorities, slowing our conversion of applications into lending. This restricted our total new lending for the year to £20m, but also meant we finished the year with our largest ever level of commitments to lend (£9.5m), setting us fair for the start of 2021, further lockdowns permitting.

Our continued roll out of more national and broker lending meant that while we continue to have a strong regional franchise (63% of all lending), we attracted a growing 60% (2019: 55%) of new business from brokers throughout England and Wales during the year. With

a significant number of mortgages which came to the end of their scheme discount period in 2020, we were delighted to once again retain the majority, 81%, of such borrowers. This meant that despite new lending levels being lower than 2019, we were able to maintain our total gross mortgage book at just over £150m (2019: £152m).

Since the first lockdown was announced, we have been mindful of the potentially negative impacts of the pandemic on our borrowers' ability to continue making their mortgage payments. We have been fully engaged with borrowers who have accessed the mortgage payment deferral schemes throughout 2020 and are encouraged that we end the year with only a small number of those members who have sought help still requiring support.

Meanwhile, I'm pleased to report that the Society's lending arrears have fallen to their lowest in six years, as we were rewarded for our patient and resilient management of some challenging legacy loans, seeking wherever we can the best possible outcomes for the borrower and lender alike. It is also testament to the consistent quality of our new business and underwriting over a sustained period that we have had so few instances of people falling behind with their payments during the year.

We continue to support those borrowers who require our forbearance, while making prudent provisions for potential loss. We are mindful that the full impact of the economic downturn on our borrowers is likely to have been delayed due to the various government support schemes currently in place.

Our mortgage book now comprises of over 95% residential borrowing, at an average loan to value of just 34%, meaning it remains resilient to future market downturns and so we enter 2021 cautiously optimistic that we will continue to prosper, while being mindful of the extremely challenging economic environment.

Savings

Historically low interest rates fell even further early in 2020 creating the most challenging environment for savers in memory. In response to the record low Bank of England base rate, our average savings rate reduced to 0.67%, still somewhat higher than the overall market average.

In support of our fixed rate lending, we were pleased to be able to launch a fixed rate savings bond in the second half of 2020, which proved a welcome addition for new and existing savings members. Our 30 Day Notice Account was again popular with both new and existing savers and balances on all savings accounts grew by over £7m in the year.

We are very conscious of the financial difficulties such low interest rates present to our savings members. In response, we have worked hard to maintain our long-standing commitment to transparent, good value savings rates and excellent personal service. 2020 saw this approach rewarded with strong growth and retention of savings balances from both existing and new members in the year.

Customer offer & member engagement

Customer satisfaction and feedback from new and existing members remained very positive during the year, with continued reference to the excellent personal service they receive compared to other, larger providers. High levels of mortgage retentions, longevity of savings customers and very low levels of complaints indicates that more often than not, we have continued to provide people with what they need and want despite such challenging times.

Our lending strategy is founded on meeting the unique needs of borrowers in our region and supporting those not well served by mainstream lenders. We further developed this theme in mid 2020 with the launch of our self-employed lending offer and then later in the year with our fixed rate mortgage for local first time buyers, two areas where borrowers needs were being poorly served by the current market and where our customised underwriting approach

can make a real difference. Both initiatives have proved very successful and have complimented our later life and self-build lending propositions, ensuring that we continue to be relevant to those potential borrowers most in need of our help.

As a final piece of the jigsaw in implementing our new brand, we launched a completely revamped website in 2020, enabling customers and brokers alike to navigate and access the services and information they need from us more easily. We will continue to invest in technology that supports our commitment to personal service and provides ease of access and engagement for our members.

Specific engagement with members has been restricted in 2020 due to Covid-19 restrictions, with our AGM having to be held remotely at the last minute and plans for local member and broker meetings having to be put on hold. We hope we are able to meet with more of our stakeholders in 2021.

Charitable Support

We have made charitable donations to many causes across our region throughout the year, most notably in supporting the Royal Voluntary Service's work in helping vulnerable and isolated people in our area and work colleagues deferring our usual Christmas party funds to support the East Yorkshire Foodbank in helping to provide supplies for families at Christmas, both very real and immediate needs, intensified by the effects of the pandemic across our community in the past 12 months.

We have also participated in the work of the local Chamber of Trade as they seek to help businesses in the local area, and we have continued to provide support for a number of initiatives and good causes across the communities in which our members live and work.

Future outlook

There is much still to be done in our ongoing response to the challenges of Covid-19, not only in the short term operational management, but also in understanding the longer term impacts upon our members and the markets in which we operate.

We anticipate an even faster shift to adopting technology by consumers and businesses alike and also an increase in the complexities of people's personal circumstances as they wrestle with the financial consequences of furlough and other Covid-19 related outcomes.

We are also cognisant of the fast-emerging challenges that climate change presents and have already taken initial steps to understand our potential exposure to flood risk across our mortgage book. We are building our understanding of both the physical risks of climate change and also the transitional impacts, as we collectively move to a more 'low carbon', energy efficient economy.

We will remain true to our principles of helping those in the market whose needs are under served by the mainstream providers and of giving customers the time, help and guidance they need to achieve their goals, all while supporting the localities in which our members live and work.

We recognise the increasing complex and ever-changing situations our members find themselves living through and we will continue to actively promote our individual and personal approach to lending, understanding our borrowers individual needs and assessing each set of circumstances on their merit.

We remain confident that our purpose and relevance to members and the wider market is strong and sustainable and we look forward to the future, mindful of the uncertainty that lies ahead, but confident that we are increasingly well capitalised and have a meaningful role to play in building better futures for our members and the communities we serve.

Karl Elliott
Chief Executive

04 February 2021

Board of Directors

for the year ended 31 December 2020



Stuart Purdy

Non-Executive Director, Chair

Joined the Board in November 2019. Member of the People and Culture Committee. Experienced non-Executive and Executive Director skilled in developing businesses and implementing strategic growth plans in financial services companies. Stuart leads an effective Board, promoting inclusive discussion while allocating appropriate time and ensuring all relevant information is presented to it. He also leads on the development and embedding of the Society's culture, with responsibility for the implementation and oversight of the Board's induction, training and professional development.



Richard Pattinson

Non-Executive Director, Senior Independent Director

Joined the Board in September 2011. Member (and for part of the year Chair) of the Risk Committee. Member of the Audit and Compliance Committee. Richard has almost 40 years' banking experience covering treasury and risk management. Richard also ensures the independence, autonomy and effectiveness of the Society's policies and procedures on whistleblowing.



Karl Elliott

Chief Executive

Joined the Board in August 2017. A business leader with over 25 years' experience of delivering successful strategic and organisational change for financial services mutuals. Karl has overall day to day responsibility for all aspects of the Society's performance, including financial, regulatory, risk and people management.



Janet Bedford

Deputy Chief Executive and Finance Director

Joined the Board in August 2014. A Qualified Chartered Accountant with extensive experience of the financial services sector. Janet is responsible for the financial management and controls operating within the Society. This includes management of the allocation and maintenance of capital, funding and liquidity, treasury management, the integrity of the Society's financial information and its regulatory reporting, including all internal stress tests. Janet is also responsible for the management and oversight of technology within the Society.



Mark Marsden

Risk Director

Joined the Board in November 2014. Experienced risk and compliance professional with 18 years retail lending and deposit taking experience. Mark is responsible for defining and overseeing implementation of the Society's credit and operational risk management arrangements (including as Money Laundering Reporting Officer and Data Protection Officer), and providing regular risk reports to the Board. Mark has also taken on responsibility for managing the financial risks associated with climate change.



Esther Morley

Non-Executive Director

Joined the Board in January 2020. Member (and since November 2020, Chair) of the Risk Committee. Member of the Audit and Compliance Committee. In addition to the Risk Committee advising the Board on the Society's overall risk appetite, tolerance, strategy, and overseeing performance against key risk indicators, Esther is also responsible for safeguarding the independence, and oversight of the performance, of the risk function.



Mike Heenan

Non-Executive Director

Joined the Board in 2012. Chairman of the Audit and Compliance Committee and member of the Risk Committee. Qualified Chartered Accountant with extensive knowledge of the building society sector. Mike provides a wealth of experience and knowledge of the sector and the Society's legacy lending, ensuring continued careful management of the legacy commercial mortgage book.



Sue Symington

Non-Executive Director

Joined in 2013. Chair of the People and Culture Committee. Member of the Risk Committee. Chartered Fellow of the Institute of Personnel and Development. Provides human resources and employee development experience. Facilitates the functions of the Remuneration and Nominations Committees, and their focus on strategic matters relating to Society colleagues, including succession planning, reward, learning and development and performance management. The Committee helps to ensure the Society's culture aligns with its strategy, purpose, mission and values.



Karen Wint

Non-Executive Director

Joined the Board in February 2021. Karen has over 30 years' experience in the building society sector, having been responsible for technology, customer services, operational resilience, change delivery and human resources, most latterly as an executive director of Leeds Building Society.

Directors' Report

for the year ended 31 December 2020

The Directors have pleasure in presenting their Annual Report, together with the Audited Accounts and Annual Business Statement for the year ended 31 December 2020.

Business objectives and activities

The Society's business objectives and principal activities are to help families, particularly in our region, achieve affordable home ownership through the provision of mortgage finance, funded primarily by local savings.

The Society intends to remain an independent local Society that plays an active role in its community, providing exceptional personal service and care, underpinned by its experience and expertise.

Its primary financial objective is to grow and manage the business, to ensure long term sustainability.

Business Review and Results for the year

The global Covid-19 pandemic has had an unprecedented impact on the UK economy. UK GDP fell by 10% in 2020 and unemployment has already risen to c.5%, despite the significant support of the Government through furlough and business support schemes.

Through this crisis the UK housing market has remained reasonably resilient, latest data suggests UK gross mortgage lending reduced by circa 11% in 2020, reflecting particularly the impact of the first national lockdown. Activity in the housing market has potentially been stimulated by the changing needs from a home arising from the lockdown experience and the temporary reduction in stamp duty. This impact has driven UK house price increases of 7.3%, with Yorkshire and Humberside recording a 7.7% rise (source: Nationwide Building Society HPI index).

It is recognised the longer term outlook for the mortgage market remains highly uncertain and will depend on how labour markets and earnings respond to the impact of the coronavirus and removal of Government support. An assessment of the impact of these risks on the Society is included later in this section.

The UK saving market has seen strong growth in 2020 with investors turning to cash savings in a volatile investment market. In addition, savings have been bolstered by the reduced spending opportunities available for those with disposable income.

Finally, the UK government has been able to secure a trade deal with the EU before the deadline, avoiding the significant forecast disruption to the UK economy of a no deal exit. Whilst some disruption is still expected as firms adjust to the new trading agreements, the Society has no direct exposure to the EU, therefore the impact will be limited, similar to all lenders, to the economic impacts of the deal.

Despite this period of economic uncertainty and intermittent lockdown, the Society has delivered a strong set of results. Key highlights include:

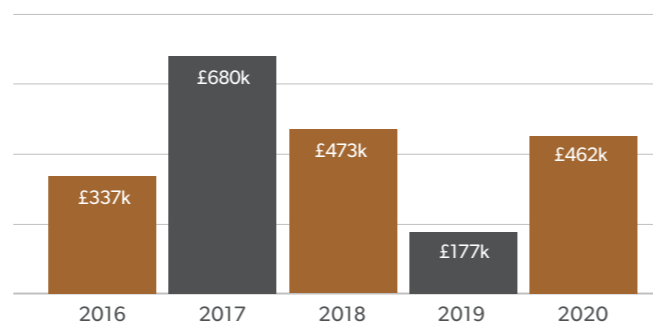
- Profit before tax of £462,000, an improvement of £285,000 on prior year, driven by growth in net income.
- The balance sheet has grown by 4%, the Society total assets have exceeded £200m for the first time.

- Funding has increased by £7.7m, driven primarily from members in the local area.
- The Society is proud to have been able to help circa 10% of mortgage customers with a mortgage payment deferral, to help them withstand the financial impacts of the pandemic. Virtually all these customers (>99%) are now back paying their mortgage as normal.
- Whilst the Beverley's mortgage portfolio reduced by 1% in 2020 to £150m, due to the delays in the normal operations of the housing market, mortgage commitments ended the year at historically high levels.
- The mortgage team's underwriting expertise, which can look at each mortgage case on its unique merits and fair pricing is, we believe, reflected in the fact the Society retained 81% of mortgages that had come to the end of its discounted mortgage scheme period in 2020.
- The Society maintains a conservative lending policy, which is reflected in the average loan to value (LTV) ratio which has fallen for the seventh-consecutive year to 34%.
- Capital continues to grow steady, helping to protect the Society in challenging economic times.

Profitability

As a Mutual, the Society does not pay shareholders dividends. The Society's policy is also not to pay bonuses to colleagues; profit is therefore fully re-invested back into reserves, building financial strength and providing long term resilience for members benefit.

Profit before Tax



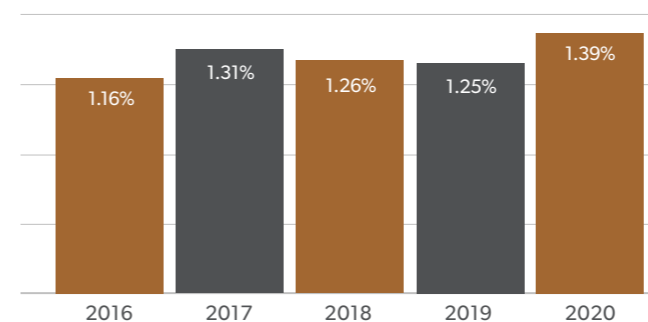
Profit before tax of £462,000 has increased by £285,000, driven by higher net income. As shown in the graph, profitability has returned to historic trend levels. Net income has risen due to the improvement in the net interest margin, as noted below.

Costs have been tightly managed with planned recruitment, where possible, deferred due to the pandemic, consequently the Society costs base only increased by £44,000. The Society monitors the cost base carefully and continues to have one of the lowest cost/ mean assets ratio in the Sector.

Impairment charges have broadly remained flat year on year, which is at historically high levels for the Society, despite arrears falling to historically low levels in 2020 and no new mortgages falling into possession. This is due to the Society appropriately

provisioning against the legacy commercial mortgage portfolio, as noted in the Covid-19 risk section below, recognising this is an area of the portfolio which may come under continued stress during the pandemic.

Net Interest Margin (The difference between interest received on assets and interest paid on liabilities, measured as a percentage of mean assets.)



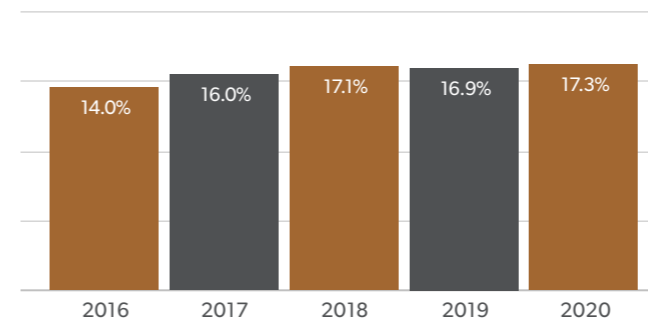
Net interest margin has increased during the year. By focussing our expertise on niche lending, the Society mortgage rate has largely been retained, despite the 0.65% reduction in the base rate. The yield on the Bank of England reserve and cost of funds however has reduced more substantially as the these market has largely followed the base rate reduction.

Capital

Capital is a key measure of the Society's financial strength and is primarily comprised of accumulated profit reserves. Capital supports business growth and protects the business against its principal risks. In addition, higher levels of capital ensure that the Society can respond to the greater protection buffers required under the Capital Requirements Directive (CRD).

Total Capital Ratio

Total capital as a percentage of Risk Weighted Assets (RWA) has increased substantially over the five year horizon, due to strong profitability and reducing risk within the asset base (as measured by RWA).



The minimum regulatory capital requirement has reduced in December 2020, in line with the latest Prudential Regulation Authority (PRA) regulation which reduces the total capital

requirement in order to offset the proposed increase in the countercyclical capital buffer, which will be enacted when the UK returns to a more normal economic environment.

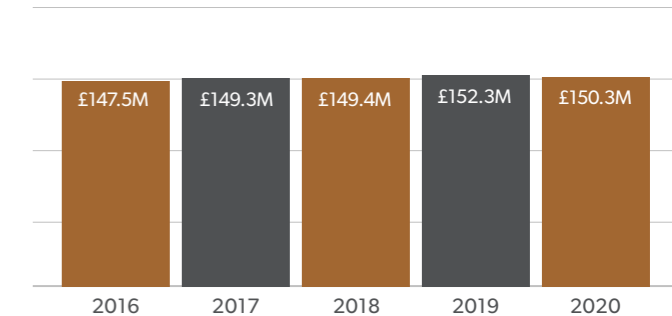
	Definition	2019	2020
Total Capital Requirement	The Society's minimum regulatory capital requirements. Presented as a percentage of RWA.	9.48%	8.98%

The Society's capital position is set out in more detail in its Pillar 3 disclosure document. The 2020 document will be available on the Society's website from April 2021.

Loans and advances to customers

During the year the Society advanced gross mortgages of £19.9m (2019: £25.8m) and retained 81% of residential mortgage schemes that had come to the end of its discounted mortgage scheme period in 2020 (2019: 77%).

Total Mortgage Balances (gross of mortgage loss provision)



The nationwide lockdown has impacted the level of new mortgages advances written. The slower speed of the mortgage transactions nationally however has resulted in a historically high level of mortgage commitments of £9.5m.

In terms of arrears at the year end, there was 1 arrears case with a total balance outstanding of £25.5k and a total arrears balance of £2.3k (2019: 1 case with a total balance outstanding of £113k, and total arrears of £14k) where repayments were more than 12 months in arrears. As at 31 December 2020 there were 5 cases in possession or under Law of Property Act Receivership (2019: 6 cases).

The Society will continue to take all necessary steps to help borrowers in payment difficulties whilst at the same time trying to minimise losses to the Society and ensure that our lending policy has appropriate regard to economic conditions and the customer's ability to repay.

Directors' Report

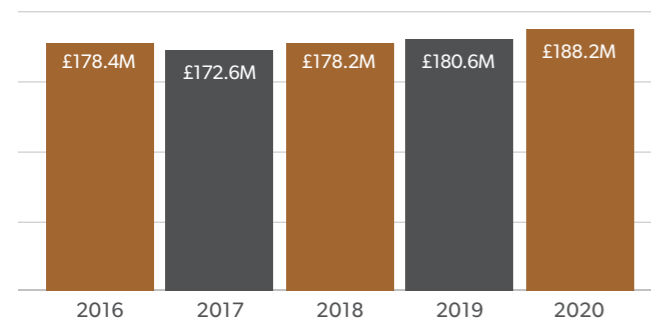
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Shares and borrowings

The Society offers straightforward savings products, which offer good value and transparent savings rates. In line with our values, all members are offered the same rate for the same product.

Reflecting the general trend in UK savers balances during the pandemic, the Society's shares and deposits balances grew significantly in 2020 by a total of £7.7m (2019: increase of £2.4m).

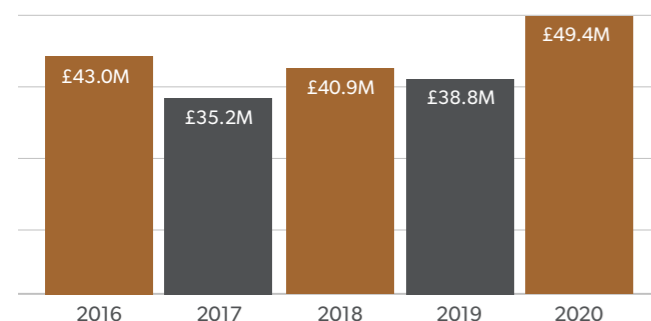
Shares and borrowings



Liquid assets

Liquid assets in the form of cash and securities at year end were £49.4m representing 26.2% of shares and borrowings, driven by the strong inflow in member funding during the year. The Board currently invests only in the Bank of England. The impact of this conservative treasury approach is to reduce both liquidity and capital risk, important in an uncertain economic environment.

Liquid assets



The Liquidity Coverage Ratio is a measure of liquid assets which can be converted to cash to meet cash outflows in the event of a stress scenario. The Society is required to maintain a minimum of 100% to meet regulatory requirements.

	2019	2020
Liquidity Coverage Ratio	427%	618%

Principal risks and uncertainties

Similar to all businesses, the Society operates in an environment that contains financial risks. As a result of its normal business activities, the Society is exposed to a variety of risks, the most significant of which are conduct, operational risk, credit risk, interest rate and liquidity risk.

The Society has established a number of committees and policies to manage these risks. The role of these committees is described in the Corporate Governance Report, below. Policies are subject to regular re-evaluation. The financial risk management objectives and policies of the Society to cover this risk are shown in the Financial Risk Management Report, below. The Society aims to manage appropriately the risks that arise from its activities and the Board maintains risk appetite statements which are embedded in specific risk management policy statements, and promotes a culture and philosophy that reflects an awareness and management of actual and potential risk exposures.

Whilst the Society is a relatively straightforward financial service organisation, we inevitably face challenges that present risks to the delivery of our strategic objectives. 2020 represented a year of unprecedented uncertainty, creating risks and challenges to all businesses including the mutual building society sector.

These risks and uncertainties, the expected impact they have and how we mitigate against them, are summarised below.

Covid-19

The Covid-19 pandemic has created an unprecedented world-wide health and economic emergency.

The Society has successfully negotiated the financial impact of Covid-19 in 2020, however it recognises that the longer term outlook for the UK economy and the mortgage market remains highly uncertain. The final impact will depend on how labour markets and UK earnings respond to the ongoing coronavirus-related developments, and the unwinding and eventual removal of Government support. The Society is mindful that the Bank of England forecasts predict an increase in unemployment in 2021 which potentially will have an impact on the Society's existing and future business.

The key potential financial risks connected to Covid-19 include:

- **Elevated credit risk** driven by forecast increased unemployment and business closures, reducing customers' ability to afford to pay their mortgages. Overall the Society's low LTV mortgage portfolio and customer profile, focused in areas such as later life lending, is well protected from credit loss. Where pockets of potential elevated credit risk exists, such as the legacy commercial mortgage portfolio, the collective provisioning has been appropriately increased.

In common with other lenders the Society has made available periods of mortgage payment deferral in compliance with evolving regulatory guidance. Most customers taking an initial period of mortgage payment deferral have subsequently recommenced regular mortgage payments. Under this guidance borrowers are not considered to be in arrears during the period of payment deferral. At 31 December 2020 there were five accounts still in a period of payment deferral and a further one subject to further tailored support following a full six months of payment deferral.

Following further regulatory guidance in November the Society has made available term extensions up to 31 October 2021 for residential mortgage customers with up to date interest-only mortgages with terms expired/ expiring since 20 March 2020. This is a cohort of five and at 31 December 2020 there had been no take up.

The credit risk implications of Covid-19 have been regularly reviewed by the Board and specifically assessed within stress scenarios undertaken within the Internal Capital Adequacy Assessment Process (ICAAP).

- The forecast economic recession is expected to impact the housing market once the Government support has ended, **potentially reducing new lending opportunities.** Given the Society's size, preferred niche lending areas and a cost base lower than peers, the Directors believe it to be reasonably well placed to weather such a challenging market. The Society forecasts its financial position at least quarterly and has reacted promptly to changing market circumstances during the year ended 31 December 2020.
- **Margin pressure** In order to support the economy and encourage lending during the recession, the Bank of England has reduced the base rate to 0.1% and has injected c.£900bn of cash directly into the economy through quantitative easing. In such an environment, asset yields tend to fall, which can create margin pressure for Banks and Building Societies. As noted in its 2020 financial performance review, the Society with its focus on niche lending supported by personal underwriting, generates appropriately higher lending rates compared to automated, vanilla mortgage lending, which has helped mitigate this immediate pressure. In addition, it has established a clear, risk based pricing policy and process, to ensure that lending remains profitable in such an environment.
- **Increased operational and compliance risks** - The impact of the local and national responses to the emergence of Covid-19 in the UK during 2020 represented an unprecedented challenge to the Society's operational resilience, but one which it met. All critical and important business services were maintained while providing a safe environment for our staff and customers. This included moving to a much more distributed remote working model in accordance with pre-existing business continuity arrangements. Such arrangements are robust and will remain in place for the foreseeable future. There have also been a number of detailed and frequently changing new regulatory compliance requirements to be applied with minimal lead times (some even applicable retrospectively). This pace of introduction inevitably increases the potential for occasional error and the Society has introduced proportionate arrangements for monitoring and oversight should mistakes be identified.
- **Increased costs of the FSCS levy**, if financial businesses protected by the scheme fail. The Bank of England has built increased resilience in banks capital and liquidity positions, the Society forecast and plans for an increase in the levy, in line with information received by the FSCS.

Negative Interest Rates

The Bank of England has stated during the pandemic that negative base rates remains a potential policy tool to stimulate lending and

growth, although it recognises the mixed success this policy tool has had in other areas of the world, as well as the operational challenge of such a move.

Small Building Societies are particularly susceptible to margin pressure in a negative interest rate environment due to their business model of deriving funding from retail customers. Experience to date has shown whilst business and wholesale funding tends to become chargeable, retail rates tend to remain positive.

Ultimately the degree of margin pressure experienced by the sector will depend on market forces, but as highlighted in the stress tests considered as part of the Society ICAAP process, the Society's low-cost base and capital position will help to protect it, in this challenging environment.

The Society is currently working with its technology supplier to ensure its platform stands ready if negative interest rates were introduced. The Bank of England has confirmed it will give the banking sector at least 12-months notice to enact negative rates.

Liquidity

The Society has a low risk treasury model, where non call liquid assets are invested in the Bank of England Reserve account. Whilst the Society has received significant funding inflows in 2020 and ended the year with historically high levels of liquidity, we recognise in the volatile environment, we should stand ready for sharp swings in the economy and government policy. The liquidity risk implications of Covid-19 have been regularly reviewed by the Board and specifically considered within the ILAAP process and half yearly liquidity stress tests.

House price risk

Residential mortgage lending businesses are very closely linked to the housing market. Any significant downturn in the housing market is likely to have an adverse impact on the Society's performance. Whilst the Society notes the significant house price growth in 2020, partly driven by the Treasury's temporary reduction to stamp duty, it is also cognisant of the potential for reductions in an economic downturn. The Society carries out stress testing on the mortgage book to model the potential impact of a range of house price reductions on capital requirements, arrears, impairments and potential losses, and monitors this market very closely both nationally and regionally.

Cyber risk

High profile cyber-attacks on both financial and non-financial services institutions are increasingly common, particular during the Covid-19 pandemic. Improving the levels of protection from such incidents is a priority. The Society continues to progress investments in people and infrastructure to further improve its cyber resilience. As the Society has moved towards a more remote working environment under Covid-19, we have considered the potential for enhanced IT risks and the necessary mitigations and have utilised internal audit to assess the effectiveness of these controls.

Given it is not possible for any business to be certain it can avoid a cyber attack, the Society has taken out appropriate insurance cover, both to help cover the costs and to provide access to significant relevant expertise if such an attack were to occur.

Directors' Report

continued

Climate change risk

The Society recognises the increased awareness of the risks of climate change, both on the world as a whole and the arena in which the Society operates. The management of this risk, which presents itself predominately (but not exclusively) for the Society as a credit risk, is continually evolving, in line with shifts in financial services and building regulations, consumer attitudes and advancements in technologies.

Key risks considered include physical, such as the increased risk of flooding in certain areas, and transitional, such as a possible increase in regulatory burden for some borrowers to ensure energy efficiency standards are achieved, resulting in increased costs that could impact investment viability. There may be increased capital requirements applicable to such loan exposures.

It is also noted that the combined impact of new 'green' taxes and mandatory obligations on householders to reduce domestic carbon footprints could also place pressure on mortgage affordability and/or require the drawing down of savings balances to fund capital outlays.

To this end climate change issues is a key area of focus for the Board. The Risk Committee is overseeing an agreed plan of action to be completed during 2021 which will see the management of financial risks associated with climate change fully embedded the Society's risk management framework and strategy by the end of 2021.

Going concern

The Directors have satisfied themselves that the Society has adequate resources to continue in business for the foreseeable future, by having reviewed its capital and liquidity forecast and the Business Plan. The forecasts are updated at least quarterly and reflect the latest economic and political environment, including consideration of the potential impacts arising from the Coronavirus and the latest economic forecasts.

The Society, in common with most financial institutions, undertakes stress testing on its capital and liquidity forecasts, taking account of the key and emerging risks. Results indicate the Society has sufficient capital and liquidity to be able to continue in business, even under the stressed scenarios including those involving Covid-19.

The Society's objectives, policies and processes for managing risk are set out in the Financial Risk Management Report, below.

Post Balance Sheet Events

There has been no material balance sheet events identified after the year end date.

Creditor payment policy

The Society's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit once the supplier has discharged its contractual obligations. During 2020, amounts due to relevant creditors of the Society were paid on average within 10 days (2019: 10 days) of receipt of invoice.

Charitable donations

During the year the Society continued to support local charitable and community organisations in cash and kind. No contributions were made for political purposes.

People

Our policies for human resources are reviewed regularly to ensure the Society attracts and retains high calibre colleagues at all levels. Training and people development remain priorities to ensure the effective and efficient delivery of the Society's services.

It is our policy to apply equality of opportunity to all applications for employment. In the case of disabled applicants, full consideration is given to possible adaptations in the workplace to accommodate individual needs. In the event of an existing member of staff becoming disabled, it is our policy to make suitable adaptations to the environment, and nature of the work, in order to accommodate their individual needs.

Health and safety

Our Board of Directors has overall responsibility for understanding health and safety risks and for ensuring that all reasonable precautions are taken to provide and maintain working conditions and practices that comply with health and safety requirements and codes of practice, as they relate to the Society.

Directors

In accordance with Rule 26(1) Janet Elizabeth Bedford, Mark Marsden and Richard Anthony Pattinson retire by rotation and being eligible offer themselves for re-election.

Karen Rita Wint was appointed as a Director on the 4th February 2021. In accordance with Rule 25(4) Karen Rita Wint retires and being eligible offers herself for election.

None of the Directors have any beneficial interest in the shares of any connected undertaking of the Society.

Terms of Reference

The terms of reference for the following are available on the Society's website:

- Board
- People & Culture Committee (including matters relating to Nominations and Remuneration)
- Audit and Compliance Committee
- Risk Committee

Independent auditor

Following the 2019 tender process chaired by the Audit and Compliance Chair, PricewaterhouseCoopers LLP ("PwC") were appointed as Auditor to the Society.

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 information of which the Society's Auditor is unaware. Each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant information and to establish that the Society's Auditor is aware of that information.

On behalf of the Board of Directors

Stuart Purdy
Chairman



04 February 2021



Financial Risk Management Report

for the year ended 31 December 2020

Financial risk management objectives and policies

The Society is a retailer of financial instruments in the form of mortgage and savings products and has the ability to use wholesale financial instruments to invest liquid asset balances and manage the risks arising from its operations.

The Society has a risk averse culture and maintains a policy of low exposure to risk so as to maintain public confidence and to allow the achievement of its corporate objectives.

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Board of Directors, who are charged with the responsibility of managing and controlling the balance sheet exposure and the use of financial instruments for risk management purposes. The Society has established a number of committees and policies to manage these risks. The role of these committees is described in the Corporate Governance Report, below.

Details of the Society's Basel II disclosures for Pillar 3 are available on the website or from the Society on request.

Conduct and operational risk

Conduct risk is the risk to the delivery of fair customer outcomes. Conduct risk can arise through product design, promotion, sale, fulfilment and communications.

Operational risk is the risk of loss due to inadequate or failed internal processes, the actions of people, fraud and financial crime, non-compliance with applicable laws and regulations, or external physical events.

The effectiveness of systems and controls for the management of conduct and operational risk is monitored by the Risk Committee. This Committee reviews risk management information including:

- Key Risk Indicators (KRIs): Reflecting the overall Risk Appetite, Internal Capital Adequacy Assessment Process (ICAAP) assumptions and policy limits/requirements, KRIs are reviewed to provide an indication of the operating effectiveness of the systems and controls for the management of conduct and operational risk. Operational performance outside normal limits is reviewed in detail to establish any material issues and confirm the adequacy of management responses to address both direct and root causes.
- Operational risk incidents (including operational loss data) are reviewed to identify remedial actions and control enhancements which may be required. 'Near misses' are also considered.
- Complaints data is considered to ensure there is no evidence of adverse customer outcomes or deficiencies in the Society's responsiveness to complaints. In addition to reviewing internal complaints data the Society reviews experience elsewhere (for example as reported by the Financial Ombudsman Service) with a view to proactive risk reduction.

- Compliance and risk monitoring results are monitored to ensure that remedial actions are undertaken on a timely basis.
- Regulator communications are reviewed for evidence of any concerns in relation to risk governance or conduct risk.
- Training Completion Rates are monitored to ensure that our staff have the necessary up to date skills and knowledge to fulfil their roles.
- The Risk Register is reviewed at least twice a year to ensure it remains up to date and reflective of the strategic plan and is appropriately reflected in the operational risk capital requirement, assessed in the ICAAP.

Maintaining and continuously improving the Society's operational resilience, including the confidentiality, integrity and availability of key information systems, and the ability to respond to business disruption and recommence the provision of important business services in a timely manner, is an area of continued focus.

The Society seeks to mitigate operational risk by implementing a strong control environment, supported by a culture that encourages colleagues to engage openly and positively with the Society's Board, senior management and auditors. Operational losses in the last ten years have been low.

Credit Risk – Mortgages

Credit risk is the risk of losses arising from a borrower or counterparty failing to meet its obligations as they fall due.

The effectiveness of systems and controls for the management of credit risk is monitored by the Risk Committee.

In order to help mitigate credit risk, all new lending is assessed against the Lending Policy by experienced colleagues. A full affordability assessment, including an appropriate affordability stress test (currently standard variable rate (SVR) + 2% across all its discounted variable rate products) is completed in all cases, and the separate approvals to Offer and Complete on mortgages enforce 'four eyes' checking, segregation of duties and adherence to Board approved mandates.

The Society lends only on property in England and Wales. All new lending is prime residential to owner occupiers, although the Society does retain some exposure to legacy commercial and buy to let lending.

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty, for example agreeing a temporary transfer to interest-only payment in order to reduce the borrower's financial pressures or by offering a short-term extension in specific cases where borrowers have reached the end of their contractual term and have been unable to repay the outstanding principal balance. These measures are managed in accordance with an internal policy statement, which reflects Treating Customers Fairly (TCF) principles and regulatory requirements including the Finalised Guidance on Forbearance and Impairment Provisions issued by the Financial Services Authority in October 2011. We aim to put our members first in all instances and as a result aim to support the customers whenever

we can. In each case an individual assessment is made to establish affordable and sustainable forbearance options, and to ensure that forbearance is in the best interests of both the borrower and the Society. It is expected that the borrower will resume normal payments once they are able.

At 31 December 2020 there were 5 (2019: 6) loan accounts where the securities were in possession or under Law of Property Act Receivership, with a balance outstanding of £1,621,000 (2019: £1,963,000). These securities are let to generate an income stream and marketed for sale as they become vacant. These accounts attract a specific impairment provision of £401,000 (2019: £303,000). The increase in provision is primarily driven by falling commercial retail valuation in 2020 due to the pandemic. They are all legacy exposures taken into possession/receivership in 2010/2011 in the aftermath of the last major recession.

At the year end there were 17 (2019: 24) accounts where forbearance measures were currently exercised; the balance of these accounts amounted to £2.90m (2019: £3.12m), or 1.93% (2019: 2.05%) of mortgage balances. There is £76k (2019: £51k) provision held against forborne accounts, the majority of balances do not require provision due to the low loan-to-values on these properties.

As noted previously the Society has a low average LTV mortgage portfolio however it does retain a small (<5% of total) legacy commercial (i.e mortgages fully secured on land) lending portfolio. Such exposures continue to be carefully managed as they run off, and where appropriate provisions are in place to cover losses. Further details around the composition of the mortgage portfolio and its mortgage provisioning are included in notes 9 and 10 of the accounts.

Credit Risk – Liquidity Counterparties

The Society's Liquidity Policy includes strict criteria for counterparties to ensure that its liquidity investments are both diversified and of a high quality. There are Policy criteria in relation to eligible counterparties, eligible investments, single counterparty exposures and maturity structure. Currently all liquid assets are held with the Bank of England or on call with a clearing bank, to minimise as far as possible, credit risk from liquidity counterparties.

Liquidity risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due.

Its main liabilities are its retail savings products. The Society's policy is to maintain sufficient liquid funds at all times to ensure that liabilities can be met as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities, thereby maintaining public confidence in the solvency of the Society. As noted above the Society's liquid funds are either deposited with the Bank of England or in call accounts with the Society's clearing banks, all of which allow same day access to funds.

Liquidity risk is managed principally by holding an appropriate level of high quality, easily realisable liquid assets. The Board has established an appropriate Liquidity Risk Appetite and Policy Statement, supported by a Contingency Funding Plan.

Liquidity levels and a number of associated lead indicators (for example levels of outflows) are monitored by the Executive team on a daily basis.

At 31 December 2020 the Society held £49.4m (2019: £38.8m) of liquid assets, representing 26.2% (2019: 21.5%) of shares and borrowings.

The Society's risk appetite, policies, systems and controls for managing liquidity risk are reviewed by the Risk Committee at least annually and approved by the Board. This review process includes approval of the Society's Liquidity Policy and the Internal Liquidity Adequacy Assessment Process (ILAAP). Regular stress testing is an important part of the liquidity risk management framework. The stress scenarios selected are reviewed regularly. A Contingency Funding Plan is in place to ensure that the Society recognises early any indicators that might suggest a developing liquidity crisis, and prompt specific early actions should this be the case.

The adequacy of these arrangements has been independently evaluated through the Internal Liquidity Adequacy Assessment Process.

Interest rate risk

Interest rate risk in the banking book is the risk of losses arising from a change in interest rates.

The Society has entered the fixed rate lending market this year with a two year product which it matches against a fixed bond of the same duration. Interest rate risk is created if the products are not sufficiently matched. The Board determines its risk appetite for interest rate risk as part of the ICAAP process based on stress tests.

The fixed rate portfolios are currently small (<£3.5m), therefore interest rate risk remains limited for the Society.

Basis Risk

Basis risk is the risk of loss arising from assets and liabilities repricing on different interest rate bases.

The Society's statement of financial position is priced based on a limited number of interest rate bases:

- Base rate linked assets (tracker mortgages and Bank of England Reserve).
- Administered rate savings and mortgages.
- Fixed rate assets and liabilities

Basis risk is assessed monthly against the Board's agreed risk appetite, based on both actual and forecast data.

The interest rate sensitivity of the Society as at 31 December 2020 is detailed in note 23 to the accounts.

Directors' Remuneration Report

for the year ended 31 December 2020

This report explains how the Society has regard to the principles in the UK Corporate Governance Code 2018 relating to remuneration.

The Society has adopted a Remuneration Policy, which describes how the Society complies with the relevant sections of the Financial Conduct Authority's (FCA) Remuneration Code. The Remuneration of individual Directors is detailed below.

The level and components of remuneration

Code Principles:

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.

Board Comment:

The Board's policy is to set remuneration levels which will attract and retain high calibre Executive and Non-Executive Directors.

Non-Executive Directors' remuneration

The functions of a Remuneration Committee are discharged by the People & Culture Committee, which reviews the remuneration of all Non-Executive Directors on an ongoing basis, using external data for other comparable building societies and comparing any increase to those applied to the Executive Directors. There are no bonus schemes for Non-Executive Directors and they do not qualify for pension entitlement or other benefits. Non-Executive Directors do not have service contracts.

Executive Directors' remuneration

The main components of the Executive Directors' remuneration are:

Basic salary

This takes into account the job content and responsibilities, individual performance (assessed annually) and salary levels for similar positions in comparable organisations.

Pensions

This involves the Society contributing to the personal pension arrangements of its Executive Directors. The Society does not have a Defined Benefit or Final Salary pension scheme.

Other benefits

These include private medical insurance, permanent health insurance and participation in a Group income protection scheme.

Bonus scheme

The Society does not operate any bonus schemes for its Executive Directors.

Contractual Terms

Executive Directors have contractual notice periods of six months (Chief Executive: 9 months) and so any termination payment would not exceed nine months' salary and accrued benefits. The performance of the Executive Directors is reviewed on an annual basis by the Remuneration Committee.

The Procedure for Determining Remuneration

Code Principle:

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 outcome.

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

Board Comment:

The functions of a Remuneration Committee are discharged by the People & Culture Committee, which consists of two Non-Executive Directors and the Chief Executive. The Chief Executive takes no part in the determination of his own remuneration.

The People & Culture Committee is responsible for the remuneration policy for all Directors and senior management of the Society. It meets at least quarterly and reviews supporting evidence from within the building society sector on comparative packages. The Committee takes into account relevant factors from the UK Corporate Governance Code and the Society complies with the relevant and applicable aspects of the FCA Remuneration Code.

Directors' remuneration (audited)

Directors' emoluments	2020 £000	2019 £000
For services as a Director	104	92
For executive services	382	372
Total	486	464

Emoluments of the Society's Directors are listed below	2020 £000	2019 £000
S Purdy (Chairman of the Board)	27	26
M R Cocker (Former Chair of the Audit and Compliance Committee)	4	17
R A Pattinson (Senior Independent Director, former Chair of the Risk Committee)	19	18
M R Heenan (Chair of the Audit and Compliance Committee)	17	14
S A Symington (Chair of the People & Culture Committee)	17	17
E Morley (Chair of the Risk Committee)	20	0
Total	104	92

	Salary £000	Benefits £000	Pension £000	Total £000
For executive services				
2020				
K J D Elliott (Note 1)	165	1	-	166
J E Bedford	109	1	10	120
M Marsden	86	1	9	96
Total	360	3	19	382
2019				
K J D Elliott (Note 1)	161	-	-	161
J E Bedford	106	1	11	118
M Marsden	84	1	8	93
Total	351	2	19	372

Note 1: Included in the 2020 salary of K J D Elliott is £19k which represents cash payments in lieu of pension and car benefit (2019: £19k).

S A Symington
Chair of the People & Culture Committee
 04 February 2021

Corporate Governance Report

for the year ended 31 December 2020

The Society has regard to the best practice principles in the UK Corporate Governance Code 2018 issued by the Financial Reporting Council, to the extent that they apply to a building society.

Board Leadership and Society Purpose

Code Principle:

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 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 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.

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.

The board should ensure that 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.

Board Comment:

The Board's responsibilities are described in the Society's Rules and within its Terms of Reference. The Board reviews its performance annually.

The Society's purpose and strategic aims are discussed and approved by the Board annually. It then meets regularly to challenge and monitor management performance in delivering the strategy in the interests of the long term success and sustainability of the Society.

There are regular Board meetings throughout the year, including topic specific workshops and at least two days focused specifically on strategy. The Non-Executive Directors meet without the Executive Directors present at least twice a year.

Richard Pattinson is appointed as the Senior Independent Director, providing an alternative channel of communication for Directors, colleagues and members and chairing the meeting where the Chairman's performance is appraised.

Sue Symington is appointed as the non-executive director with specific responsibility for Board engagement with Society staff.

There are now three committees to which the Board delegates the following responsibilities:

Audit and Compliance Committee

The Committee, chaired by Mike Heenan, considers regulatory compliance matters, the adequacy of internal controls, reviews reports from both the Society's internal and external auditors and reviews any changes in accounting policy and practice. Meetings are held at least four times a year and other members of the Committee are Richard Pattinson and Esther Morley.

People & Culture Committee

The People & Culture Committee, chaired by Sue Symington, meets at least quarterly and:

(a) independently reviews the remuneration, benefits and contracts of Non-Executive Directors and Executive Directors; and

(b) reviews the structure, size and composition of the Board. The Committee also gives consideration to succession planning, taking into account the challenges and opportunities facing the Society and therefore the skills and expertise needed.

The other members of the Committee are the Chairman (Stuart Purdy) and the Chief Executive (Karl Elliott). Further details can be found in the Directors' Remuneration Report, above.

Risk Committee

The Risk Committee, chaired by Esther Morley, meets at least four times a year. The Committee is responsible for the oversight and challenge of the Society's risk management framework to identify, manage and mitigate key risks faced by the Society. Other members of the Committee are Richard Pattinson, Mike Heenan and Sue Symington.

Board and Committee membership attendance record

The table below shows the number of meetings of the Board and its Committees at which each Director was present and in brackets the number of meetings that director was eligible and able as a member of the Board and Committee to attend during the year.

	Board	Audit Compliance	People & Culture	Risk
S E Purdy	10 (10)		5 (5)	
M R Cocker*	2 (2)	1 (1)		0 (1)
R A Pattinson	10 (10)	7 (7)		6 (6)
M R Heenan	10 (10)	7 (7)		5 (6)
S A Symington	10 (10)		5 (5)	6 (6)
E E Morley	10 (10)	7 (7)		6 (6)
K J D Elliott	9 (10)		5 (5)	
J E Bedford	10 (10)			

* M R Cocker stepped down from the Board from 1 April 2020.

Division of Responsibilities

Code Principle:

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 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.

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.

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

Board Comment:

The Board's responsibilities are described in its Terms of Reference, reviewed annually. All non-executive directors are considered to be independent.

The Board maintains a comprehensive skills matrix.

There is a majority of NEDs on the Board and each Sub-Committee.

A Senior Independent Director has been appointed.

Board and sub-committees review their performance, including their access to MI annually.

A minimum time commitment is enshrined in NED Letters of Engagement and overseen by the Chair.

The Board annually reviews its performance and the availability of appropriate policies, processes, information, time and resources.

There is no designated Company Secretary this being considered disproportionate given the size and complexity of the Society. The functions are discharged jointly by the Executive Directors.

Dialogue with Shareholders

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 social media and events attended by Executive and Non-Executive Directors. The purpose of this dialogue is to understand our members and better serve their needs.

Constructive use of the Annual General Meeting (AGM)

Each year the Society sends details of the Annual General Meeting to all members who are entitled to vote. Members are encouraged to vote by completing a proxy form and returning it to the Society by an agreed deadline or by attending the AGM itself, which is held in the early evening to encourage attendance. The Society encourages members to vote by linking the number of votes cast to a donation to charity. All Board members are present at the AGM unless there are exceptional circumstances that prevent attendance. Board members are encouraged to meet with members both before and after the meeting and to answer questions on a formal and informal basis.

The proper conduct of voting at the Annual General Meeting is assured by engaging professional support. For the financial year ending 31 December 2020 this was arranged through Electoral Reform Services.

Composition, Succession and Evaluation

Code Principle:

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 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.

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.

Board Comment:

The Society Board is structured as follows:

The Chairman

The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. Prior to the appointment of the current Chairman, an appropriate assessment to confirm his independence was carried out, as part of a process in line with the requirements of the UK Corporate Governance Code. This ensured that he had appropriate experience and business knowledge relevant to the Board together with his commitment to enhance the benefits of mutuality for members.

Corporate Governance Report

continued

Non-Executive Directors

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

The Society has appointed a Senior Independent Director who provides support for the Chairman and an alternative route for communication from members and staff. His main responsibilities are to carry out the appraisal of the Chairman and to chair meetings when the Chairman is unavailable.

On at least a twice yearly basis a meeting attended by Non-Executive Directors without the Executive Directors present is held. The Senior Independent Director also leads an annual meeting at which the Chairman's performance is reviewed without the Chairman's attendance.

The Composition of the Board

At 31 December 2020 the Board consisted of three Executive Directors and five Non-Executive Directors who provide the appropriate mix of skills and professional expertise required.

The Board considers that all its Non-Executive Directors are free of any relationship which could prejudice their use of independent judgement.

The Board annually revisits its collective skills, experience and knowledge with reference to a Board Skills Matrix and individual Development Plans are agreed.

Appointments to the Board

Board appointments are managed through the People & Culture Committee. This Committee also maintains succession plans for all senior management and the Board. The recruitment process for Board members involves external support explicitly instructed to seek a diverse range of candidates. Board appointments are limited to 9 years, although some flexibility is allowed where there is demonstrably continued independence of thought and action, and it is considered to be in the best interests of the Society.

The Society values diversity but always makes Non-Executive Director appointments on merit, based on the specific skills and experience required to complement existing skills under the succession plan. To this end external search agencies are generally engaged. During 2020 a search for an additional non-executive took place with the assistance of Warren Partners. This Agency has no other connection with the Society. This recruitment process is led by the Chair of the People & Culture Committee, and led to the appointment of Karen Rita Wint to the Board in early 2021

All Directors must meet the regulatory fitness and propriety standards. The People & Culture Committee leads the process and recommends a candidate. The Board decides whether to appoint the candidate. Each Director must obtain appropriate regulatory approvals prior to fulfilling their control function as a Director.

Given the small size of the Society's staffing, the Society has not adopted all detailed elements of the Women in Finance Charter, but is committed to having regard to its principles.

Commitment

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

Development

The Society provides a formal induction process for new Directors and maintains a comprehensive Board Skills Matrix. 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, an overview of the regulatory requirements and details of significant current issues for the Society and the industry. The Chairman ensures that Non-Executive Directors continually update their skills and knowledge to fulfil their role on the Board and any Committees. Individual and collective training and development needs are identified as part of the annual appraisal of the Board and individual Directors' performance and effectiveness. These needs are usually met by attendance at industry seminars and conferences.

Information and Support

The Chairman ensures that the Board receives information sufficient to enable it to discharge its responsibilities. The Society continually improves management information to assist the Committees in discharging their terms of reference. The Board has access to independent advice if required.

Evaluation

The Society maintains a comprehensive Board Skills Matrix and the Chairman carries out individual appraisals for each Non-Executive Director and the Board as a whole. The Board Skills Matrix is reviewed by the People & Culture Committee. The Board annually carries out a review of the effectiveness of each committee of the Board. As part of that review recommendations may emerge as to changes in the scope and work of the committees and refreshing their membership.

Re-election

The Society's Rules require all directors to submit themselves for election by the Members at the first opportunity after their appointment and for re-election every three years thereafter. All new Non-Executive Directors appointed to the Board will not serve for more than nine years.

The People & Culture Committee has considered the pros and cons of subjecting all directors to a process of annual re-election and concluded that this would be disproportionate. It has, however, reviewed the future re-election timetable to ensure the associated key man risk is managed effectively.

Audit, Risk and Internal Control

Code Principle:

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

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 objective.

Board Comment:

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

The Board is collectively responsible for determining the risk appetite and strategies for risk management and control as described in the Society's Risk Appetite Policy. Senior management is responsible for designing, operating and monitoring risk management systems and controls. Each Board Committee has oversight responsibility for the risks and controls within its remit. The Risk Committee assesses the adequacy of the risk related output of this process. The Society's internal auditors, RSM LLP, provide independent assurance to the Audit Committee that the systems are appropriate and controls effectively applied. The Audit Committee also receives reports on internal controls from the Society's external auditor. Where recommendations for improvements to the Society's controls are identified by a Board Committee these are monitored by Senior management, and are reported to the appropriate committee. The Society has plans to address the recommendations identified during 2020.

The Board has conducted an appropriately robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance or liquidity. A summary of those principal risks and how they are mitigated is contained in the Directors' Report, above. The Board concludes that the Society has a strong compliance culture and has reviewed the effectiveness of the systems in place, and the findings of the internal and external auditors

Audit Committee and Auditors

The Society has an Audit and Compliance Committee comprising three Non-Executive Directors. These Directors have relevant experience and expertise. The Society's external and internal auditors and the Executive Directors and other Senior Management attend by invitation. The responsibilities of the Committee are set out on page 22. The Committee meets at least four times a year and on occasion the members of the Committee meet with the external and internal auditors without the Executive Directors present.

Remuneration

Code Principle:

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.

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 outcome.

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

Board Comment:

The Directors' Remuneration Report explains how the Society has regard to the Code Principles relating to remuneration.

Stuart Purdy
Chairman



04 February 2021

Annual Report of the Audit & Compliance Committee

for the year ended 31 December 2020

The Audit and Compliance Committee (the 'Committee') has been established by the Board of the Society with the primary purpose and responsibility to assist the Board in its oversight responsibilities in audit related areas.

To achieve this objective, the Committee considers, in particular, the Society's financial reporting arrangements, the effectiveness of its internal controls and risk management framework, the internal and external audit processes and the application of the whistleblowing procedures.

The Committee comprises three independent Non-Executive Directors. The Committee Chairman is Mike Heenan and the Committee members are Richard Pattinson and Esther Morley. The Committee acts independently of the Executive to ensure that the interests of the Society's members are properly protected in relation to financial reporting and internal control.

The Chair of the Committee is a Chartered Accountant with significant audit and accounting experience. He also has extensive experience of the Society's operations and legacy exposures.

The Committee has reviewed the collective skills of members and concluded that the Committee's balance of skills, knowledge and experience is appropriate and relevant to the sector in which the Society operates.

During the Reporting Period, the Committee met seven times.

The Chair of the Society's Board of Directors, the Chief Executive, the Deputy Chief Executive, the Risk Director, the Head of Operations, Head of Lending, Internal Audit and External Audit are also invited to attend as required.

Internal and External Audit were given opportunities at the end of each of these meetings to discuss confidential matters with the Committee, without Executive management being present.

All approvals and resolutions of the Committee were duly passed with no member dissenting.

Key Responsibilities:

The key responsibilities of the Committee are set out below with examples of how the Committee discharged those responsibilities.

Financial Reporting

- Monitoring the integrity of the financial statements of the Society (the 'Financial Statements') and the Annual Report;
- Reviewing and, where necessary, challenging critical accounting policies and significant financial reporting judgments and estimates in the Financial Statements;
- Reviewing the Annual Report and Accounts;
- Reviewing the draft management representation letters requested by the external auditors and

- Providing guidance and advice to the Board on whether the Financial Statements and Annual Report, when taken as a whole, are fair, balanced and understandable.

Internal Controls and Risk Management

- Monitoring and assessing the effectiveness of the internal financial control and risk management systems of the Society in conjunction with reviewing reports issued by internal and external audit;
- Ensuring that the Society has an effective Compliance Function by receiving at each meeting the Compliance Report presented by the Risk Director and, where necessary, challenging that report;
- Receiving and approving the annual report of the Money Laundering Reporting Officer;
- Considering and recommending to the Board for approval a number of policies including Complaints Handling and Anti-Bribery and Corruption;
- Reviewing and approving the statement on internal controls to be included in the Annual Report;

Internal Audit

- Considering and approving Internal Audit's work programme and the associated costs;
- Monitoring compliance with that work programme and, where necessary, considering and approving proposed changes to the work programme;
- Monitoring management responses to recommendations and the time taken to implement those recommendations; and
- Assessing the effectiveness, performance and remuneration of the outsourced internal audit function.

External Audit

- Conducting the tender process and recommending the appointment of the external auditors, and considering their effectiveness, independence and objectivity throughout the audit cycle, including the level and appropriateness of non-audit services;
- Considering the planning, scope and findings of the annual external audit, including the matters raised in the external auditor's management letter and management responses thereto; and
- Considering the remuneration and performance of the external auditor.

Whistleblowing

- Overseeing the application by the Society of the Financial Conduct Authority's policies and procedures on whistleblowing; and

- Assessing the independence, autonomy and effectiveness of the resolution of any significant matters subject to a whistleblowing event.

Financial Reporting

The Committee has debated and concluded on the following significant judgements and estimates. More detail on the principal judgements and estimates is set out in the notes to the Financial Statements, below.

1. Integrity of financial reporting

The Committee reviewed the integrity of the Financial Statements and the Annual Report. This process included reviewing the accounting policies to ensure that they were appropriate and had been consistently applied in the preparation of the Financial Statements.

The review and debate took into account the views of the external auditors.

The Committee concluded that the Financial Statements for 2020 had been properly prepared in accordance with the accounting policies of the Society, those policies were appropriate and had been applied consistently.

2. Loan Loss Provision:

The Committee reviewed management's assumptions made to calculate the loan loss provisions in the Financial Statements and any changes in those assumptions when compared to prior periods.

In particular, the Committee noted that the assumptions within the provisioning model have been updated both to reflect Covid-19, current trend and business intentions with respect to properties in possession, where the intention is to sell in the short term.

The Committee considered and challenged the assumptions used in the calculation of the loan loss provisions. In addition, the Committee considered the views of the external auditor. After careful consideration, the Committee was satisfied that the loan loss provisions made in the Financial Statements were appropriate.

3. Freehold head/branch office valuation

The Committee considered the appropriateness accounting policy for freehold revaluations, whereby revaluations are carried out at least every two years by an independent valuer. Given the impact of Covid-19 on the retail environment, the Committee considered an additional independent valuation performed at the 2020 year end, was the most appropriate means of ensuring the impact was accurately captured.

4. Going Concern:

The Committee formally considered the assumptions relating to the going concern basis of preparation of the Financial Statements. After careful analysis and debate, the Audit Committee recommended to the Board of Directors that the use of the going concern basis for the preparation of the annual financial statements was appropriate.

Note: The committee continues to monitor the assumptions recommended by management in the application of the effective interest rate method of recognising interest income.

External Audit

The Committee places great importance on ensuring that there are high standards of quality and effectiveness in the external audit process.

In 2019 the Audit Chair conducted the tender process and made the recommendation to the Board to appoint PwC as the Society's external auditor. Both the Society and PwC have safeguards in place to protect the independence and objectivity of the external audit. In particular, the Society has a Non-Audit Services Charter that governs the relationship with the external auditor including the non-audit services that the external auditor may provide. The Non-Audit Service Charter is in line with the European Union's Audit Reform legislation as adopted by the United Kingdom.

There were no non-audit services provided by PwC in 2020.

Throughout the audit process, PwC reported to the Committee, noting any issues of principle or timing identified by the audit, changes in the external auditor's assessment of risk and any significant control weaknesses or errors identified.

During 2020, the Committee met with PwC regularly without management presence.

Internal Audit

The Society has an established Internal Audit function, provided by RSM Risk Assurance Services LLP ('RSM') to provide independent objective assurance and advisory oversight of the operations and systems of internal control within the Society.

Internal Audit helps the Society to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Committee reviewed, challenged and approved the proposed Internal Audit plan and budget for 2020. Internal Audit completed 5 engagements during the year and made 25 findings. These findings have been or are being addressed by management with realistic resolution dates.

Annual Report of the Audit & Compliance Committee

continued

The results of each engagement were presented to the Committee along with the responses of management. The Committee considered the findings made and the adequacy and completeness of management responses. The implications of any significant findings for the effectiveness of the overall internal control system and risk management framework were assessed. The Committee also met with Internal Audit regularly without management presence.

Internal Control and Risk Management

The Financial Risk Management Report, above, identifies the principal risks and the controls in place to mitigate those risks. The Committee is satisfied that the Society has an adequate and effective framework for risk management, governance and internal control that operated effectively throughout the year.

Whistleblowing

The Board has delegated responsibility for the review of the policy on whistleblowing and oversight of the application of that policy to the Risk Committee. Any significant matters arising are brought to the attention of the Committee by the Chair of the Risk Committee.

The Committee is then responsible for assessing the independence, autonomy and effectiveness of the resolution of any significant matters subject to a whistleblowing event.

No such matters were brought to the attention of the Committee during the year.

Other Matters:

Compliance Reports

The Committee received, considered and approved the Compliance Monitoring Plan for 2020. Compliance Reports were provided at each meeting of the Committee during the year.

The Committee was satisfied that the Society has an effective Compliance Function.

Assessment of Effectiveness

The Committee conducts an annual self-assessment of its effectiveness to identify any deficiencies in the Committee's operation that could result in the Committee failing in its duties.

Mike Heenan

Chairman of the Audit and Compliance Committee

04 February 2021

Statement of Directors' Responsibilities

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts.

The directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report, and Annual Accounts in accordance with applicable law and regulation.

The Building Societies Act 1986 (the Act) requires the directors to prepare annual accounts for each financial year. Under that law the directors have prepared the annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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. The Directors consider the Annual Report and Accounts to be fair, balanced and understandable and provide the information necessary for Members to assess the Society's position, performance, business model and strategy.

In preparing these 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 United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts;
- Assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

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 Control

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; and
- Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the FCA and PRA under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal controls as they determine are necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and they 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 United Kingdom governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

Stuart Purdy
Chairman



04 February 2021

Independent auditors' report to the members of Beverley Building Society

Report on the audit of the annual accounts

Opinion

In our opinion:

- Beverley Building Society's annual accounts (the "annual accounts") give a true and fair view of the state of the Society's affairs as at 31 December 2020 and of the Society's income and expenditure and cash flows for the year then ended;
- the annual accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the annual accounts have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; the Income Statement and Statement of Other Comprehensive Income, the Statement of Cash Flows, and the Statement of Changes in Members' Interest for the year then ended; and the notes to the annual accounts, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

We have provided no non-audit services to the Society in the period from 1 January 2020 to 31 December 2020.

Our audit approach

Overview

Materiality	<ul style="list-style-type: none"> • £115,000 - Society annual accounts • Based on 1% of Total reserves attributable to members.
Scoping	<ul style="list-style-type: none"> • This is our initial audit of the Society following our appointment at the AGM on 28 April 2020; • We conducted our audit using a combined audit team from Leeds and Manchester; and • We perform audit procedures over all material account balances and financial information of the Society.
Key audit matters	<ul style="list-style-type: none"> • Impairment of loans and advances to customers; • Freehold head/branch office valuation; and • Impact of Covid-19.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in 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 the Auditors' responsibilities for the audit of the annual accounts section, 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.

Based on our understanding of the Society and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as the Building Societies Act 1986, UK tax legislation and the Prudential Regulation Authority's regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed included:

- Review of correspondence with and reports to the regulators;
- Testing significant accounting estimates (see key audit matters below);
- Testing of journal entries which contained unusual account combinations back to corroborating evidence;
- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud; and
- Review of internal audit reports in so far as they related to the annual accounts.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment provision for loans and advances to customers	<p>We discussed the basis of the allowance for impairment with management and the Audit Committee, including the rationale for the accounts identified within the specific provision.</p> <p>We challenged the conceptual soundness of the methodology and used our experience within the industry to consider overlays seen within the wider industry and their applicability to the Society's portfolio.</p> <p>With regards to the probability of default assumptions within both collective and specific provision models we understood, evaluated and challenged the appropriateness of these assumptions by considering industry data, sensitivity to changes and the actual loss experience of the Society.</p> <p>We have reviewed the reasonableness of the valuations of properties in possession by reviewing third party valuations (where available), market data and recent sales.</p> <p>We tested the completeness of the individually assessed provision by selecting a sample of loans under forbearance, arrears or other non-arrears indicators including those arising from Covid-19 and ensuring their inclusion within the provision.</p>
<p>The Society holds an impairment provision of £771k (2019: £533k) to account for incurred impairment losses on the mortgage books. This is split between a collective provision of £140k (2019: £131k) to account for losses where an impairment indicator has not yet been identified and a specific provision of £631k (2019: £402k) to cover losses on loans where impairment indicators have been observed.</p> <p>The collective provision is derived from the Society's historical arrears experience, modelled credit risk characteristics and expected cash flows. The highest degree of estimation uncertainty is considered to lie within the probability of default assumptions.</p> <p>The specific provision is assessed by reference to loans that are aged past due three or more months in arrears, that have been repossessed by the Society or experienced other, non arrears impairment indicators. The highest degree of estimation uncertainty is considered to lie within the valuation of properties in possession, the probability of default for loans with impairment indicators and completeness of capture of loans exhibiting risk indicators and requiring specific provisions.</p>	

The assumptions used in the modelling are subject to a high degree of judgement resulting from limited experience of loan losses being previously incurred and the risk of there being unobserved impairments relating to the Covid-19 pandemic.

The directors' disclosures are given in note 9. Management's associated accounting policies are given on pages 36 to 37. Management's judgements in the application of the accounting policy and critical estimates is disclosed on pages 37 to 38. The Audit Committee's consideration of the matter is described on page 23.

Freehold head/branch office valuation

The Society's freehold head office and branch office building is held at fair value. It is the Society's policy to obtain an external valuation of the property at least every two years.

The freehold property was last valued in 2019 but given the impact of Covid-19 on commercial property valuations, particularly retail and office properties, we recognised there was increased measurement uncertainty and requested management obtain an updated valuation close to the Society's year end. The property was valued by an independent RICS qualified chartered surveyor on 5 November 2020 on the basis of the open market value for existing use, with vacant possession, which resulted in a £175,000 decrease in the fair value of the property.

The valuation was reported on the basis of 'material valuation uncertainty'. The valuer cited the unknown future impact that Covid-19 may have on the real estate market.

The directors' disclosures are given in note 12. Management's associated accounting policies are given on page 37. Management's judgements in the application of the accounting policy and critical estimates is disclosed on page 38. The Audit Committee's consideration of the matter is described on page 23.

Impact of Covid-19

The Covid-19 pandemic has disrupted financial markets and normal patterns of human behaviour during the year. This is translating into adverse impacts on the UK economy and uncertainty in the UK housing market. In response, the UK Government and the financial services regulators have announced measures to support business and people.

The Covid-19 pandemic has also changed the way that companies operate their businesses, with one of most substantial impacts being the transition to remote working. A substantial proportion of Society's employees have been working remotely during 2020, while maintaining a branch service and full mortgage offering throughout the year. Our audit team has also been working remotely for most of 2020.

The directors have specifically considered the impact on the annual accounts as it gives rise to greater levels of uncertainty in the following areas;

- The going concern assessment of the Society, and the Society's longer term financial sustainability; and
- Impairment provision for loans and advances to customers.

We considered the impact of Covid-19 to be an area of greater risk due to the potential for it to have pervasive implications on the Society.

We tested the assumptions and data used in the discounted cash flow models for properties in possession and checked that the models appropriately considered the impact of Covid-19.

Evaluated the adequacy of the disclosure of estimation uncertainty relating to impairment of loans and advances to customers.

Based on the procedures performed and the evidence obtained we concluded that the calculation of the impairment provision is materially complete and accurate, and the overall level of provision held is reasonable.

We engaged PwC property valuation experts to perform a review focusing on the methodology and approach used in the valuation report. We noted that management's expert is an established valuation practice with experience of conducting valuations of commercial and residential properties in the Humber region of the United Kingdom.

With support from our valuation experts, we have appraised the qualifications of management's experts, assessed the appropriateness of the valuation techniques used and have tested the property valuation for capital value movement.

Our property valuation expert determined the material valuation uncertainty did not mean that the valuation cannot be relied upon. Rather, it highlights that, due to the current extraordinary circumstances linked to the Covid-19 pandemic, less certainty can be attached to the valuations than would otherwise be the case.

We discussed the impact of Covid-19 on the Society's annual accounts and operations with the Audit Committee during the year. We also explained how we planned to execute our audit with all of our audit team working remotely.

In assessing the Directors' consideration of the impact of Covid-19 on the Annual Accounts, we have undertaken the following audit procedures:

Going concern

- We evaluated and challenged management assessment of the impact of Covid-19 on their business plans, liquidity and capital position;
- We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts;
- We challenged the reasonableness of the scenarios used by the directors in their going concern assessment and checked the appropriateness of the assumptions used within their forecasting; and
- We considered the appropriateness of the disclosures made by the directors as it relates to the potential impact of Covid-19 on the Society.

Based on our procedures performed and the information arising at the time of the directors' approval of the annual accounts, we have not identified any matters to report with respect to the impact of Covid-19 on the Society.

The directors' disclosures demonstrating how the pandemic gives rise to a principal risk for the Society is given on pages 10 to 11. Disclosures relating to the appropriateness of the use of the going concern basis of preparation and the considerations made by the directors when drawing this conclusion is given on page 12.

Impairment provision for loans and advances to customers

Refer to separate *Impairment provision for loans and advances to customers* Key Audit Matter.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the structure of the Society, the accounting processes and controls, and the industry in which it operates.

All of the Society's activities take place in the United Kingdom. The principal activity of the Society is the provision of savings products to individuals to fund secured lending on residential property to support home ownership. 96% of the Society's mortgage book is secured on UK residential property with the remainder secured on UK commercial properties. The Society is a stand-alone entity and the accounting records for the Society are maintained at its head office in Beverley.

Audit procedures were performed over all material account balances and financial information of the Society by a combined audit team from Leeds and Manchester. All procedures were conducted remotely due to the Covid-19 outbreak and consequent restrictions imposed by the UK Government.

The audit procedures performed provided us with sufficient audit evidence as a basis for our opinion on the annual accounts as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the annual accounts as a whole.

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

Overall materiality	£115,000
How we determined it	1% of reserves
Rationale for benchmark applied	The Society's principal activity is to provide residential mortgage loans financed by retail savings products. The strategy is not one purely of profit maximisation but to provide a secure place for customer savings in a mutual environment. The soundness of the Society is based on its regulatory capital, which is closely aligned to accounting reserves. As such we consider a benchmark based on reserves to be appropriate.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £86,000.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- We critically assessed the directors' conclusions on their going concern assessment, including consideration of the impact of Covid-19 on the annual accounts.
- We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts. We considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress.
- We challenged the reasonableness of the scenarios used by the directors in their going concern assessment and checked the appropriateness of the assumptions used within their forecasting.
- We evaluated management's disclosures in the Annual Report and checked the consistency of the disclosures with our knowledge of the Society based on our audit.

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 the date on which the annual accounts are authorised for issue.

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the annual accounts or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Building Societies Act 1986 – Opinion on Annual Business Statement and Directors' Report

In our opinion, based on our 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 year ended 31 December 2020 is consistent with the accounting records and the annual accounts; and
 - the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.
-

Responsibilities for the annual accounts and the audit

Responsibilities of the directors for the annual accounts

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, 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.

Auditors' responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 annual accounts.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Building Societies Act 1986 exception reporting

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 28 April 2020 to audit the annual accounts for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 December 2020.



Martin Cross (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
8 February 2021

Income Statement

for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Interest receivable and similar income	2	3,961	4,233
Interest payable and similar charges	3	(1,232)	(1,831)
Net interest income		2,729	2,402
Other operating income		56	55
Net operating income		2,785	2,457
Administrative expenses	4	(1,937)	(1,893)
Depreciation and amortisation	12,13	(101)	(100)
Operating charges		(27)	(30)
		720	434
Impairment provision for loans and advances	10	(262)	(257)
FSCS Levy	19	4	-
Profit on ordinary activities before tax		462	177
Tax on profit on ordinary activities	7	(97)	(34)
Profit for the financial year	21	365	143

Statement of Other Comprehensive Income

for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Profit for the financial year		365	143
Other comprehensive income			
Revaluation of freehold land and buildings	21	(159)	(105)
Total comprehensive income for the year		206	38

The Notes to the Accounts, below, form part of these accounts.

Profit for the financial year arises from continuing operations.

Both the profit for the financial year and other comprehensive income/(expense) for the year are attributable to the members of the Society.

Operating Profit is represented by Profit Before Tax in the Income Statement.

Note of historic profits and losses

If the accounts had been prepared on an historic cost basis depreciation for the year would have been reduced by £2,577 and profit before tax increased by £2,577 (2019:£6,160).

Statement of Financial Position

for the year ended 31 December 2020

Assets	Notes	2020 £000	2019 £000
Liquid assets			
Cash in hand and balances with the Bank of England	8	40,802	33,203
Loans and advances to credit institutions	8	8,589	5,610
Total liquid assets		49,391	38,813
Loans and advances to customers	9	149,501	151,763
Prepayments and accrued income	14	70	278
Investments	11	89	89
Tangible fixed assets	12	859	1,039
Intangible fixed assets	13	100	87
Total assets		200,010	192,069
Liabilities			
	Notes	2020 £000	2019 £000
Shares	15	170,333	164,294
Amounts owed to other customers	16	17,915	16,278
Total shares and borrowings		188,248	180,572
Other liabilities	17	88	35
Accruals and deferred income	18	176	179
Provisions for liabilities	19	22	13
Subordinated liabilities	20	0	0
Total liabilities		188,534	180,799
Reserves			
Revaluation reserve	21	412	571
General reserve	21	11,064	10,699
Total reserves attributable to members		11,476	11,270
Total liabilities and reserves		200,010	192,069

The Notes to the Accounts, below, form part of these accounts.

Approved by the Board of Directors on 04 February 2021 and signed on its behalf by:



S E Purdy Chairman



K Elliott Chief Executive



J E Bedford Deputy Chief Executive

Statement of Changes in Members' Interests

for the year ended 31 December 2020

2020	General Reserve £000	Revaluation Reserve £000	Total £000
Balance as at 1 January	10,699	571	11,270
Total comprehensive income for the year			
Profit for the year	365	-	365
Other Comprehensive Income/Expense	-	(159)	(159)
Balance as at 31 December	11,064	412	11,476

2019	General Reserve £000	Revaluation Reserve £000	Total £000
Balance as at 1 January	10,556	676	11,232
Total comprehensive income for the year			
Profit for the year	143	-	143
Other Comprehensive Income/Expense	-	(105)	(105)
Balance as at 31 December	10,699	571	11,270

Statement of Cash Flows

for the year ended 31 December 2020

	2020 £000	2019 £000
Cash flows from operating activities		
Profit on ordinary activities before taxation	462	177
Depreciation and Amortisation	101	100
Increase/(decrease) in provision for impairment	238	149
Impact of substantial loan modification	-	108
Interest payable on subordinated liabilities	-	15
Bad debt provision expense	32	-
Total	833	549
Changes in operating assets and liabilities		
Decrease/(increase) in prepayments and accrued income	176	(14)
Net increase in shares	6,039	3,554
Net increase/(decrease) in amounts owed to credit institutions and other customers	1,637	(1,134)
Net (decrease) in accruals and deferred income	(11)	-
Net increase in other liabilities	-	54
Net (decrease) in provision for liabilities	-	(17)
Taxation paid	(34)	(88)
Net (increase)/decrease in loans and advances to customers	2,032	(3,096)
Net cash inflow/(outflow) from operating activities	9,839	(742)
Cash flows		
Purchase of tangible and intangible assets	(94)	(90)
Net cash inflow/(outflow) from investing activities	(94)	(90)
Cash flows from financing activities		
Net (decrease) in subordinated debt	-	(1,750)
Interest paid on subordinated debt	-	(15)
Net cash (outflow) from financing activities	-	(1,765)
Net increase/(decrease) in cash and cash equivalents	10,578	(2,048)
Cash and cash equivalents at the beginning of the year	38,813	40,861
Cash and cash equivalents at the end of the year	49,391	38,813
Net Movement	10,578	(2,048)

The accompanying notes are an integral part of the financial statements.

Notes to the Accounts

for the year ended 31 December 2020

1. Accounting Policies

1.1 Basis of accounting

Beverley Building Society (the "Society") has prepared these Society annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in September 2015. The accounts have been prepared under the historical cost convention, except for freehold buildings which are stated at valuation. The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

The financial statements have been prepared on a going concern basis. This is discussed in the Directors' Report, above, under the heading "Going concern".

1.2 Interest

Interest income and expense on "basic" financial instruments are measured at amortised cost and recognised in the income statement using the effective interest rate method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts over the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability, including up front application fee income, broker procurement costs and fee free survey and legal re-mortgage costs.

1.3 Fees and commission

Fee and commission income and/or expense that is integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.2).

Other fees and commission income, with a low value or low occurrence in nature such as deed fees, redemption fees and further advance fees, are recognised as the related services are performed.

1.4 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

1.5 Financial Instruments

The Society's financial instruments consist of financial assets, principally liquid assets and loans and advances to customers (mortgages) and financial liabilities, principally shares and borrowings (customer deposits).

Recognition

The Society initially recognises loans and advances and deposits on the date on which they are originated.

Classification

All the Society's financial assets and liabilities are categorised as "basic" under FRS102 and are consequently measured at amortised cost.

De-recognition

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction. A financial liability is derecognised when the contractual obligations are discharged, cancelled or expire.

Identification and measurement of impairment

Provisions are made to reduce the value of loans and advances to the amount which the Directors consider is likely to be recoverable.

Individual assessments are made of all loans where the underlying collateral is in the Society's possession and on loans that are

more than three months in arrears. Additionally, the Society will consider the requirement of a specific provision for loans that are not in arrears but have other impairment triggers. Specific provision is made against those loans and advances that are considered to be impaired, based on expected discounted cashflows. In arriving at the specific provision, account is taken of discounts required against each individual property value at the balance sheet date, the amounts expected to be recovered under mortgage indemnity policies, estimated sale expenses and an appropriate discount rate.

Those loans not found to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and considers adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Where the Society is renting out properties it has acquired through possession, an individual impairment assessment will be performed. The forecast will take into account the loan amount, expected income and costs of renting the property and assumes the sale of the property at valuation, including relevant sales costs, at the end of the expected term. Where these properties are subsequently expected to be sold in the short term, the estimated provision based on immediate sale will be taken.

Modification of loans

A borrower's account may be modified to assist customers who are in financial difficulty or have recently overcome financial difficulty. Loans that have renegotiated terms, resulting in a substantial modification to the cash flows, are new loans recognised at fair value, provided the customers comply with the renegotiated terms.

1.6 Investments

Investments held by the Society are not publicly traded and are therefore carried at cost and are assessed for signs of impairment on an annual basis.

1.7 Tangible fixed assets

Fixed assets (except freehold buildings) are valued at historical cost less accumulated depreciation.

Freehold buildings are stated at valuation, a full revaluation is carried out at least every two years by an independent valuer.

The depreciation of revalued assets is recognised in full in the Income Statement. Revaluation surpluses are transferred to a revaluation reserve and may then be transferred to the income statement in equal instalments over the life of the asset.

Revaluation losses are recognised in the revaluation reserve until the carrying amount falls to depreciated historical cost, with the balance being recognised directly in the income statement.

Tangible fixed assets are depreciated by reference to cost or valuation at rates estimated to write off the relevant assets by equal instalments over their estimated useful lives. The depreciation rates used are:

Freehold buildings	2% on valuation
Office furniture and computer equipment	10% to 30% on cost

1.8 Intangible assets

The only intangible assets of the Society are purchased software assets. The assets are amortised on a straight line basis at 30% per year.

1.9 Leases

Operating lease rental income is recognised in the income statement in the year in which it is receivable.

1.10 Pension costs

The Society contributes to a defined contribution group personal pension plan for its staff. The Society's contributions are charged against profits in the year in which they are incurred. The charge to the income statement for the year is shown in note 5 to the accounts.

1.11 Segmental reporting

A segmental analysis is not disclosed as the Society's business is wholly UK based and within one business sector.

1.12 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks, and the balance of the Society's reserve account held with the Bank of England.

1.13 Provision for liabilities

A provision is recognised in the balance sheet when the Society has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Notes to the Accounts

for the year ended 31 December 2020

1.14 Going Concern

As noted in the Directors' Report, as part of the Society's forward planning process, the Directors have considered forecasts showing the Society's capital, liquidity and financial position for the next 12 months under normal operating conditions. They have also considered the potential effect on the Society's business, financial position, capital and liquidity under stressed operating conditions, specifically including a severe but plausible stress scenario incorporating the potential impact of the increased risks and uncertainties as a result of the Covid-19 outbreak set out on page 10 of this report. The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, the Accounts continue to be prepared on the going concern basis.

1.15 Significant accounting estimates and judgements

Application of certain Society accounting policies requires management to make judgements, assumptions and estimates concerning future events which affect the reported amounts of assets and liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are evaluated regularly and are based on the Society's own historical experience and other factors including market-wide benchmark data. Revisions to accounting estimates are recognised in the period in which these estimates are revised, and in any future periods affected.

Provisioning methodology

Impairment provisions are calculated using the Society's historical arrears experience, modelled credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions (e.g. house prices), customer behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession.

• Probability of default

In terms of the sensitivity, if the probability of default increased by 10% on both performing and provided mortgages, the estimated impact on the impairment provision would be an increase of £32,000 (2019: £20,000), with a corresponding charge to the Income Statement. A 10% increase would mean a 30% probability of default, for example, would be uplifted to 33%.

• Security value

In terms of the sensitivity, a 5% increase in the securities value on both performing and provided mortgages, would result in a decrease in the impairment provision of £109,000. Conversely a 5% decrease would result in an increase of £112,000.

• Properties in possession - held into the longer term

There are currently two commercial properties held which are not expected to be sold in the short term, given it is the Society's intention to hold these properties over the 5 year budget horizon. The impairment differential between the immediate sale and the cashflow forecast assessment is £143,000 (2019:£81,000), largely representing the discounted net rental income expected over the period.

Valuation of Freehold Premise

As noted in the accounting policy, the freehold buildings are stated at valuation, a revaluation is carried out at least every two years by an independent valuer. Given the current Covid environment and the well documented impact on the high street, the Society obtained a further valuation in November 2020 from an independent valuer with significant knowledge of the local retail market, in order to ensure the valuation was up to date and reflective of the current environment. In these uncertain retail times, it is recognised the valuation of retail property maybe difficult to estimate with accuracy. If the building valuation was to reduce by a further 10%, the estimated impact is that fixed assets and the revaluation reserve would be reduced by a further circa £80,000. The reduction in the revaluation reserve would cause capital and other comprehensive income to also fall by £80,000.

2. Interest receivable and similar income

	2020 £000	2019 £000
On loans fully secured on residential property	3,749	3,784
On other loans	124	155
On other liquid assets	88	293
On loan to participating interest	-	1
Total	3,961	4,233

Included within interest receivable on loans fully secured on residential property is £197,000 (2019:£143,000) in respect of interest income on loans that are specifically provided for (see note 10)

Included within interest receivable on other loans fully secured on land is £11,000 (2019: £13,000) in respect of income on loans and advances that are specifically provided for (see note 10)

3. Interest payable and similar charges

	2020 £000	2019 £000
On shares held by individuals	1,190	1,745
On deposits and other borrowings	42	71
On subordinated liabilities	-	15
Total	1,232	1,831

4. Administrative expenses

	2020 £000	2019 £000
Staff costs (note 5)	1,065	1,026
Other administrative expenses	872	867
Total	1,937	1,893

Included in other administrative expenses are:

Remuneration of auditors		
Audit of these financial statements (Note 1)	94	78
Taxation compliance services	-	-
All other services	-	-

The remuneration of the auditors reflects amounts payable to PwC LLP (2019:KPMG) for audit of these financial statements.

(1): These figures are presented exclusive of VAT.

Notes to the Accounts

continued

5. Staff numbers and costs

	2020 Number	2019 Number
The average number of persons employed by the Society (including the executive directors) during the year was as follows:		
Full time	17	17
Part time	9	9
Total	26	26

	2020 £000	2019 £000
The aggregate cost of these persons was as follows:		
Wages and salaries	906	871
Social security costs	100	96
Other pension costs	59	59
Total	1,065	1,026

The Society operates a group personal pension scheme (a defined contribution scheme) of which 23 employees are members.

The assets of the Scheme are held separately from those of the Society in an independently administered fund. The pension cost charge noted above represents contributions payable by the Society to the fund.

6. Directors

Remuneration

Total remuneration of the Society's Directors for the year was £486,000 (2018: £464,000).

Full details are given in the Directors' Remuneration Report, above.

The Society does not contribute to Non-Executive Directors' pensions.

Directors' loans and transactions

At 31 December 2020 there were 0 (2019: 0) outstanding mortgage loans granted in the ordinary course of business to a Director and their connected persons, amounting in aggregate to £0 (2019: £0).

A register is maintained at the principal office of the Society under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the register for the financial year ended 31 December 2020 will be available for inspection at the principal office for a period of 15 days up to and including the date of the Annual General Meeting and at the meeting.

7. Tax on profit on ordinary activities

	2020 £000	2019 £000
The tax charge for the year comprises:		
Corporation tax on profits for the period	87	35
Adjustment in respect of prior periods	-	-
Total current tax	87	35
Deferred taxation (note 19)		
Adjustment in respect of prior periods	3	-
Origination and reversal of timing differences	5	(1)
Effect of tax rate change	2	-
Total deferred tax	10	(1)
Total corporation tax	97	34
Reconciliation of tax on profit on ordinary activities		
Profit on ordinary activities before tax	462	177
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)		
	88	34
Expenses not deductible	4	-
Adjustment in respect of prior periods	3	-
Effect of tax rate change	2	-
Tax Charge for the Period	97	34

Notes to the Accounts

continued

8. Loans and advances to credit institutions	2020 £000	2019 £000
Loans and advances to credit institutions have maturities as follows:		
On demand	8,589	5,610
In not more than three months	-	-
In more than three months but not more than one year	-	-
	8,589	5,610
Accrued interest	-	-
Total	8,589	5,610

An analysis of the Society's treasury asset concentration is shown in the table below (Fitch agency ratings):

Credit Quality	Description	2020		2019	
		£000	%	£000	%
AA	Bank of England Reserve	40,703	82.4%	33,124	85.3%
Unrated	Cash in hand	99	0.2%	79	0.2%
	Bank of England and Cash	40,802	82.6%	33,203	85.5%
A+	Operational accounts with Barclays Bank plc	1,877	3.8%	1,385	3.6%
A+	Operational bank accounts with NatWest Bank plc	6,712	13.6%	4,225	10.9%
	Loans and advances to credit institutions	8,589	17.4%	5,610	14.5%
	Total Liquid Assets	49,391	100.0%	38,813	100.0%

9. Loans and advances to customers	2020 £000	2019 £000
Loans fully secured on residential property	143,470	145,683
Loans fully secured on land	6,031	6,080
Total	149,501	151,763

Maturity analysis

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

Repayable on demand	1,968	539
In not more than three months	1,219	1,973
In more than three months but not more than one year	4,064	6,535
In more than one year but not more than five years	29,864	31,026
In more than five years	113,205	112,279
	150,320	152,352
Less: Provisions (note 10)	(771)	(533)
Less: Net EIR liability	(48)	(56)
Total	149,501	151,763

This analysis assumes that each mortgage account will continue under its current terms and, in particular, that it will not be redeemed before the contractual maturity date. However, the Society's mortgage conditions give the Society the right to demand repayment of the mortgage debt in full after three months' written notice to the borrower when the borrower is in default.

The Society's value of collateral is reflected in the Loan to Value ('LTV') profile of the mortgage book. The estimated value of the mortgage portfolio is updated on a quarterly basis using the Nationwide regional House Price Index.

	2020	2019
Average LTV	33.8%	36.5%

Notes to the Accounts

continued

9. Loans and advances to customers

An analysis of the Society's geographical concentration is shown in the table below:

	2020		2019	
	£000	%	£000	%
East Anglia	1,782	1.2	2,076	1.4
East Midlands	7,419	4.9	7,066	4.6
Greater London	5,530	3.7	4,911	3.2
North	2,523	1.7	2,260	1.5
North West	6,087	4.1	5,878	3.9
Outer Metropolitan Area	5,472	3.6	5,611	3.7
South East	7,723	5.1	7,071	4.6
South West	9,482	6.3	10,428	6.9
Wales	3,161	2.1	2,728	1.8
West Midlands	5,797	3.9	6,003	3.9
Yorkshire and Humberside	95,344	63.4	98,320	64.5
Total	150,320	100.0	152,352	100.0

The table below provides further information on the Society's loans and advances to customers by payment due status:

	2020		2019	
	£000	%	£000	%
Not impaired				
Neither past due or impaired	144,094	95.8	145,926	95.8
Past due but not impaired	1,099	0.7	2,436	1.6
Impaired				
Not past due but impaired	3,049	2.0	1,020	0.7
Past due	353	0.2	1,007	0.7
Possessions	1,725	1.2	1,963	1.3
Total loans and advances to customers	150,320	100.0	152,352	100.0

Past due but not impaired - relates to any asset where a payment due is received late or missed but no specific impairment has been made against the asset given the low LTV of the mortgage.

Not past due but impaired – relates to specific mortgages which are up to date, however a specific impairment has been made against the asset due to case-specific impairment triggers.

10. Impairment provision for loans and advances

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 31 December 2019			
Collective provision	62	69	131
Specific provision	154	248	402
Total	216	317	533
Specific provision - utilised in year	(24)	-	(24)
Charge for the year			
Collective provision	(24)	33	9
Specific provision	216	37	253
Reclassification	164	(164)	-
Total	356	(94)	262
At 31 December 2020			
Collective provision	38	102	140
Specific provision	510	121	631
Total	548	223	771

As noted in more detail on pages 11 and 12, impairment provisions have been assessed in the light of Covid -19.

Reclassification: £164,000 has been reclassified from other loans fully secured on land to loans fully secured on residential property, given management believes this better reflects the categorisation of the underlying mortgage.

Notes to the Accounts

continued

10. Impairment provision for loans and advances

Comparative position at 31 December 2019	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	£000	£000
At 31 December 2018			
Collective provision	67	76	143
Specific provision	87	154	241
Total	154	230	384
Specific provision- utilised in year	-	-	-
Charge for the year			
Collective provision	(5)	(7)	(12)
Specific provision	67	94	161
Impairment due to modified loan	108	-	108
Total	170	87	257
At 31 December 2019			
Collective provision	62	69	131
Specific provision	154	248	402
Total	216	317	533

11. Investments

	2020	2019
	£000	£000
Cost and net book value		
Shares in participating interests	89	7
Loans to participating interests	-	82
Total	89	89

The Society holds directly the following interests, which are registered and incorporated in England.

	Principal activity	Class of shares held	Interest of Society	
Mutual Vision Technologies Ltd	Computer Software Developer	Ordinary	2020	11.83%
			2019	13.20%

Mutual Vision is an unlisted company originally formed by a consortium of Building Societies to acquire the trade of their existing computer software supplier. The company's purpose is to provide critical platform infrastructure to its shareholders and mutual customers.

At 31 December 2019, Mutual Vision Technologies Ltd held a loan from the Society at a value of £82,000. The loan bore interest at a Bank of England base rate plus 1%, subject to a minimum interest rate of 1.5% per annum.

On 1 January 2020, as part of the new shareholder agreement, all Mutual Vision loan capital provided by its shareholders was converted into 1p ordinary shares at a value of 24.757p, totalling £82,000. This conversion did not lead to a change in the level of the Society's investment in Mutual Vision Technologies Ltd, but given it had invested proportionally less in the form of loan capital than other shareholders, its percentage holding in the company reduced from 13.20% to 11.83%.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

12. Tangible fixed assets

	Freehold buildings	Office furniture and computer equipment	Total
	£000	£000	£000
Cost			
At 31 December 2019	975	327	1,302
Additions	-	18	18
Disposals	-	-	-
Revaluation	(175)	-	(175)
At 31 December 2020	800	345	1,145
Depreciation			
At 31 December 2019	-	263	263
Charge for the year	19	20	39
On disposals	-	-	-
Revaluation	(16)	-	(16)
At 31 December 2020	3	283	286
Net Book Value			
At 31 December 2020	797	62	859
At 31 December 2019	975	64	1,039

Particulars relating to revalued tangible fixed assets are given below

	2020	2019
	£000	£000
Freehold buildings at open market value	800	975
Historical cost of re-valued assets	817	817

The freehold buildings at 57/58 Market Place, Beverley were re-valued in November 2020 by Scotts Property LLP, an external qualified Chartered Surveyor appointed by the Society on the basis of the open market value for existing use, with vacant possession of the property that is currently occupied by the Society but subject to an existing tenancy.

Freehold land and buildings relate to property substantially occupied by the Society for its own activities (£638,000 at current valuation occupied by the Society).

Notes to the Accounts

continued

13. Intangible fixed assets

	Purchased Software £000
Cost	
At 31 December 2019	842
Additions	75
Disposals	-
At 31 December 2020	917
Amortisation	
At 31 December 2019	755
Charge for the year	62
Disposals	-
At 31 December 2020	817
Net book amount	
At 31 December 2020	100
At 31 December 2019	87

14. Prepayments and accrued income

	2020 £000	2019 £000
Due within one year		
Prepayments and accrued income	70	278
Accounts receivable	32	-
Provision for doubtful debt	(32)	-
Total	70	278

The Society rents out part of its head office property to a commercial third party that has gone into administration during the year ended 31 December 2020. As a result, a doubtful debt provision of £32,000 has been put in place which equates to the amount of rent payable still outstanding as at 31 December 2020 (2019: £nil)

15. Shares

	2020 £000	2019 £000
Shares held by individuals	170,301	164,262
Shares held by others	32	32
Total	170,333	164,294

Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:

Accrued interest	286	519
On demand	166,638	162,769
In not more than three months	88	51
In more than three months but not more than one year	35	131
In more than one year but not more than five years	2,608	824
In more than five years	678	-
Total	170,333	164,294

16. Amounts owed to other customers

	2020 £000	2019 £000
Amounts owed to other customers relates to savings accounts held by business entities, are repayable from the balance sheet date in the ordinary course of business as follows:		
On demand	17,652	16,019
In not more than three months	263	259
Total	17,915	16,278

Notes to the Accounts

continued

17. Other liabilities	2020 £000	2019 £000
Amounts falling due within one year		
Corporation tax	88	35
Total	88	35

18. Accruals and deferred income	2020 £000	2019 £000
Amounts falling due within one year		
Accruals and deferred income	176	179
Total	176	179

19. Provisions for liabilities	Deferred tax £000	FSCS Levy £000	Total £000
At 31 December 2019	13	-	13
Adjustment in respect of prior years	3	-	3
(Paid)/Received in the year	-	4	4
Charge/(credit) to the income statement for the year	6	(4)	2
At 31 December 2020	22	-	22

Deferred taxation comprises:

	2020 Amount recognised £000	2019 Amount recognised £000
The deferred taxation liabilities are set out below:		
Fixed asset timing differences	24	16
Short term timing differences – trading	(2)	(3)
Total	22	13

a. Financial Services Compensation Scheme (FSCS) Levies

Based on its share of protected deposits, the Society, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims made 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.

The FSCS has met the claims by way of loans received from HM Treasury on which it is liable to pay interest. The FSCS has, in turn, acquired the rights to the realisation of the assets of these institutions. The FSCS will have further liabilities if there are insufficient funds available from the realisation of the assets of the institutions to fully repay the respective loans from HM Treasury. In December 2020 the FSCS has announced there is a small shortfall which is expected to be payable by levy payers for 2020. Based on the currently available information the amount payable by the Society is inconsequential (<£1k) to the financial statements. Consequently the Society has nil provision (2019: £nil).

b. Capital commitments

Capital commitments relating to purchased software costs at 31 December 2020, for which no provision has been made in the accounts, were as follows:

	2020 £000	2019 £000
Contracted	-	45

20. Subordinated liabilities	2020 £000	2019 £000
Loans repayable in 2020	-	-
Total	-	-

In March 2019, the Society has repaid its final tranches of subordinated liabilities. During 2020, the Society continued to be funded solely by its members.

21. Reserves	General Reserve £000	Revaluation Reserve £000
At 31 December 2019	10,699	571
Profit for the year	365	-
Revaluation of office premises	-	(159)
At 31 December 2020	11,064	412

Notes to the Accounts

continued

22. Financial Instruments

Contracts that give rise to financial assets or liabilities are known as financial instruments. The Society's sole business is to operate in the retail market for financial instruments, through the provision of mortgage and savings products.

The Society does not run a trading book.

Financial Instrument Classification

The table below shows the financial assets and liabilities of the Society, assigned to their categories under FRS102:

	Financial assets that are debt instruments measured at amortized cost £000	Financial liabilities carried at amortized cost £000
At 31 December 2020		
Cash in hand and balances with the Bank of England	40,802	-
Loans and advances to credit institutions	8,589	-
Loans and advances to customers	149,501	-
Total Financial Assets	198,892	-
Shares	-	170,333
Amounts owed to other customers	-	17,915
Other liabilities	-	88
Accruals, deferred tax and deferred income	-	198
Total Financial Liabilities	-	188,534
At 31 December 2019		
Cash in hand and balances with the Bank of England	33,203	-
Loans and advances to credit institutions	5,610	-
Loans and advances to customers	151,763	-
Total Financial Assets	190,576	-
Shares	-	164,294
Amounts owed to other customers	-	16,278
Other liabilities	-	35
Accruals, deferred tax and deferred income	-	192
Total Financial Liabilities	-	180,799

At 31 December 2020, the Society has off balance exposures in the form of mortgage commitments totalling £9.5m (2019: £6.6m)

Financial Risk Management

As highlighted by the Financial Risk Management report on page 18, the Society is by virtue of its operations exposed to a variety of financial risks, including liquidity risk, credit risk, and interest rate risk.

Liquidity Risk

The risk that the Society is unable to meet its financial obligations as they fall due. The Society has strict policies to manage liquidity risk, as further detailed within the Financial Risk Management report, on page 15. The Society's liquid funds are either deposited with the Bank of England or in call accounts with the Society's clearing banks, which all allow for same day access to all funds.

For an analysis of the credit quality of treasury counterparties, see note 8.

Credit Risk

Credit risk is the risk of losses arising from a borrower or counterparty failing to meet its obligations as they fall due. The Society has a strong and well established framework of controls in place which mitigates this risk. The effectiveness of systems and controls for the management of credit risk is monitored by the Risk Committee. Further information on this can be found within the Financial Risk Management report, on pages 14 and 15.

	2020 £000	2019 £000
The Society's maximum credit risk exposure is shown in the table below:		
Cash in hand and balances with the Bank of England	40,802	33,203
Loans and advances to credit institutions	8,589	5,610
Loans and advances to customers	149,501	151,763
Off balance sheet exposures – Mortgage commitments	9,536	6,613
Total	208,428	197,189

A key indicator of credit risk associated with the Society's mortgage book is the amount of the loans outstanding as a proportion of the underlying security's value, known as the Loan-to-Value percentage (LTV). A lower LTV percentage means greater borrowers' equity in a property, reducing or even eliminating expected losses in the event of default and, where this is in the best interest of the Society's members, subsequent repossession. The value of the underlying security is based on a professional valuation at origination of the loan, adjusted for the subsequent movements in the House Price Index (HPI).

The Society over the last decade has gradually reduced the weighted average LTV of its loan book, which now stands at below 34%. The loan book can be broken down into the following LTV bands:

LTV Ratio	2020		2019	
	£000	%	£000	&
Less than or equal to 50%	78,863	52.4	72,589	47.6
Over 50% but less than or equal to 70%	45,214	30.1	50,124	32.9
Over 70% but less than or equal to 85%	17,691	11.8	20,615	13.5
Over 85% but less than or equal to 95%	4,914	3.3	5,422	3.6
Over 95%	3,638	2.4	3,602	2.4
Total	150,320	100.0	152,352	100.0

Analyses of the geographical spread and payment status of the loans within the mortgage book are provided in note 9.

Details on customers in forbearance can be found within the Financial Risk Management report, on page 14.

Interest rate risk

The Society is exposed to movements in interest rates, and manages this exposure on a continuous basis, within the limits set by the Board. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing or the maturity date.

Notes to the Accounts

continued

The interest rate sensitivity of the Society as at 31 December 2020 was:

	Up to 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	Non interest bearing £000	Total £000
Assets						
Liquid Assets	49,391	-	-	-	-	49,391
Loans and Advances to Customers	148,125	-	-	1,376	-	149,501
Prepayments and Accrued Income	-	-	-	-	70	70
Investments	-	-	-	-	89	89
Tangible Fixed assets	-	-	-	-	859	859
Intangible Fixed assets	-	-	-	-	100	100
Total Assets	197,516	-	-	1,376	1,118	200,010
Liabilities						
Shares	167,510	-	-	2,537	286	170,333
Amounts owed to other customers	17,915	-	-	-	-	17,915
Other Liabilities	-	-	-	-	88	88
Accruals and deferred income	-	-	-	-	176	176
Provisions for liabilities	-	-	-	-	13	13
Revaluation Reserve	-	-	-	-	412	412
General Reserve	-	-	-	-	11,073	11,073
Total Liabilities and Equity	185,425	-	-	2,537	12,048	200,010
Net mismatches	12,091	-	-	(1,161)	(10,930)	-
Interest rate sensitivity gap	12,091	-	-	(1,161)	(10,930)	-
Cumulative Sensitivity gap	12,091	12,091	12,091	10,930	-	-

Sensitivity to General Reserves as a result of:

A 2% increase in the interest rate	(30)	-	-	35	0	5
A 2% decrease in the interest rate	30	-	-	(35)	0	(5)

As this analysis is based on interest rate reset dates, it differs from the maturity analysis of assets and liabilities given in notes 8, 9, 15 and 17.

The interest rate sensitivity of the Society at 31 December 2019 was:

	Up to 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	Non interest bearing £000	Total £000
Assets						
Liquid Assets	38,813	-	-	-	-	38,813
Loans and Advances to Customers	151,763	-	-	-	-	151,763
Prepayments and Accrued Income	-	-	-	-	278	278
Investments	-	-	-	-	89	89
Tangible Fixed assets	-	-	-	-	1,039	1,039
Intangible Fixed assets	-	-	-	-	87	87
Total Assets	190,576	-	-	-	1,493	192,069
Liabilities						
Shares	163,775	-	-	-	519	164,294
Amounts owed to other customers	16,278	-	-	-	-	16,278
Other Liabilities	-	-	-	-	35	35
Accruals and deferred income	-	-	-	-	179	179
Provisions for liabilities	-	-	-	-	13	13
Revaluation Reserve	-	-	-	-	571	571
General Reserve	-	-	-	-	10,699	10,699
Total Liabilities and Equity	180,053	-	-	-	12,016	192,069
Net mismatches	10,523	-	-	-	(10,523)	-
Interest rate sensitivity gap	10,523	-	-	-	(10,523)	-
Cumulative Sensitivity gap	10,253	10,253	10,253	10,253	-	-

Sensitivity to General Reserves as a result of:

A 2% increase in the interest rate	(26)	-	-	-	0	(26)
A 2% decrease in the interest rate	26	-	-	-	0	26

As this analysis is based on interest rate reset dates, it differs from the maturity analysis of assets and liabilities given in notes 8, 9, 15 and 17.

Notes to the Accounts

continued

Maturity Analysis

The maturity analysis of the financial liabilities of the Society at 31 December 2020 was:

	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Shares	167,796	-	-	2,570	-	170,366
Deposits and other borrowings	17,915	-	-	-	-	17,915
Other Liabilities	88	-	-	-	-	88
Accruals and deferred income	176	-	-	-	-	176
Total financial liabilities	185,975	-	-	2,570	-	188,545

The maturity analysis of the financial liabilities of the Society at 31 December 2019 was:

	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Shares	164,294	-	-	-	-	164,294
Deposits and other borrowings	16,278	-	-	-	-	16,278
Other Liabilities	35	-	-	-	-	35
Accruals and deferred income	192	-	-	-	-	192
Total financial liabilities	180,799	-	-	-	-	180,799

Note: The above analysis is based on undiscounted contractual cashflows and therefore does not reconcile to the balance sheet.

Capital

Capital is a key measure of the Society's financial strength and is, as shown below, primarily comprised of accumulated profit reserves. Capital supports business growth and protects the business against its principal risks.

The Society's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA). The Society undertakes a formal Internal Capital Adequacy Assessment Process (ICAAP) to articulate and demonstrate how these requirements are met.

In addition, the ICAAP documents the framework for the Society's governance and oversight of its risk and capital management policies and is used to assist with the management of capital and risk exposures.

The Society's actual and forecasted capital positions are reviewed against a risk appetite that requires capital to be maintained at a specific minimum level above regulatory capital requirements. There were no reported breaches of capital requirements during the year.

There have been no material changes to the Society's management of capital in the year.

Composition of Capital	Note	2020 £000	2019 £000
General Reserve	21	11,064	10,669
Intangible assets	13	(100)	(87)
Revaluation reserve	21	412	571
Tier 1 capital		11,376	11,153
Collective provisions	10	140	131
Tier 2 capital		140	131
Total Regulatory Capital		11,516	11,284

Country by Country Reporting - Capital Requirement Directive (CRD IV) disclosures

Information required under the CRR rules Article 89, Country-by-Country Reporting (CBCR) are disclosed below:

Name	Type of Entity	Nature of Activity	Location	Turnover (£m)	Profit Before Tax (£m)	Corporation Tax Paid	No. of Employees
The Beverley Building Society	Building Society – UK Registered Entity	UK financial institution owned by its members as a mutual organisation. The principal purpose of the Society is that of loans that are secured primarily on residential property, funded largely by its members. The Society has no active subsidiaries and is wholly based in the UK. The Society has transactions only in GBP.	Beverley, East Yorkshire England	£4.0m based on interest receivable	£0.47m	£0.04m paid in settlement of corporation tax on 2019 profits	21 Full Time Equivalents

The country-by-country information has been prepared on the following basis:

- Total turnover represents Interest receivable and similar income for the Society as disclosed in the Income Statement.
- Profit before tax represents Profit on ordinary activities before tax as disclosed in the Income Statement.
- Corporation Tax paid in year represents actual corporation tax payments made during the year as disclosed in the Society Statement of Cash Flows.
- Number of employees on an FTE basis is representative of the average number of persons employed by the Society as disclosed in Note 5 to the Accounts.

Independent auditors' report to the directors of Beverley Building Society

Report on the audit of the country-by-country information

Opinion

In our opinion, Beverley Building Society's country-by-country information for the year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2020 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the country-by-country report which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We critically assessed the directors' conclusions on their going concern assessment, including consideration of the impact of Covid-19 on the country-by-country information.

- We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts. We considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress.
- We challenged the reasonableness of the scenarios used by the directors in their going concern assessment and checked the appropriateness of the assumptions used within their forecasting.

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 the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the company'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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 this country-by-country information.

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.

Based on our understanding of the Society/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed included:

- Review of correspondence with and reports to the regulators;
- Testing significant accounting estimates;
- Testing of journal entries which contained unusual account combinations back to corroborating evidence;

- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud; and
- Review of internal audit reports in so far as they related to the country-by-country information.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
8 February 2021

Annual Business Statement

for the year ended 31 December 2020

1. Statutory percentages

	2020 %	Statutory Limit %
Lending limit	4.28	25.00
Funding limit	9.52	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986, as amended by the Building Societies Act 1997.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are the total assets of the Society as shown in the balance sheet plus provisions for bad and doubtful debts, less liquid assets and tangible fixed assets. Loans fully secured on residential property are the amount of principal owing by the borrowers and accrued interest not yet payable. This is the amount shown in the balance sheet plus provisions for bad and doubtful debts.

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

2. Other percentages

	2020 %	2019 %
<i>As a percentage of shares and borrowings</i>		
Gross capital	6.10	6.24
Free capital	5.66	5.74
Liquid assets	26.24	21.49
Profit for the year as a percentage of mean total assets	0.19	0.07
Management expenses as a percentage of mean total assets	1.04	1.04

The above percentages have been prepared from the Society's balance sheet.

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

Gross capital represents the general reserve, revaluation reserve and subordinated liabilities.

Free capital represents the aggregate of gross capital and collective loan impairment less tangible and intangible assets.

Mean total assets are the average of the 2019 and 2020 total assets.

Management expenses represent the aggregate of administrative expenses, depreciation and amortisation.

3. Information relating to directors

The Society requires all Directors to disclose any relevant external interests that may be considered to conflict with their role at the Society, including any directorships that they may hold. The Society also requires all Directors to re-affirm their external interests on an annual basis and to declare at each meeting of the Society any interests that they may have that could compromise the best interests of the Society.

Name and date of birth	Date of appointment	Business occupation	Other directorships
S E Purdy BA(Hons), FCII, Chartered Insurer (19.04.1962)	2018	Company Director	London General Life Company Limited London General Insurance Company Limited TWG Services Limited TWG Europe Limited Assurant General Insurance Limited Assurant Group Limited Lifestyle Services Group Limited Assurant Life Limited Assurant Intermediary Limited Age UK Age UK Enterprises Police Care UK British Friendly Society 24 Charles Street Limited Medical Protection Society Limited MPI (London) Limited
R A Pattinson Senior Independent Director (19.05.1952)	2011	Company Director and Financial Services Consultant	A & T Advisory Ltd Pioneer Projects (Celebratory Arts) Limited
E E Morley BSc (Hons) (16.12.71)	2020	Company Director and Financial Services Consultant	Premiss Consultancy Ltd
K J D Elliott BA(Hons), Mdir, MCIM (25.05.1972)	2017	Chief Executive Officer	Beverley Together Limited
M R Heenan BSc (Hons), FCA (27.02.1951)	2012	Company Director and Retired Chartered Accountant	Inglewood Investment Company Limited(THE) TIIC Projects Limited TIIC Developments Limited Stafford Town Football Foundation Masonic Charitable Foundation Coltkell Limited
S A Symington C Dir, FCIPD (04.03.1965)	2013	Non-Executive Director	Chair - York Teaching Hospital NHS Foundation Trust Director - Lodge Cottage LTD
J E Bedford FCA (13.02.1970)	2014	Deputy Chief Executive Officer	
M Marsden BSc (Hons), MBA (28.01.1967)	2014	Risk Director	

Documents may be served on the above named directors at:

c/o PwC LLP, 29 Wellington Street, Leeds, LS1 4DL

The Executive Directors J E Bedford and M Marsden have service contracts with the Society, termination of which may be effected by either party giving not less than six months written notice. The service contract of K J D Elliott requires either party to provide written notice of at least nine months for termination. The contract dates of the above Executive Directors are 11 April 2014, 12 August 2014 and 21 April 2017, respectively. No other Directors have contracts in place.