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BEVERLEY

BUILDING SOCIETY

Building Better Futures

Beverley Building Society
57 Market Place, Beverley HU17 8AA

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BEVERLEY

BUILDING SOCIETY

Building Better Futures

Annual Report and Accounts

for the year ended
31 December 2018

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.

Contents

Giving something back

Giving back is very important to us and these photographs show some of the ways we helped our community in 2018. Organisations voted for by you to receive £250 from our 'Charity of the Month' pot included Pet Respect, Beverley Community Lift (BCL) and Viking Radio 'Mission Christmas'. In April and May, our team plus some rather fit visitors got on their bike – specifically an exercise bike inside our branch – to cycle 597 miles, the length of the Tour de Yorkshire, and raise a total of £1,000 for the Tour's chosen charity, Yorkshire Air Ambulance.

You might have seen us at the Driffield Show, along with volunteers from BCL, supporting this annual event. Our partnership with BCL saw us teaming up with them on our Business Account, offering a £1,000 donation to the charity for accounts opened by businesses, charities and other organisations. And we contributed £2,600 to the local branch of the SSAFA Armed Forces Charity by winning the auction at the Beverley and District Chamber of Trade Annual Ball for a memorial bench, which is now installed at Beverley's Flemingate shopping centre.





Chairman's Statement

for the year ended 31 December 2018

As your new Chairman Designate, I was delighted to have the opportunity to join the Board of Beverley Building Society in November 2018.

Brian Young stepped down as Chairman at the end of 2018. Brian joined the Board of the Beverley in 2009 and served as Chairman from 2015. He leaves the Society in a strong financial position, financially robust with a carefully developed strategy and, despite the backdrop of general economic turmoil and uncertainty in UK financial markets throughout his tenure, the Society is financially stronger, more sustainable and has its focus very much on the future. The Board of the Society would like to thank Brian for his unfailing commitment and service, for his leadership of the Board and his vision and he leaves us with our very sincere thanks. I am particularly grateful to Brian for the advice and support he has given to me.

I am particularly delighted to be joining the Society at a time when the service and products we offer to our members is more important than ever. The success of that strategy was demonstrated through a 3% growth in our Savings balances in 2018, while we continued to focus on providing high quality service and products to our mortgage customers, leading to a 9% increase in new lending.

The Society is very well served by an outstanding team of highly committed and knowledgeable staff. A very positive part of my own, very engaging recruitment process, was the opportunity I had to meet a number of members of our team who carry out key roles in the Society, as well as representatives of the Beverley community with whom we work closely. It demonstrated very clearly that Beverley Building Society has a key role to play in offering quality products and service, while continuing to develop the way in which we support our members as their financial needs change and develop. It also demonstrated the commitment and capability in the Society. Our Executive team, under Karl Elliott's leadership as CEO, continues to focus on our members' priorities.

For me, it's also been a chance to renew my acquaintance with Yorkshire, given I trained with General Accident in York and worked for that business for many years. I look forward to building my knowledge of the East Riding and its communities and understanding the needs the Society can help fulfil, as I bring both my own experience in Financial Services and a set of personal values that resonate strongly with the mutual ethos. We intend to build on the strong foundations that our colleagues and your Board have put in place, to make certain your Society continues to put members' needs and the protection of their interests at the very heart of our thoughts and actions.

2018 has been a year of significant strategic progress delivering continued financial sustainability for your Society, against a back-drop of an ever challenging economic and political environment.

Whilst the media and commentary is understandably dominated by Brexit, the reality is that the UK has seen a continuation of low growth and productivity in 2018. The Bank of England again took action against longer term inflationary concerns by increasing interest rates in August, but we anticipate a long and relatively slow climb back to pre 2008 levels.

House price inflation bucked the trend in the Yorkshire & Humber region, rising by more than 4% in the year, although it remained weak across the UK as a whole. Remortgaging, rather than house purchase, continues to fuel the mortgage market and the uncertainty within the economy is serving to exacerbate the current situation.

These characteristics reflect a difficult environment for many of our members, whether they are seeking to buy their home, refinance their property, or generate value from their hard earned savings. Our response has been to remain focussed on delivering straightforward, good value products for borrowers and savers alike and to continue treating our members as individuals, giving them the time and help they need to make the right decisions for them. We believe this is what distinguishes the Beverley and why we continue to build your support.

We were delighted to receive national media recognition in passing on the full benefit of the Bank of England base rate rate change to all our savings members and we continue to successfully identify important areas of quality lending, in particular helping those in later life, those looking to build their own homes and our self employed members.

I am delighted to report that our approach has been well received by borrowers and savers alike in 2018, with increased new lending and growth in savings balances, primarily funded from branch based deposits. Our presence allows us to fulfil an increasingly important community service as the major banks' branches continue to disappear from the high street.

The Society's investment in people and strategy, in addition to the savings rate increases noted above, has meant a reduction in profit year on year, albeit well above our budgeted position. We have also taken the opportunity to take further risk out of our business with the cost effective disposal of a number of legacy properties in possession and by no longer investing in fixed term certificates of deposit. As such, we are well placed to continue investing in our strategic deliverables and pay off our final tranche of subordinated debt in early 2019. This means that we will be exclusively funded by our members.

2018 has seen us revisit our original purpose in redefining our strategic intent, culminating in our 'Building Better Futures' strategy. Our aim is to ensure that our commercial and social purpose, focussed primarily on our regional heartland, will build sustainable growth by providing value and benefit to the members and communities we serve.

We will continue to rely heavily on the skills, experience and customer care in which our team at the Beverley excel in order to deliver the high quality, personal service and support that members have come to expect from us.

In 2018 we continued to develop and evolve our governance and organisational culture to meet the ever changing and growing expectations of our members and Regulators. 2018 saw the introduction of a People & Culture Sub-Committee, bringing a focus to the culture and capabilities we need to deliver on our strategic intent. We have also redesigned our board calendar, providing more time for key strategic, governance and operational matters, whilst continuing to utilise outside expertise to inform and compliment our existing board skills.

The uncertainty of the political and economic landscape is likely to continue. I will seek to ensure that Beverley Building Society will continue to be a reassuring constant for those seeking straightforward, good value savings and mortgage products, delivered with a truly personal service. Meeting the needs of members and their communities will be our biggest concern.

The Society exists solely because of its members and so I would like to thank you for your support in 2018 and hope that I will get the chance to meet you at our AGM in April, or at one of our member events throughout the year.

Stuart Purdy
Chairman
February 2019

"I am particularly delighted to be joining the Society at a time when the service and products we offer to our members is more important than ever."

"The Society exists solely because of its members and so I would like to thank you for your support in 2018."

Chief Executive's Review

for the year ended 31 December 2018

Having completed my first full year as Chief Executive, I'm delighted to report that your Society has delivered another strong year of progress, supported by a loyal membership, a vibrant local community and a team of colleagues motivated by helping to support our members in achieving their goals.

A year of significant progress

2018 has been a year of notable progress on many fronts. Our simple, good value products, combined with our continued excellent personal customer service have seen us grow both our new savings and lending and maintain our strong levels of mortgage retentions, all while continuing to provide help and support to the communities we serve.

Excellent contributions from colleagues in all areas of the organisation have collectively delivered another robust financial performance on the back of last year's strong results, with profits before tax of £473k and total assets of £191m, up 3% on 2017. The growth of the balance sheet was primarily driven by savings inflows following our rate increases in the second half of the year, leading to a correlated increase in total interest payable compared to 2017, and therefore a reduction in our overall net interest margin for the year.

Looking forward, we have also been able to invest in the development and roll out of our newly defined corporate strategy, setting the direction for your Society in the medium to long term and successfully recruiting a new Chairman to support us in our strategic intent. Ongoing investment in the delivery of our new strategy is likely to be reflected in ongoing increases in management expenses in future years.

Economic and Political Outlook

It will come as no surprise to you that the economic and political environments have remained predictably unpredictable throughout the year and that volatility and uncertainty have increasingly become the norm. While 2018 saw the Bank of England increase interest rates in August and our region saw some welcome house price inflation, the prospect of material and sustained interest rate rises and house price growth are still some way off.

We anticipate that the economic and market pressures will challenge mortgage pricing and demand as well as the availability of retail funding in the short to medium term, all of which are likely to place downward pressure on margins across the sector.

Brexit

The current environment is of course being compounded by the uncertainty associated with Brexit and while leaving the European Union has no direct bearing on our business, there is the potential for its consequences to impact our members and communities.

Our own planning tells us that we can navigate even the most extreme of the Bank of England's stressed scenarios, but that there are limited mitigating actions we can take in the short term. As such we retain a watching brief, while maintaining our focus upon meeting members' needs and protecting their interests for the short, medium and long term.

Strong mortgage performance

2018 has seen new mortgage lending growth (9%), at an increased rate of interest (2.52%) and with a lower loan to value (24%) against a backdrop of ever increasing competition. Despite having increasing levels of mortgages reaching the end of their initial offer, we have continued to retain over 80%, enabling us to maintain our mortgage book at just under £150m in 2018.

We were also able to sell over £1.2m of legacy properties in possession during the year and with over 95% of our mortgage book now residential lending, we continue to reduce the risk in our mortgage portfolio.

In preparation for 2019 we launched our Mortgage Hub portal, enabling mortgage brokers to register and manage applications on line. We are a relative latecomer to this service, but believe that it will help sustain and build new business levels with a wider broker audience in the near term.

Savings growth

The continued low interest rate environment means that it remains a challenge to offer the level of returns our savers would like. That said, we received national media attention for our decision to increase the returns for all savers by passing on in full the August base rate and we were rewarded with a strong inflow of funds towards the end of the year, pushing liquidity levels up above £40m. Our 30 Day notice account continues to be the main attraction and has helped us build up balances in readiness to support new lending as well as enabling us to make the final repayment of our subordinated debt in 2019.

Customer offer & member engagement

We were delighted to see that new and existing members alike continued to give our customer service their ringing endorsement through their feedback in 2018. Levels of complaints remained particularly low and both savers and borrowers remained loyal, giving us confidence that our offer remains valued and relevant in today's market.

Meeting the unique needs of borrowers in our region and s upporting those good credit risks not well served by mainstream lenders stood us in good stead during the year. Our personalised approach to underwriting enabled us to successfully support older borrowers looking for interest only loans, those looking to build their own homes and the self-employed. We will develop a Retirement Interest Only mortgage in early 2019 and will also consider the potential for offering a small amount of fixed rate lending later in the year.

We undertook a number of savings promotions during the year for our 30 Day Notice account and Business Saver and in response to customer demand, we will be looking to introduce a Fixed Rate bond in the first half of 2019 as we seek to further enhance our savings offer.

Whilst we are always listening and talking with members, we formally engaged with customers and community members at our AGM and Customer Forum in 2018, seeking their views on our performance, plans and what they valued most from their local Building Society. This feedback is invaluable and gives us confidence that we continue to have a meaningful role to play.

One specific thing we did share with members was our plan to revamp our brand image, branch interior and website during 2019, as we seek to ensure that the Society is perceived as relevant in today's market. I'm delighted to say we received a ringing endorsement from members, with a proviso that we don't lose the customer care and personal touch that is our point of difference.

We also invited members and community representatives to participate in the recruitment process for our new Chairman, which was very informative and well received by all candidates. We intend to continue seeking opportunities to hear the voice of our members in 2019 to ensure that we continue to deliver those things they need from us the most.

Supporting our Community

It is critical to our purpose as a local mutual that we provide help and support to our local community and in 2018 we gave a helping hand to a number of events and good causes in the region.

In May we celebrated the Tour de Yorkshire starting outside the front of our offices by raising over £1,000 for the Yorkshire Air Ambulance, a much valued service across our community, with colleagues, community members and even playwright Jon Godber OBE getting on a static bike in our branch and helping us cycle in excess of the tour's distance.

We were delighted to be able to help Beverley Community Lift, which provides an invaluable service to the infirm and isolated across the region, including members of our Society, enabling them to attend hospital and doctors' appointments, do their weekly shopping and attend social events.

We also supported the local branch of SSAFA, a charity very close to the hearts of a number of our members, as they celebrated the anniversary of the end of the First World War.

We continued to provide our support to East Riding Theatre, Beverley Rugby Club and Driffield Agricultural Show as well as donating £250 to each of our Charities of The Month, local causes voted for by customers in our branch.

People

Our members tell us that it is the genuine sense of care and the individual attention of our colleagues that separates us from other financial services providers. Our strategy has committed to substantially increase investment in our people, their learning and development and our collective capacity and capability, to ensure that our colleagues are fully trained, motivated and incentivised to be their best.

We have had to say goodbye to our Chairman, Brian Young, as he stepped down having completed nine years' service as a board member. I would like to personally thank Brian for his help, support, guidance and good counsel in our time working together and on behalf of all colleagues, I wish him well.

In Brian's place and after a comprehensive search and recruitment process we have appointed Stuart Purdy to the Board. I know that Stuart will pick up where Brian left off and give the Society his full commitment, along with the benefit of his knowledge and experience. I'm very much looking forward to working closely with Stuart in the years ahead to deliver on our strategic intent.

Future Outlook

Our progress in 2018, both commercially and strategically, gives us cause for optimism as we look to the future, despite the ongoing economic turmoil and ever increasing market pressures. I believe that we have a sustainable business model founded on the first principles of supporting the communities you serve, identifying those in the market whose needs are poorly served by the mainstream providers and giving customers the time and help they need to achieve their goals.

As we approach 2019 we have further strengthened our financial foundations and removed unwanted risk. We have defined our future strategy focussed on meeting the needs of our members both today and in the future and I am very much looking forward to working with colleagues to successfully implement it in the years ahead.

Our Society exists because of the commitment and dedication of our colleagues and the ongoing loyalty and support of our members. I would like to thank you all for helping make 2018 such a rewarding year and I look forward to our continued success in 2019.

Karl Elliott
Chief Executive
February 2019

Board of Directors

for the year ended 31 December 2018

Karl Elliott

Chief Executive

Joined the Board in August 2017. Member of the People and Culture and Risk Committees. A business leader with over 25 years' experience of delivering successful strategic and organisational change for financial services mutuals.

Janet Bedford

Deputy Chief Executive and Finance Director

Joined the Board in August 2014. Member of the Risk Committee. Qualified Chartered Accountant with extensive experience of the financial services sector.

Mark Marsden

Risk Director

Joined the Board in November 2014. Member of the Risk Committee. Experienced risk and compliance professional with 15 years retail lending and deposit taking experience.

Stuart Purdy

Chairman

Joined the Board in November 2018. 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.

Martin Cocker

Non-Executive Director

Joined the Board in 2016. Chair of the Audit and Compliance Committee. Member of the Risk Committee. Qualified Chartered Accountant with over 30 years' business experience.

Mike Heenan

Non-Executive Director

Joined the Board in 2012. Member of the Audit and Compliance and Risk Committees. Qualified Chartered Accountant with extensive knowledge of the building society sector.

Richard Pattinson

Non-Executive Director, Senior Independent Director

Joined the Board in September 2011. Chair of the Risk Committee. Richard has almost 40 years' banking experience covering treasury and risk management.

Sue Symington

Non-Executive Director

Joined the Board in 2013. Chair of the People and Culture Committee. Member of the Audit and Compliance Committee. Chartered Director, awarded the Institute of Directors prestigious New Chartered Director of the Year award 2014. Chartered Fellow of the Institute of Personnel and Development. Provides experience in Human Resources and Personnel Development.

Directors' Report

for the year ended 31 December 2018

The Directors have pleasure in presenting their Annual Report and Audited Accounts and Annual Business Statement for the year ended 31 December 2018.

Business objectives and activities

The Society's business objectives and principal activities are to help families in our region achieve affordable home ownership through the provision of mortgage finance, funded by safe, secure, good value 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 experience and expertise and managed prudently to ensure long term sustainability.

Business Review and Results for the year

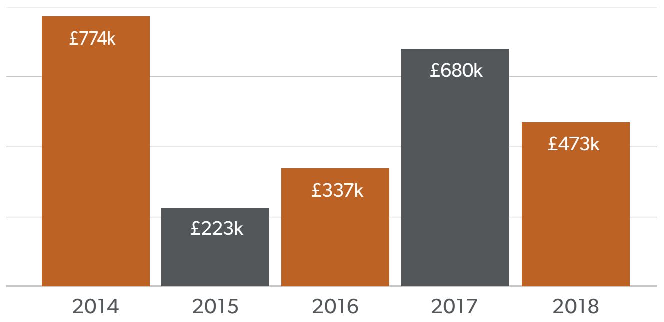
During a period of continued uncertainty, the Society has delivered a strong set of results. Key highlights include:

- The Society delivered profit before tax of £473K, whilst continuing to invest in our broader objectives of investing in strategic initiatives and improving the rates available to our savers;
- Assets have increased by over 3% to £191.4M;
- The full benefit of the bank base rate increase in August was passed on to members, an event noticed by national media, resulting in a £5.6M inflow into savers balances in the year;
- New mortgage advances in the year have grown by 9%;
- The Society maintains a conservative lending policy, which is reflected in the average loan to value (LTV) ratio which has fallen for the fifth consecutive year to 37.5%.

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 has fallen in the year, primarily due to lower net interest margin (see below), and higher management expenses. The increase to management expenses was driven by increased in staff costs – reflecting the CEO being in place through the full year – and increased non-staff costs. Non-staff cost increases primarily relate to strategic investments, including the Broker Online portal and new branding. Despite this increase in costs, the Society monitors the cost base carefully and continue to have one of the lowest cost/ mean assets ratio in the Sector.

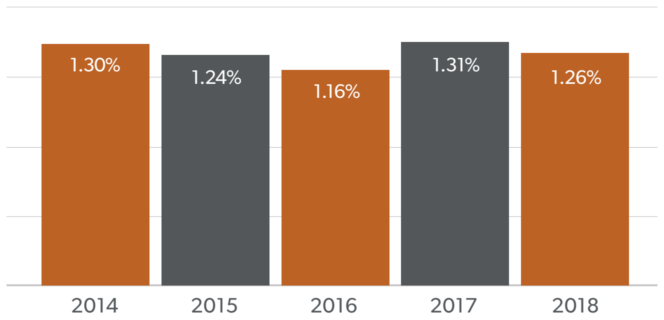
Profit before Tax



Net Interest Margin

The difference between interest received on assets and interest paid on liabilities, measured as a percentage of mean assets. This is the Society's main source of income. Net interest margin has fallen in 2018 primarily due to increases in the average member's savers rate. The increase in interest paid reflects both the increasingly competitive UK funding environment and the Society's decision to be one of the few financial institutions to pass on the August base rate increase in full to retail members.

Whilst many competitors have experienced pressure on their mortgage rate, the Society rate has increased over the year, reflecting both the increase in the base rate and the decision to focus on self-build and interest only mortgages.

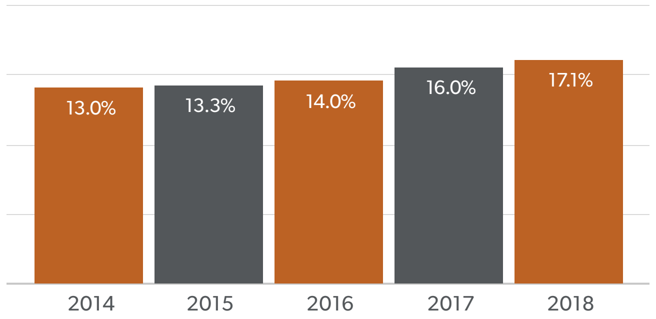


Capital

Capital is a key measure of the Society's financial strength and is primarily comprised of accumulated profit reserves. Capital supports business growth, protects the business against its principal risks and safeguards members' funds. 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 consistently over the 5 year period, due to strong profitability and reducing risk within the asset base (as measured by RWA). This growth has been despite the amortisation of sub ordinated debt capital, required under CRD regulations.



The minimum regulatory capital requirement has fallen due to the continued reduction in credit risk within the Society's lending portfolio:

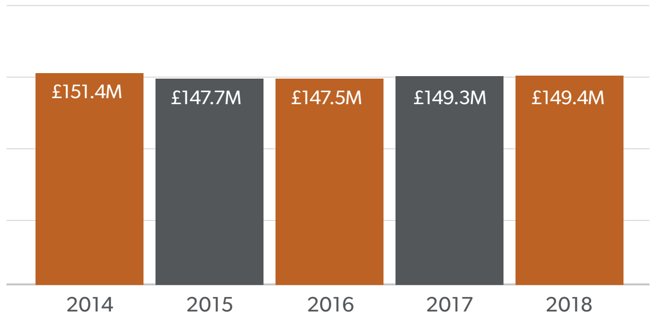
	Definition	2017	2018
Total Capital Requirement	The Society's minimum regulatory capital requirements. Presented as a percentage of RWA.	10.00%	9.48%

The Society's capital position is set out in more detail in its Pillar 3 disclosure document. The 2018 document is available on the Society's website from mid-April 2019.

Loans and advances to customers

During the year the Society advanced gross mortgages of £22.2m (2017: £20.3m) and retained more than 80% of residential mortgage schemes maturing in 2018 (2017: 80%).

Total Mortgage Balances (gross of mortgage loss provision)



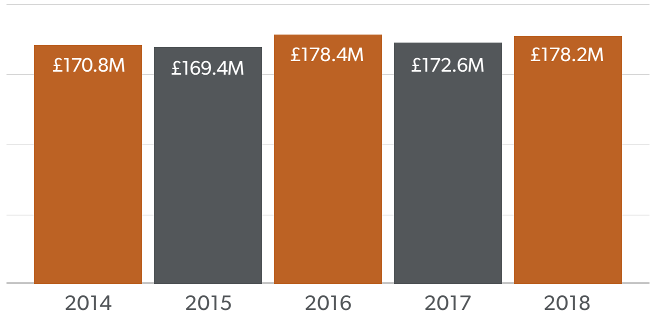
In 2018, the mortgage impairment charge for the year was £78k (2017: £73k) related to new provisions in the year and charges made on disposal of legacy properties in possession. There were no new cases of mortgage possession in 2018.

At 31 December 2018 there were 2 cases, with a total balance outstanding of £169k and a total arrears balance of £27k (2017: 2 cases with a total balance outstanding of £184k, and total arrears of £32k) where repayments were more than 12 months in arrears. At 31 December 2018 there were 6 cases in possession (2017: 7 cases). The Society will continue to take all necessary steps to help borrowers in genuine 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.

Shares and deposits

The Society offers straightforward saving products, which offer good value, transparent savings rates. In 2018 retail savings and deposits increased by £5.6m.

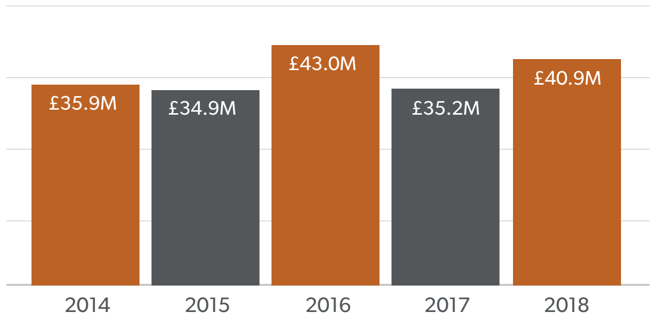
Shares and deposits



Liquid assets

Liquid assets in the form of cash and securities at 31 December 2018 were £40.9m representing 22.9% of shares and borrowings.

Liquid assets



Directors' Report

continued

The Society continues to reduce liquidity risk, particularly important in an uncertain economic environment. In 2018 the Board took the decision to stop investing in fixed terms certificates of deposit and invest only in the Bank of England. The impact of this conservative treasury approach can be demonstrated in the Liquidity Coverage Ratio, 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.

	2017	2018
Liquidity Coverage Ratio	319%	457%

Financial risk management objectives and policies

The Society operates in an environment that contains financial risks. To mitigate these risks the Board has implemented a clearly defined risk management framework. The key policies that the Society has implemented to manage the risks that it faces include a lending policy, liquidity policy and financial risk management policy. These are reviewed and approved by the Board on an annual basis. More details can be found in the Financial Risk Management Report, below. The Society's exposure to interest rate risk is detailed in note 23 of the accounts.

Principal risks and uncertainties

As a result of its normal business activities, the Society is exposed to a variety of risks, the most significant of which are conduct and operational risk, credit risk, market risk 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 continual re-evaluation. The financial risk management objectives and policies of the Society are also 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 low-risk organisation, we inevitably face challenges that present risks to the delivery of our strategic objectives. We operate in an uncertain international environment which creates risks and challenges for the mutual building society model, in particular the impact of ongoing ultra-low bank Base Rates. These risks and uncertainties, and how we mitigate them, are summarised below.

Continued pressure on mortgage margins

The margin earned on mortgage lending continues to be subdued as a result of continued ultra-low Bank of England Base Rate, the stimuli provided by the Bank of England (e.g. the drawdowns from the Funding for Lending and Term Funding Schemes), and continued fierce competition from both traditional and new market entrants. The Society has established a clear pricing policy and process which ensures that lending is profitable in such an environment. New lending and growth objectives are secondary to the long term sustainability of our business.

Brexit

This is the risk that a significant amount of uncertainty remains regarding the future relationship between the United Kingdom and Europe. As a UK organisation, the Society has no exposure to the EU. However, the wider UK economic implications and operational impacts of Brexit have been considered and are summarised below.

The shape of a "no deal" Brexit is difficult to quantify but the Board concludes inflation (due to an expected sterling collapse), recession leading to unemployment and reduced mortgage affordability, together with significant house and commercial real estate price reductions are considered potential outcomes.

The Bank of England presented a suite of severe downside assumptions in 2018 (known as the anchor scenario) which was explicitly based on a "worst case" no deal Brexit. As part of the ICAAP (Internal Capital Adequacy Assessment Process), the Society forecast the impact of these assumptions. The conclusion of this analysis was that whilst we would be impacted by higher impairment charges and reduced mortgages volumes, the business had sufficient capital buffers to withstand this worst-case Brexit scenario.

In terms of Society's asset base, all treasury assets are invested with the Bank of England and therefore the risk of counterparty default or liquidity shortfalls, due to inability to sell investments on a timely basis due to Brexit, is minimised. Within the Society's mortgage portfolio, the average Loan to Value is currently 37.5%, which will help ensure the Society is protected in the event of a severe house price collapse following Brexit.

In conclusion therefore, the Board anticipates the Society's balance sheet together with the increase in capital and liquidity levels in 2018 will help ensure the business is protected from any potential Brexit shocks.

In terms of operational resilience during Brexit, the Society's third party-critical suppliers have been reviewed.

The Society is a shareholder in its primary IT provider, Mutual Vision (MV). MV is a UK based company with a primarily UK customer base. All key infrastructure is based in the UK.

The Society has in place a contingent call account provider, if for any reasons its primary provider fails, to provide additional operational resilience.

The Society does not foresee an issue with resourcing following Brexit, given current staff are all permanent UK residents.

Liquidity

As at 31st December 2018, the Society invests surplus liquidity exclusively in its Bank of England Reserve account.

Lending impairments

Levels of impairments continue to remain benign, with a low number of legacy arrears cases. While arrears levels are expected to remain stable for the time being, should interest rates rise significantly and/or quickly then customers could come under financial pressure. This risk is mitigated by the application of strict affordability checks for all new lending, which ensures borrowers have significant capacity to maintain their monthly payments in an increased interest rate environment. In addition the Society carries out stress testing on the mortgage book to model the potential impact of higher interest rates on arrears, impairments and potential losses.

In addition to its increasing residential mortgage portfolio the Society retains a legacy commercial lending book, including some significant individual large exposures. Such exposures continue to be carefully managed as they run off, and where appropriate provisions are in place to cover potential losses. Defaults on these loans are subject to specific scenario analysis to ensure that the Society is able to respond quickly and effectively in such an event.

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. 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. Continuously improving the levels of protection from such incidents continues to be a priority. During 2018 the Society continued to progress investments in people and infrastructure to further improve its cyber resilience, and will continue to do so.

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 the impact of Brexit.

The Society, in common with most financial institutions, undertakes stress testing on its capital and liquidity forecasts. Results indicate the Society has sufficient capital and liquidity to be able to continue in business, even under the stressed scenarios.

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

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 2018, amounts due to relevant creditors of the Society were paid on average within 10 days (2017: 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

S E Purdy was appointed to the Board on 19 November 2018. In accordance with Rule 25(4) S E Purdy retires and being eligible offers himself 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

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. A resolution to re-appoint KPMG LLP as Auditor to the Society will be proposed at the Annual General Meeting.

On behalf of the Board of Directors

S E Purdy
Chairman
8 February 2019

Financial Risk Management Report

for the year ended 31 December 2018

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.

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 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 is appropriately reflected in the operational risk capital requirement, assessed in the ICAAP.

Maintaining the Society's operational resilience, including the confidentiality, integrity and availability of key information systems 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

Credit risk is the risk of unexpected loss if a customer or counterparty fails to perform its obligations. As a prime residential mortgage lender, mortgage default is the largest single risk run by the Society. This risk is monitored by the Risk Committee, as is liquid assets risk.

Credit Risk – Mortgages

Credit risk for mortgages, arising from exposures to institutions, retail and commercial customers is assessed via a number of stress tests defined in the Board approved Risk Appetite Statement.

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. 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 the year end there were 6 (2017: 5) accounts where forbearance measures were currently exercised; the balance of these accounts amounted to £2.15m (2017: £1.70m), or 1.14% (2017: 1.14%) of mortgage balances. There is £nil (2017: £1k) provision held against forborne accounts due to the low loan-to-values on these properties.

Given the absence of a significant credit loss history, the Society models a severe credit risk stress event significantly more severe than that which occurred in 2009.

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. A large proportion of the Society's liquid asset exposure is primarily to the Bank of England. During 2018 the Society stopped investing in treasury instruments and at the year end no longer held any such investments, with the liquidity portfolio held with the Bank of England or on call with a clearing bank.

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. The majority of the Society's liquid funds are either deposited with the Bank of England or in call accounts with the Society's clearing banks.

Liquidity risk is managed principally by holding an appropriate level of high quality, easily realisable liquid assets (primarily in a Bank of England Reserve Account). 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 2018 the Society held £40.9m (2017: £35.2m) of liquid assets, representing 22.9% (2016: 20.4%) 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.

During 2018, the Society voluntarily adhered to the UK Money Market Code, a set of principles generally recognised as good market practice in the UK money markets, whilst it gradually ran down its holdings of Certificates of Deposit. As no such assets are currently held, the UK Money Market Code is no longer applicable to the Society.

Interest rate risk

Interest rate risk in the banking book is the risk of losses arising from a change in interest rates. The areas of interest rate risk relevant to the Society are:

- Re-pricing Risk - the mismatch of re-pricing of assets and liabilities and off balance sheet short and long-term positions.
- Basis Risk - the risk of loss arising from assets and liabilities re pricing on different interest rate bases. This may arise from holding assets and liabilities that reprice from different floating rate indices.

Re-pricing Risk

The Society does not currently hold fixed rate treasury investments, has no fixed rate lending and only limited fixed rate saving products.

Basis Risk

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.

Basis risk is low as the majority of the Society's current lending is only on administered rates.

The Risk Committee monitors basis risk against the Board's agreed risk appetite on a monthly basis based on both actual and forecast data.

The interest rate sensitivity of the Society as at 31 December 2018 is detailed in note 23 to the accounts.

Directors' Remuneration Report

for the year ended 31 December 2018

This report explains how the Society has regard to the principles in the UK Corporate Governance Code 2016 relating to remuneration. (The 2018 Code update will be applied for future reporting periods.)

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 Principle:

D.1. Executive Directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

Board Comment:

The 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:

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

Board Comment:

The 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	2018 £000	2017 £000
For services as a Director	89	84
For executive services	361	312
Total	450	396

Emoluments of the Society's Directors are listed below

For services as a Director	Fees £000	Fees £000
B Young (Chairman)	24	23
M R Cocker (Chair of the Audit and Compliance Committee)	17	16
R A Pattinson (Senior Independent Director and Chair of the Risk Committee)	17	16
M R Heenan	15	16
S A Symington (Chair of the People & Culture Committee)	15	13
S Purdy (appointed 19 Novemeber 2018)	1	-
Totals	89	84

	Salary £000	Benefits £000	Pension £000	Total £000
For executive services				
2018				
K J D Elliott (Note 1)	157	-	-	157
J E Bedford	103	1	10	114
M Marsden	81	1	8	90
Total	341	2	18	361
2017				
P E Myers (Note 2)	54	3	-	57
K J D Elliott (appointed August 2017) (Note 1)	59	-	-	59
J E Bedford	97	1	10	108
M Marsden	79	1	8	88
Total	289	5	18	312

Note 1: Included in the 2018 salary of K J D Elliott is £18k which represents cash payments in lieu of pension and car benefit (2017: £4k).

Note 2: P E Myers resigned as a Director effective from the 11th May 2017. Included in the 2017 salary figure above is £4k which represents cash payments in lieu of pension. In addition to the amounts shown above, he received a £16k benefit (represents the market value of his company car).

S A Symington
Chair of the People & Culture Committee
February 2019

Corporate Governance Report

for the year ended 31 December 2018

The Society has regard to the best practice principles in the UK Corporate Governance Code 2016 issued by the Financial Reporting Council, to the extent that they apply to a building society.

The Role of the Board

Code Principle:

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

Board Comment:

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

There are usually eleven meetings a year, including topic specific workshops and 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.

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

Audit and Compliance Committee

The Committee, chaired by Martin Cocker, 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 Sue Symington, Richard Pattison, and Mike Heenan.

People & Culture Committee

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

(a independently reviews the remuneration, benefits and con tracts 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 and the Chief Executive. Further details can be found in the Directors' Remuneration Report, above.

Risk Committee

The Risk Committee, chaired by Richard Pattinson, 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 Martin Cocker, Mike Heenan, Janet Bedford (Deputy Chief Executive), Karl Elliott (Chief Executive), and Mark Marsden (Risk Director).

Assets and Liabilities Committee

Until end April the Assets and Liabilities Committee (ALCO), chaired by Mike Heenan, met on an at least bi-monthly basis to oversee the management of the Society's balance sheet in relation to liquidity and net interest margin. It was also responsible for reviewing the Society's policies and counterparty list, and ensuring regulatory limits are adhered to. Other members of the committee were Richard Pattinson, Sue Symington, Martin Cocker, Karl Elliott (Chief Executive), Janet Bedford (Deputy Chief Executive), Mark Marsden (Risk Director). From April 2018 onwards these oversight and governance functions were transferred to the Risk Committee, with operational ALCO business transferring to an Executive ALCO.

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	Assets & Liabilities
B Young	10 (11)		3 (3)		
S E Purdy	2 (2)				
M R Cocker	11 (11)	5 (5)		5 (5)	3 (3)
R A Pattinson	10 (11)	5 (5)		5 (5)	2 (3)
M R Heenan	11 (11)	5 (5)		5 (5)	3 (3)
S A Symington	11 (11)	4 (5)	2 (3)		
K J D Elliott	11 (11)		3 (3)	5 (5)	3 (3)
J E Bed ford	11 (11)			5 (5)	3 (3)
M Marsden	11 (11)			5 (5)	3 (3)

Division of Responsibilities

Code Principle:

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

Board Comment:

The offices of Chairman and Chief Executive are distinct and held by different people. The Chief Executive is responsible for managing the business within the parameters set by the Board. The Chairman's responsibilities are outlined in the Board comment to A.3., below.

The Chairman

Code Principle:

A.3. The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role.

Board Comment:

The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. Prior to the appointment of Brian Young as 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. A similar process has been undertaken prior to the appointment of Stuart Purdy to the Board and submission for regulatory approval to take on the role of Chairman.

Non-Executive Directors

Code Principle:

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

Board Comment:

The Non-Executive role at the Society requires understanding of the 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

Code Principle:

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

Board Comment:

The Board currently consists 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.

Appointments to the Board

Code Principle:

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

Board Comment:

The Society values diversity but always makes Non-Executive Director appointments on merit, based on the specific skills and experience required to complement existing skills under the succession plan. To this end external search Agencies are generally engaged. In relation to the 2018 search for a new Chairman this Agency was Warren Partners. This Agency has no other connection with the Society. This recruitment process was not led by the outgoing Chairman, but by the Chair of the People & Culture Committee. 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

Code Principle:

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

Board Comment:

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.

Corporate Governance Report

continued

Development

Code Principle:

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

Board Comment:

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

Code Principle:

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

Board Comment:

The Chairman ensures that the Board receives information sufficient to enable it to discharge its responsibilities. The 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

Code Principle:

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

Board Comment:

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

Code Principle:

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

Board Comment:

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

Financial and Business Reporting

Code Principle:

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

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.

Risk Management and Internal Control

Code Principle:

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

Board Comment:

The Board is collectively responsible for determining 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 that the systems are appropriate and controls effectively applied. 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 that the systems are effective and appropriate to the scale and complexity of the business.

Audit Committee and Auditors

Code Principle:

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

Board Comment:

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 24. 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

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

Dialogue with Shareholders

Code Principle:

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

Board Comment:

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

Constructive use of the Annual General Meeting (AGM)

Code Principle:

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

Board Comment:

Each year the Society sends details of the 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. In 2018 this was arranged through Electoral Reform Services.

S E Purdy
Chairman Designate
February 2019

Annual Report of the Audit & Compliance Committee

for the year ended 31 December 2018

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 whistle-blowing procedures.

The Committee comprises three independent Non-Executive Directors. The Committee Chairman is Martin Cocker and the Committee members are Sue Symington and Mike Heenan. 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 s ignificant audit and accounting experience. He also chairs the Audit Committees of three other entities.

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 five 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 were also invited to attend each meeting. Other than the Head of Operations who missed one meeting, all attended each meeting in 2018.

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;
- Reviewing the draft management representation letters requested by the external auditors, prepared in conjunction with the Financial Statements and certain related disclosures; 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

- 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 whistle blowing 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 2018 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 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. 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.

The external auditor is KPMG. Both the Society and KPMG 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 KPMG in 2018.

Throughout the audit process, KPMG 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 2018, the Committee met with KPMG 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 2018. Internal Audit completed 10 engagements during the year and made 32 findings. These findings have been or are being addressed by management with realistic resolution dates. None of the findings were classified by Internal Audit as 'high priority'.

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 on 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.

Annual Report of the Audit & Compliance Committee

continued

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 2018. 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.

Martin Cocker
Chairman of the Audit and Compliance Committee
February 2019

Statement of Directors' Responsibilities

for the year ended 31 December 2018

In respect of the Annual Report and Accounts, the Annual Business Statement, the Directors' Report and the annual accounts for the year ended 31 December 2018.

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

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

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

In preparing 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the society will continue in business.

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

Directors' responsibilities for accounting records and internal 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 group and 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 Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

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

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

Independent auditor's report to the members of Beverley Building Society

for the year ended 31 December 2018

1. Our opinion is unmodified

We have audited the annual accounts of Beverley Building Society for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows of the Society, and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the society as at 31 December 2018 and of the income and expenditure of the society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102, The Financial Reporting Standard, applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 25 September 2013. The period of total uninterrupted engagement is for the six financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters. Having assessed the impact of the effective interest rate (EIR) adjustment to the contractual interest receivable on loans and advances to customers as part of our planning procedures, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year. We continue to perform procedures over revenue recognition (EIR).

Key audit matter

The impact of uncertainties due to Britain exiting the European Union on our audit.

Refer to page 12 (principal risks), page 6 (Chief Executive Report)

Impairment of loans and advances to customers
(£384,000; 2017: £585,000)

Refer to page 22 (Audit Committee Report), page 33 (accounting policy) and page 38 (financial disclosures).

The risk

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in the impairment of loans and advances to customers section below, and related disclosures and the appropriateness of the going concern basis of preparation of the annual accounts (see below). All of these depend on assessments of the future economic environment and the business' future prospects and performance.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Subjective estimate

Impairments cover loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified.

The directors judge individual impairments by reference to loans that have reached three or more months in arrears, or been repossessed by the Society.

The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions.

In particular, judgement is required on the key assumptions of probability of defaults existing, time taken for defaults to be identified and forced sale discounts against collateral.

Further adjustments are made to the impairment model by management, regarding the LTV of loans in arrears and the price indices for commercial properties.

The impairment model is most sensitive to movements in the forced sale discount and probability of default assumptions.

Our response

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- Our Brexit knowledge – We considered the directors' assessment of Brexit-related sources of risk for the Society's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
- Sensitivity analysis – When addressing the impairment of loans and advances to customers and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty.
- Assessing transparency – As well as assessing individual disclosures as part of our procedures on impairment of loans and advances to customers we considered all of the Brexit related disclosures together, including those in the directors' report, comparing the overall picture against our understanding of the risks.

Our results

As reported under impairment of loans and advances to customers, we found the resulting estimates and related disclosures of impairment and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Our procedures included:

- Benchmarking assumptions: We compared the key assumptions used in the model with externally available data. We compared the loan portfolio key metrics, including arrears trends and provision coverage with those of comparable lenders.
- Our sector experience: We challenged the key impairment assumptions used in the model, including probability of default and forced sale discounts using our knowledge of recent impairment experience in this industry.
- Sensitivity analysis: We assessed the collective models and individual impairments for their sensitivity to changes in the key assumptions by performing stress testing to help us assess the reasonableness of the assumptions.
- Historical comparison: We assessed the key assumptions used in the collective and individual models, being probability of default and forced sale discounts, against the Society's historical experience.
- Tests of detail: We identified a sample of loans based on various risk characteristics (i.e. arrears, forbearance flagging, LTV) of individual loans which may have unidentified impairments. We tested the provision attached to those loans by reference to relevant supporting information such as property type and valuation to challenge the completeness and accuracy of the Society's individual impairment provision estimate.
- Tests of detail: We tested adjustments to the impairment assessment made outside the Society's models, by considering the reason for the adjustment and the source data used. We have recalculated this and tested this adjustment back to supporting evidence, including the average loan to value of loans in arrears versus up to date loans.
- Assessing transparency: We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the provision.

Our results

We found the resulting estimate of the loan portfolio impairment provision impairment of loans and advances to customers to be acceptable (2017: result acceptable).

Independent auditor's report to the members of Beverley Building Society

continued

3. Our application of materiality and an overview of the scope of our audit

Materiality for the annual accounts as a whole was set at £23,500 (2017: £22,860), determined with reference to a benchmark profit before tax of £473,000 (2017: £680,000), of which it represents 5.0% (2017: 3.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1,175 (2017: £1,140), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Society was undertaken to the materiality level specified above and was performed at the Society's head office in Beverley.

4. We have nothing to report on going concern

The directors have prepared the annual accounts on the going concern basis as they do not intend to liquidate the Society or to cease its operations, and as they have concluded that the Society's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the annual accounts ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Society will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Society's business model, including the impact of Brexit, and analysed how those risks might affect the Society's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the annual accounts on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Society's use of that basis for a period of at least twelve months from the date of approval of the annual accounts.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year 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.

6. We have nothing to report on the other matters on which we are required to report by exception

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 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 nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 25, the directors are responsible for: the preparation of annual accounts which give a true and fair view; 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; 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 they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience, through discussion with the directors (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Society is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related building society legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Society is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Society's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of building society legislation recognising the financial and regulated nature of the Society's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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

David Allen
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
8 February 2019

Income Statement

for the year ended 31 December 2018

	Notes	2018 £000	2017 (represented) £000
Interest receivable and similar income	2	3,897	3,660
Interest payable and similar charges	3	(1,523)	(1,192)
Net interest income		2,374	2,468
Fees and commissions receivable		-	1
Fees and commissions payable		-	(17)
Other operating income		68	47
Net operating income		2,442	2,499
Administrative expenses	4	(1,758)	(1,610)
Depreciation and amortisation	12,13	(98)	(96)
Operating charges		(40)	(40)
		546	753
Impairment provision for losses and advances	10	(78)	(73)
Provisions for liabilities			
FSCS Levy	19	5	-
Profit on ordinary activities before tax		473	680
Tax on profit on ordinary activities	7	(90)	(135)
Profit for the financial year	22	383	545

2017 figures have been represented to reflect changes to the Society's presentation of mortgage fee income under the Effective Interest Rate (EIR) methodology per FRS102. This change is presentation only and does not impact the profit figure.

Statement of other Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Profit for the financial year		383	545
Other comprehensive income			
Revaluation of freehold land and buildings	22	-	120
Total comprehensive income for the period		383	665

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

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 £6,160 and profit before tax increased by £6,160.

Statement of Financial Position

for the year ended 31 December 2018

Assets	Notes	£000	2018 £000	£000	2017 (represented) £000
Liquid assets					
Cash in hand and balances with the Bank of England	8	35,763		26,101	
Loans and advances to credit institutions	8	5,099		9,147	
			40,862		35,248
Loans and advances to customers					
Loans fully secured on residential property	9	142,412		141,613	
Other loans	9	6,535		7,060	
			148,947		148,673
Investments	11	89		106	
Tangible fixed assets	12	1,167		1,193	
Intangible assets	13	75		54	
Prepayments and accrued income	14	262		256	
Total assets			191,402		185,530

Liabilities	Notes	£000	2018 £000	£000	2017 (represented) £000
Shares	15	160,740		154,448	
Amounts owed to other customers	16	17,412		18,179	
			178,152		172,627
Other liabilities	17	89		139	
Accruals and deferred income	18	162		138	
Provisions for liabilities	19	17		27	
Subordinated liabilities	21	1,750		1,750	
Total liabilities			180,170		174,681
Reserves					
Revaluation reserve	22	676		676	
General reserve	22	10,556		10,173	
Total liabilities and reserves			191,402		185,530

2017 figures have been represented to reflect changes to the Society's presentation of accrued mortgage fee income under the Effective Interest Rate (EIR) methodology per FRS102.

The Notes to the Accounts, below, form part of these accounts.
Approved by the Board of Directors on 8 February 2019 and signed on its behalf by:

S E Purdy Chairman

K Elliott Chief Executive

J E Bedford Deputy Chief Executive

Statement of Cash Flows of the Society

for the year ended 31 December 2018

	2018 £000	2017 £000
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	473	680
Decrease/(Increase) in prepayments and accrued income	1	(1)
(Decrease)/Increase in provision for impairment	(203)	75
Depreciation and amortisation	98	96
Interest payable on subordinated liabilities	56	57
Loss on disposal of tangible fixed assets	-	16
Net cash inflow/(outflow) from trading activities	424	923
Net (decrease) in subordinated debt	-	(1,000)
Net cash outflow from financing activities	-	(1,000)
Loans and advances made to customers	(22,195)	(20,262)
Loans and advances repaid by customers	22,097	18,485
Net increase/(decrease) in shares	6,292	(7,630)
Net (decrease)/increase in amounts owed to credit institutions and other customers	(767)	1,890
Net decrease in loans and advances to credit institutions	6,000	7,000
Net increase/(decrease) in other liabilities	49	58
Net (Decrease) in provisions for liabilities	(10)	(32)
Taxation	(139)	(72)
Net cash inflow/(outflow) from operating activities	11,752	640
Cash flow from investing activities		
Interest paid on subordinated liabilities	(56)	(57)
Proceeds received from repayment of loan to participating interest (see note 11)	17	-
Capital expenditure and financial fixed assets		
Purchase of tangible and intangible fixed assets	(93)	(62)
Proceeds from disposal of tangible fixed assets	-	-
Net increase/(decrease) in cash	11,620	(759)
Cash and cash equivalents at the beginning of the year	29,232	29,991
Cash and cash equivalents at the end of the year	40,852	29,232

2017 figures have been represented to reflect changes to the Society's presentation of mortgage fee income under the Effective Interest Rate (EIR) methodology per FRS102.

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

Notes to the Accounts

for the year ended 31 December 2018

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.

1.5 Financial Instruments

Recognition

The Society initially recognises loans and advances, deposits and subordinated debt on the date on which they are originated. All other financial instruments (such as Certicates of Deposit and UK Treasury Gilts) are recognised on the trade date, which is the date on which the Society became party to the contractual provisions of the instruments.

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. 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.

Notes to the Accounts

continued

Where the Society is renting out properties it has acquired through possession, the individual impairment assessment takes into account the loan amount, expected income and costs of renting the property. 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.

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 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
Motor vehicles	25% on cost

1.8 Intangibles

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.

2. Interest receivable and similar income

	2018 £000	2017 (represented) £000
On loans fully secured on residential property	3,540	3,374
On other loans	156	145
On other liquid assets	200	140
On loan to participating interest	1	1
Total	3,897	3,660

2017 figures have been represented to reflect changes to the Society's presentation of mortgage fee income under the Effective Interest Rate (EIR) methodology per FRS102.

3. Interest payable and similar charges

	2018 £000	2017 £000
On shares held by individuals	1,410	1,098
On deposits and other borrowings	57	37
On subordinated liabilities	56	57
Total	1,523	1,192

4. Administrative expenses

	2018 £000	2017 £000
Staff costs (note 5)	945	879
Other administrative expenses	813	731
Total	1,758	1,610
Included in other administrative expenses are:		
Remuneration of auditors		
Audit of these financial statements (Note 1)	48	37
Taxation compliance services	-	-
All other services	-	-

The remuneration of the auditors reflects amounts payable to KPMG LLP for audit of these financial statements.

Note 1: These figures are presented exclusive of VAT.

5. Staff numbers and costs

	2018 Number	2017 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	8	8
Total	25	25

	2018 £000	2017 £000
The aggregate cost of these persons was as follows:		
Wages and salaries	800	745
Social security costs	89	82
Other pension costs	56	52
Total	945	879

The Society operates a group personal pension scheme (a defined contribution scheme) of which 21 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.

Notes to the Accounts

continued

6. Directors

Remuneration

Total remuneration of the Society's Directors for the year was £450,000 (2017: £396,000).

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 2018 there were 0 (2017: 1) outstanding mortgage loans granted in the ordinary course of business to a Director and their connected persons, amounting in aggregate to £0 (2017: £127,386).

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 2018 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

	2018 £000	2017 £000
The tax charge for the year comprises:		
Corporation tax on profits for the period	89	139
Adjustment in respect of prior periods	-	-
Total current tax	89	139
Deferred taxation (note 20)		
Adjustment in respect of prior periods	-	-
Origination and reversal of timing differences	1	(4)
Effect of tax rate change on opening balance	-	-
Total corporation tax	90	135
Reconciliation of tax on profit on ordinary activities		
Profit on ordinary activities before tax	473	680
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	90	131
Depreciation in excess of capital allowances	-	4
Other short term timing differences	-	-
Total	90	135

8. Loans and advances to credit institutions

	2018 £000	2017 (represented) £000
Loans and advances to credit institutions have maturities as follows:		
On demand	5,099	3,131
In not more than three months	-	2,000
In more than three months but not more than one year	-	4,000
	5,099	9,131
Accrued interest	-	16
Total	5,099	9,147

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

Credit Quality	Description	2018 £000	2018 %	2017 £000	2017 %
AA	Bank of England Reserve	35,738	87.4	26,064	73.9
A+	Certificates of Deposit with UK financial institutions and operational account with Barclays Bank plc	1,879	4.6	6,015	17.1
A	Certificates of Deposit with UK financial institutions	-	-	1,002	2.8
BBB+	Operational bank accounts with NatWest Bank plc	3,220	7.9	2,130	6.0
Unrated	Cash on site	25	0.1	37	0.2
Total		40,862	100.0	35,248	100.0

The ALCO is responsible for approving treasury counterparties for investment purposes. In 2018, ALCO decided that the Society would not invest in fixed term treasury investments, depositing funds instead into the Bank of England reserve account (credit rating AA), further reducing liquidity risk.

Notes to the Accounts

continued

9. Loans and advances to customers

	2018 £000	2017 £000
Loans fully secured on residential property	142,412	141,613
Loans fully secured on land	6,535	7,060
Total	148,947	148,673

Maturity analysis

The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:		
Repayable on demand	429	876
In not more than three months	970	811
In more than three months but not more than one year	5,071	6,105
In more than one year but not more than five years	31,811	30,219
In more than five years	111,084	111,256
	149,365	149,267
Less: Provisions (note 10)	(384)	(585)
Less: Net EIR liability	(34)	(9)
Total	148,947	148,673

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.

	2018	2017
Average LTV	37.1%	38.4%

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

	2018		2017	
	£000	%	£000	%
East Anglia	1,832	1.2	2,203	1.5
East Midlands	5,757	3.9	6,047	4.1
Greater London	4,359	2.9	3,768	2.5
North	2,327	1.6	2,381	1.6
North West	6,122	4.1	6,615	4.4
Outer Metropolitan Area	6,488	4.3	6,720	4.5
South East	7,533	5.0	7,683	5.2
South West	9,576	6.4	9,148	6.1
Wales	2,889	1.9	2,720	1.8
West Midlands	5,565	3.7	4,685	3.1
Yorkshire and Humberside	96,917	65.0	97,297	65.2
Total	149,365	100.0	149,267	100.0

The table below provides further information on the Society's loans and advances to customers by payment due status as at 31 December 2018:

	2018		2017	
	£000	%	£000	%
Not impaired				
Neither past due or impaired	145,467	97.4	145,097	97.2
Past due but not impaired	1,363	0.9	598	0.4
Impaired				
Past due	325	0.2	161	0.1
Possessions	2,210	1.5	3,411	2.3
Total loans and advances to customers	149,365	100.0	149,267	100.0

2017 figures have been represented to reflect changes to the Society's presentation of mortgage fee income under the Effective Interest Rate (EIR) methodology per FRS102.

Notes to the Accounts

continued

10. Provisions for impairment losses

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 31 December 2017			
Collective provision	62	79	141
Specific provision	334	110	444
Total	396	189	585
Movement during 2018			
Collective provision	5	(3)	2
Specific provision	(247)	44	(203)
Total	(242)	41	(201)
At 31 December 2018			
Collective provision	67	76	143
Specific provision	87	154	241
Total	154	230	384

The total movement in provisions is made up as follows:	
Income and expenditure charge for the year	78
Write-off of loans previously provided	(279)
Total	(201)

Comparative position at 31 December 2017	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 31 December 2016			
Collective provision	98	105	203
Specific provision	248	60	308
Total	346	165	511
Movement during 2017			
Collective provision	(36)	(26)	(62)
Specific provision	86	50	136
Total	50	24	74
At 31 December 2017			
Collective provision	62	79	141
Specific provision	334	110	444
Total	396	189	585

The total movement in provisions is made up as follows:	
Income and expenditure charge for the year	74
Write-off of loans previously provided	-
Total	74

Notes to the Accounts

continued

11. Investments

	2018 £000	2017 £000
Cost and net book value		
Shares in participating interests	7	7
Loans to participating interests	82	99
Total	89	106

The Society holds directly the following interests in subsidiary and participating interests all of which are registered and incorporated in England.

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

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

12. Tangible fixed assets

	Freehold buildings £000	Office furniture and computer equipment £000	Total £000
Cost or valuation			
At 31 December 2017	1,125	318	1,443
Additions	-	30	30
Disposals	-	(27)	(27)
Revaluation	-	-	-
At 31 December 2018	1,125	321	1,446
Depreciation			
At 31 December 2017	-	250	250
Charge for the year	23	33	56
On disposals	-	(27)	(27)
Revaluation	-	-	-
At 31 December 2018	23	256	279
Net Book Value			
At 31 December 2018	1,102	65	1,167
At 31 December 2017	1,125	68	1,193

	2018 £000	2017 £000
Particulars relating to revalued tangible fixed assets are given below		
Freehold buildings at 2017 open market value	1,125	1,125
Historical cost of re-valued assets	817	817

The freehold buildings at 57/58 Market Place, Beverley were valued on 31 December 2017 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 (£900,000 at current valuation occupied by the Society of the total £1,125,000).

13. Intangible fixed assets

	Purchased Software £000
Costs	
At 31 December 2017	820
Additions	64
Disposals	(10)
At 31 December 2018	874
Amortisation	
At 31 December 2017	766
Charge for the year	43
Disposals	(10)
At 31 December 2018	799
Net book amount	
At 31 December 2018	75
At 31 December 2017	54

14. Prepayments and accrued income

	2018 £000	2017 (represented) £000
Due within one year		
Prepayments and accrued income	262	256
Total	262	256

2017 figures have been represented to reflect changes to the Society's presentation of mortgage fee income under the Effective Interest Rate (EIR) methodology per FRS102.

Notes to the Accounts

continued

15. Shares

	2018 £000	2017 £000
Shares held by individuals	160,693	154,410
Shares held by others	47	38
Total	160,740	154,448

Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	475	328
On demand	159,337	153,127
In not more than three months	50	62
In more than three months but not more than one year	76	131
In more than one year but not more than five years	802	336
In more than five years	-	464
Total	160,740	154,448

16. Amounts owed to other customers

	2018 £000	2017 £000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
On demand	17,155	17,924
In not more than three months	257	255
Total	17,412	18,179

17. Other liabilities

	2018 £000	2017 £000
Amounts falling due within one year		
Income tax	-	-
Corporation tax	89	139
Total	89	139

18. Accruals and deferred income

	2018 £000	2017 (represented) £000
Amounts falling due within one year		
Accruals and deferred income	162	138
Total	162	138

2017 figures have been represented to reflect changes to the Society's presentation of mortgage fee income under the Effective Interest Rate (EIR) methodology per FRS102.

19. Provisions for liabilities

	Deferred tax £000	FSCS Levy £000	Total £000
At 31 December 2017	13	14	27
Paid in the year	-	(6)	(6)
Charge/(credit) to the income statement for the year	1	(5)	(4)
At 31 December 2018	14	3	17

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.

Following the full repayment of the Bradford and Bingley loan, all tax payer loans relating to the collapse of deposit takers during the banking crisis have been paid. Consequently the Society has a provision totalling £3k (2017: £14k), comprising of its share of the January 2019 supplementary levy from deposit takers of £21 million. This is mainly to meet compensation costs arising from the recent failure of Dial-aCab Credit Union.

b. Capital commitments

	2018 £000	2017 £000
Capital commitments relating to purchased software costs at 31 December 2018, for which no provision has been made in the accounts, were as follows:		
Contracted	42	41

20. Deferred taxation

	2018 £000	2017 £000
Deferred tax liability		
At 1 January	13	17
Charge for the year	1	(4)
At 31 December	14	13

The deferred taxation liabilities are set out below:	2018 Amount recognised £000	2017 Amount recognised £000
Fixed asset timing differences	17	16
Short term timing differences – trading	(3)	(3)
Total	14	13

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Society's future current tax charge accordingly. The deferred tax liability at 31 December 2018 has been calculated based on these rates.

21. Subordinated liabilities

	2018 £000	2017 £000
Loans repayable 2019	1,750	1,750
Total	1,750	1,750

The interest rate applicable on all loans is set quarterly and is based on 2.5% above three month LIBOR. The note holders' rights are subordinate to those of the depositors and other creditors and also to those of the shareholders in respect of share principal and accrued interest.

Notes to the Accounts

continued

22. Reserves

	General Reserve £000	Revaluation Reserve £000
At 31 December 2017	10,173	676
Profit for the year	383	-
Revaluation of office premises	-	-
At 31 December 2018	10,556	676

23. Financial Instruments

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. The interest rate sensitivity of the Society at 31 December 2018 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	Non interest bearing £000	Total £000
Interest rate sensitivity gap	10,764	-	-	-	(10,764)	-
NPV sensitivity to a +2% interest rate movement	(26)	-	-	-	-	(26)
NPV sensitivity to a -2% interest rate movement	27	-	-	-	-	27

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 2017 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	Non interest bearing £000	Total £000
Interest rate sensitivity gap	4,413	2,000	4,000	-	(10,413)	-
NPV sensitivity to a +2% interest rate movement	(15)	(7)	(43)	-	-	(65)
NPV sensitivity to a -2% interest rate movement	16	8	45	-	-	69

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.

Maturity Analysis

The maturity analysis of the financial liabilities of the Society at 31 December 2018 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	160,740	-	-	-	-	160,740
Deposits and other borrowings	17,412	-	-	-	-	17,412
Other liabilities and provisions	268	-	-	-	-	268
Subordinated liabilities	1,750	-	-	-	-	1,750
Total liabilities	180,170	-	-	-	-	180,170

The maturity analysis of the financial liabilities of the Society at 31 December 2017 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	154,448	-	-	-	-	154,448
Deposits and other borrowings	18,179	-	-	-	-	18,179
Other liabilities and provisions	304	-	-	-	-	304
Subordinated liabilities	-	-	-	1,750	-	1,750
Total liabilities	172,931	-	-	1,750	-	174,681

24. 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)	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	£3.9m based on interest receivable	£0.139m paid in settlement of corporation tax on 2017 profits	20.5 Full Time Equivalents

Annual Business Statement

for the year ended 31 December 2018

1. Statutory percentages

	2018 %	Statutory Limit %
Lending limit	4.67	25.00
Funding limit	9.77	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

	2018 %	2017 %
As a percentage of shares and borrowings		
Gross capital	7.29	7.30
Free capital	6.71	6.73
Liquid assets	22.94	20.42
Profit for the year as a percentage of mean total assets	0.20	0.29
Management expenses as a percentage of mean total assets	0.98	0.91

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 2017 and 2018 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 (19.04.1962)	2018	Company Director	British Friendly Society Scottish Police Pensions Board Age UK Trustee Age UK Enterprises Ltd 24 Charles Street Limited
R A Pattinson Senior Independent Director (19.05.1952)	2011	Company Director and Financial Services Consultant	A & T Advisory Ltd Trustee/Director, Pioneer Projects (Celebratory Arts) Ltd.
K J D Elliott BA(Hons), Mdip, MCIM (25.05.1972)	2017	Chief Executive Officer	
M R Cocker BSC (Hons), Member of the ICAEW (19.09.1959)	2016	Chartered Accountant	Etalon Group plc Tinkoff Credit Systems Group Holding Durham University Audit Committee Nostrum Oil and Gas plc Headhunter Group plc
M R Heenan BSc (Hons), FCA (27.02.1951)	2012	Company Director and Retired Chartered Accountant	The Inglewood Investment Company Ltd TIIC Projects Ltd TIIC Developments Ltd Stafford Town Football Foundation Masonic Charitable Foundation Coltkell Ltd Masonic Charitable Services
S A Symington C Dir, FCIPD (04.03.1965)	2013	Non-Executive Director	Chair - York Teaching Hospital NHS Foundation Trust Director- Lodge Cottages Ltd
J E Bedford FCA (13.02.1970)	2014	Deputy Chief Executive Officer	Mutual Vision Technologies Ltd Beverley DMO Limited
M Marsden BSc (Hons), MBA (28.01.1967)	2014	Risk Director	

Documents may be served on the above named directors at:

c/o KPMG LLP, 1 Sovereign Square, Leeds, LS1 4DA.

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 9 months for termination. The contract dates of the above Executive Directors are 11 April 2015, 12 August 2015 and 25 April 2017, respectively. No other Directors have contracts in place.