

Business Review and Summary Financial Statement

for the year ended 31 December 2017



Beverley
Building Society
Founded 1866

**East Yorkshire's
only independent
building society**



The Mortgage Team: (Left to Right) Debbie, Annette, Maria, Graham, Jess, and Sandra

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.



The Savings Team: (Left to Right) Debbie, Nicola, Andrea, Lesley, Jenny, Chris and Val (Not pictured: Sophie)

Business Review and Summary Financial Statement

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Cover Photo: Winner of the Red Box Challenge

Society Performance

over the past 5 years

Overview of Performance

In 2017, the Society's profit before tax was £680k, the second highest in the last five years. As a Mutual, the Society does not pay shareholders dividends. The Society's policy is also not to pay bonuses, profit is therefore fully re-invested back into reserves, building financial strength and providing long term resilience for members benefit.

Profit has increased primarily due to improved net margin (1.30% 2017 v 1.16% 2016) and a reduction in mortgage impairment provisions expense, driven by a strategy focused on low risk residential mortgages, funded primarily by local savings.

In 2017 £1m of subordinated debt was repaid and the final tranche of subordinated debt will be payable in March 2019, at which point the Society expects to be entirely funded by member savings and deposits.

Whilst the value of the mortgage portfolio has increased by 1%, there has been a more significant shift in portfolio mix, with a reduction in the Society's higher risk commercial mortgage portfolio being replaced by residential mortgages (net increase in owner occupied mortgages of £4.5m). The impact of this strategy can also be evidenced by the fall in average Loan to Value over the past five years as detailed below.

Given the continued economic uncertainties in 2017 and upward pressure on the Base Rate, fixed rate mortgages dominated the market. Whilst the Society does not offer fixed rate mortgages, it has successfully lent £20.3m in new variable rate mortgages in 2017.

In summary, despite a difficult mortgage market, the Society has successfully increased profit whilst:

- Reducing risk by focusing on residential mortgages, which has led to reduced mortgage impairment provision charge;
- Improving the efficiency of the balance sheet, by reducing surplus liquid assets built up around the Brexit vote in 2016; and
- Increasing resources within information technology, to respond to the ever increasing opportunities and challenges that the digital economy presents.

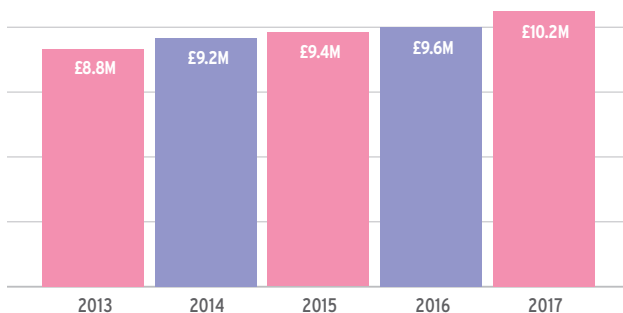
...straightforward value for money products

Key Performance Indicators (KPIs)

The Board uses a number of KPIs to measure and monitor progress and performance. In managing the business, the Society has sought to ensure that it operates in a prudent manner and that the interests and security of borrowers and savers are safeguarded. Some of the Society's KPIs are illustrated below to show the progress the Society has made with the support and help of both members and staff.

General Reserves

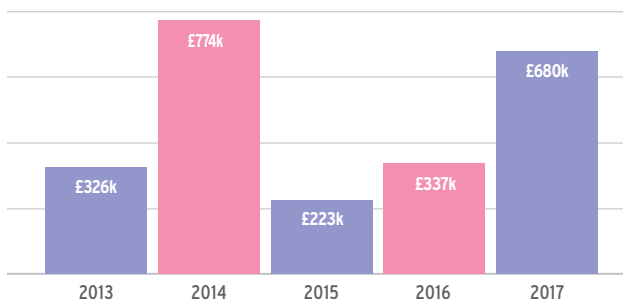
General reserves have increased steadily over the period providing a strong capital position that more than meets the Society's regulatory requirements.



Profit before Tax

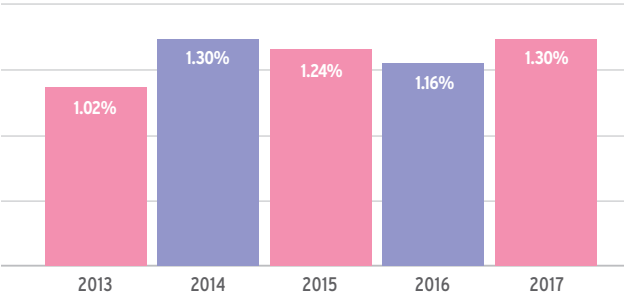
A reasonable level of profit is required to maintain the Society's capital ratios.

The Society made £680k profit before tax, higher than the previous year, primarily due to improvement in the net interest margin.



Net Interest Margin

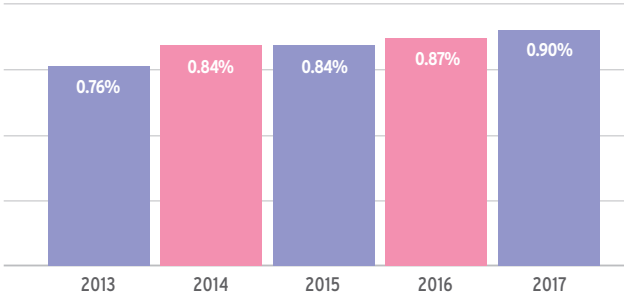
Net Interest Margin for 2017 was 1.30%; the increase primarily due to improvements in the average mortgage rate, following success in the interest only and self-build mortgage markets; a lower average savings rate and improved balance sheet efficiency, through effective management of our liquid assets.



Management Expense Ratio (percentage of mean total assets)

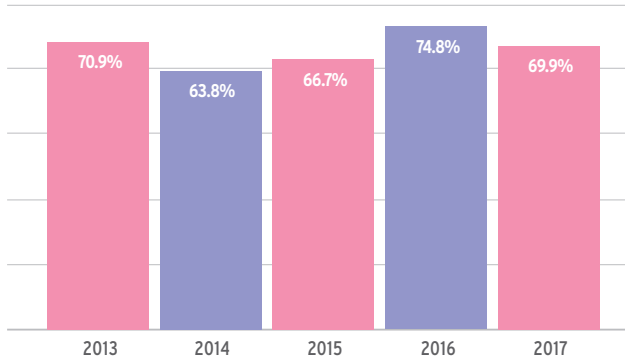
Management expenses have increased year on year primarily due to further investment in information technology resource and one-off CEO recruitment costs.

It should be noted that the Society continues to have one of the lowest Management Expense Ratios in the Building Society sector (source: KPMG Building Society Dashboard 2016).



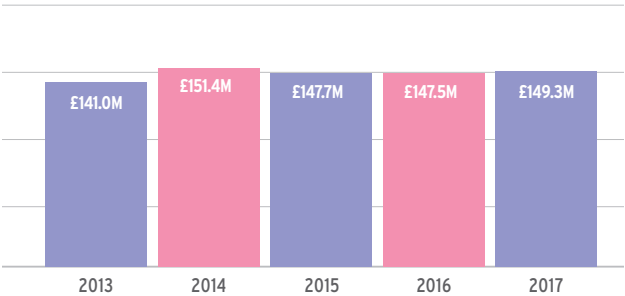
Cost to Income Ratio

Improvements in income and good expenses management have reduced the cost:income ratio to 69.9% in 2017.



Total Mortgage Balances

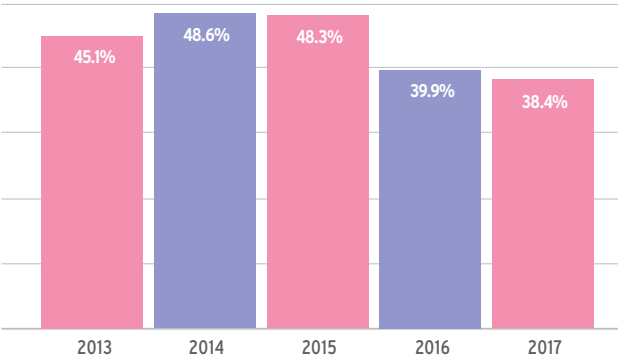
The Society's mortgage book has grown by £1.8M thanks to a combination of healthy levels of new business and strong retention of existing residential mortgage customers. The figures below are stated gross of mortgage loss provisions.



Mortgages - Average Loan to Value (LTV)

The loan to value ratio measures the mortgage loan balance as a percentage of property valuation.

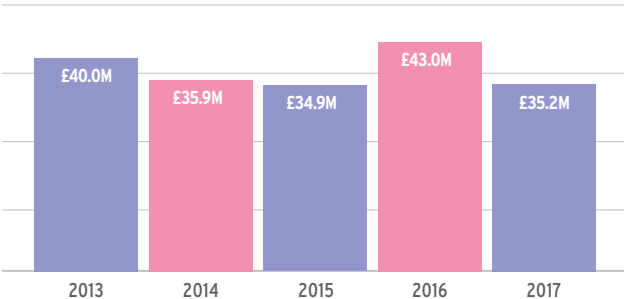
As a result of effective management of our mortgage book, the average LTV has fallen consistently over the last 5 years, significantly reducing the Society's credit risk.



Liquid Assets and Liquidity Ratio

The Society's liquid assets in 2017 of £35.2m represent 20.42% of shares and borrowings.

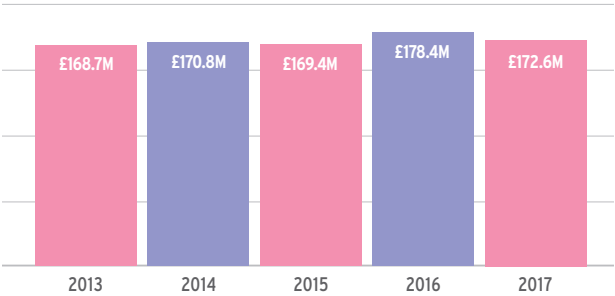
Liquid assets have reduced by £7.8m in 2017, returning the Society to historic norms after the significant savings inflows in 2016 which increased liquid assets by £8.6m in 2016.



Total Savers' Balances

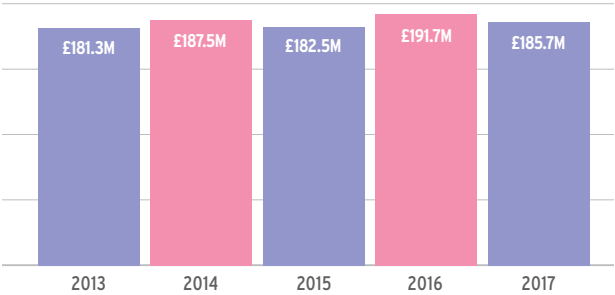
Savings balances have returned to historic trend as noted above. The Society continues to ensure that the rates offered to members are in line with the market and represent long term good value.

The figures to the right exclude amounts owed to other credit institutions.



Total Assets

Total Assets movements largely reflect the movement in savers' balances noted above.





Chairman's Statement

for the year ended 31 December 2017

As we moved into our 151st year since formation I warned last year that the only certainty for 2017 would be that there would be even more uncertainty to come and Brexit provides a running narrative and example of that.

Whatever your political persuasion, the government seems to lurch from one crisis to another; Spain is having its own devolution crisis; and the less said about what's happening in the United States the better. The UK economy is showing no signs of emerging from its slumber, with low growth, productivity and wage inflation predicted to continue. The spectre of rising inflation has seen the Bank of England take action, but the long term forecast is for interest rates to remain low.

House price inflation is subdued both nationally and regionally, leading to a challenging market where quality housing supply is weak, demand is unmet, and therefore competitors are fighting hard for market share. In light of all these uncertainties, more than ever we are committed to ensuring that our independent mutual Society supports families in our region, ensuring security and long term sustainability for members.

We continue to help enable affordable home ownership, funded by safe and secure good value savings, at a time when we see High Street banks withdrawing their branch support from our communities with alarming regularity.

We have and will continue to play our role in our local community, not just in the provision of savings and home loans, but in working together with likeminded organisations to ensure our region thrives, grows and prospers, with support for many community and charitable causes provided throughout the year.

The Beverley Building Society has also had its share of change this year, with the recruitment of Karl Elliott as our new Chief Executive and the promotion of Janet Bedford to Deputy Chief Executive. The Society conducted a thorough search and a comprehensive selection process to find and recruit Karl and the Board were content with the process and the conclusion. I recommend him to you for election at the 2018 Annual General Meeting.

Karl, a family man with three children, comes from the mutual sector and is bound by the same values that we all hold so dear. Karl will be a great asset to the Society and with his colleagues will continue to put our members at the forefront of all our thinking. Karl is looking forward to meeting as many of you as possible at our AGM and member events in 2018.



Drifford Show: Zoe, Jess and Debbie

I am pleased to report that during 2017 the Society continued to deliver strong underlying profits and an improving capital position. This has been achieved whilst continuing to proactively decrease the risk inherent in our legacy lending book, which has diminished significantly over the last two years.

The Society performed better than expected in 2017, with gross lending performing strongly, savers remaining loyal, and costs under tight control, resulting in capital being maintained well above regulatory requirements. In 2017 we also paid off the first tranche of our subordinated debt, and we remain on track to fully pay off the final tranche in March 2019.

Our strategy remains to continue to focus on prime residential lending, especially by using our personal underwriting expertise and experience to support under-served sectors of the market, while still seeking to provide consistent long term good value to savers. We see our colleagues as our most important asset and offering unrivalled personal service is our most important strategic deliverable.

We have been proactive in meeting the increased burden of regulation and remain one of the very few small Building Societies to appoint a Risk Director to the Board. We continue to review and where possible further improve our Corporate Governance. Each year we hold strategy days when we review what we do and how we do it, and consider what else we could be doing to ensure our long term sustainability and success. We take advice from specialists and regulators, listen to feedback, and review best practice in our industry to ensure we serve our members effectively.

As your Chairman I complete an annual review of your Board's effectiveness and with the Board agree plans to further enhance and improve our performance each year.

In line with good corporate governance we have a number of directors standing for re-election at the AGM in 2018. Miss Bedford, Mr Marsden, and Mr Pattinson retire by rotation and put themselves forward for re-election. I am happy to confirm that following formal performance evaluation, their performance continues to be effective and to demonstrate commitment to their roles. They all make significant contributions to the Board and I recommend them to you.

2018 will be my last year as your Chairman and we are putting a comprehensive plan and process in place, in good time, to ensure that the recruitment of my successor will be seamless and that the Board will continue to perform effectively.

2018 and beyond promises to be just as - if not more - unpredictable as last year, but your Board will remain constant in their commitment to hold dear and promote our mutual values, unrivalled personal service and putting the needs of our members first. I'd like to thank all members for your continued and loyal support, which has contributed so much to our excellent performance in 2017, and we do hope to see as many of you as possible at our AGM and at our various events being held during 2018.

Brian Young
30 January 2018



Chief Executive's Review

for the year ended 31 December 2017

I'm delighted to be writing this, my first Chief Executive's Review since my appointment in August 2017. My first impressions of Beverley Building Society are of a thriving organisation, embedded within its local community and playing an essential role for you, its members.

You are served by a highly committed and organised team who genuinely put the care and financial wellbeing of members first and foremost and this is reflected in the excellent results for 2017.

Growing Financial Strength

You will have seen on the previous pages our Key Performance Indicators, which show positive progress in many areas during the year. I would however draw your attention to the significant increase in profits (£680k before tax) and growth in general reserves (over £10m for the first time) achieved primarily through increased margins.

As a Building Society we rely solely on our profit and general reserves to provide us with the capital we need to ensure our financial stability and strength. It's therefore reassuring to know that we have never been stronger in terms of the reserves we hold to protect our members' savings, guard against key market risks and support our business growth.

Political and Economic outlook

Against a political backdrop of the ongoing

uncertainty of Brexit at home and the 'Trump Effect' globally, we have seen economic growth and productivity continue to struggle in the UK, whilst the stock market, employment and inflation have all risen.

The Bank of England has responded to the current outlook by reversing the previous year's interest rate cut, restoring bank base rate to 0.5% in November 2017.

Our Regulator, the Prudential Regulatory Authority, continues to ensure that we operate prudently and in the interests of our members. This invariably means an increased cost of doing business, as we continue to ensure that we meet and exceed their ever exacting standards and that we are more than able to meet our current, future and potential liabilities.

Information Technology and the emergence of the digital economy increasingly raise headlines, providing opportunities for innovation and improved member engagement, but also presenting the challenges of 'Cyber Crime' and identity theft.

We continue to work with our IT partners both to maximise the opportunities for improved service, whilst taking action to ensure that we have the necessary systems, processes and resources in place to protect the Society and its members.

All these factors influence the cost of participation in the UK financial services market and impact upon the savings and mortgage rates we are able to offer, as we constantly seek to balance the needs of savers, who fund our lending, with those of borrowers, who pay the interest that funds our savings rates.

Brexit

The vote to leave the European Union has introduced new uncertainty to the UK economy and to the Society. However, this is expected to be a slow process which we will continue to monitor closely. It is important to note that the Society's business is conducted entirely in the UK.

Stronger Mortgage Book

Despite a highly competitive market, 2017 saw an increase in both the size and quality of the mortgage book, with healthy new business, retention, provisions and arrears all positively contributing. As a result, we end the year with more lending (£149.3m), at a lower average Loan to Value (38%), and with a greater proportion of residential lending (95% of our total). This makes our mortgage book stronger and better able to accommodate any future correction in the housing market.

Challenging Savings Market

Historically low savings rates across the market have meant it has remained a challenging environment for savers. Our low management expense ratio has enabled us to offer good, long term value in the savings market without resorting to headline rates, with our 30 Day notice account proving particularly popular during the year. We have reduced our overall levels of savings balances in the year to better match the amount of funding required for lending and following the increase in the Bank of England base rate, we continue to monitor the market to ensure that our security, stability and the long term value of our savings offer maintains its appeal to members.

Our customer offer

New mortgage and savings members continued to provide very positive responses to our customer satisfaction survey in 2017, with particular reference

to the personal service members receive from our team, which, in addition to the strong mortgage retention rates and very low levels of complaints, suggests we are getting things right for members most of the time.

During 2017 we have also looked to take on more first time buyers and provided mortgages for those building their own homes, as well as continuing to welcome older borrowers and those looking to take out interest only loans.

We will be seeking opportunities to further improve the products and service provided to both savers and borrowers during 2018. Our focus will be on ensuring that we continue to be relevant to families across the region who are looking for a safe and reliable home for their savings and participating in those areas of the mortgage market where we can make a positive difference for homeowners and first time buyers.

Community and Charitable support

In continued recognition of our role in the local community for over 150 years, June saw us hold a Garden Party at our head office in Beverley, attended by members, friends of the Society and distinguished guests. We also buried a time capsule on the premises with contributions from members, schools and the wider local community, with the intention that it will be dug up in 50 years to give people then a flavour of how life was today.

2017 saw us continue our support of Action Duchenne, a charity supporting young children with debilitating muscle degeneration leading to premature death. Together, colleagues, members and friends of the Society undertook a number of fund raising initiatives, with highlights including Christine Gibbon our Customer Service Assistant having her hair shaved off and a number of colleagues and their families taking part in the Great North Run. Events culminated in a Charity Ball in October attended by over 300 people from across the region and to date we have raised over £60k, in association with Action for Ashley.

As a local Building Society, we see being part of the fabric of our community as core to our social purpose and we continued to give our support to many events and organisations throughout the year. East Riding Theatre, Driffild Agricultural Show and the Beverley Food Festival are just a selection of those who have benefited from the support your Society has provided.

During the year, members visiting our branch also voted to select 'Charities of the Month' from across the local region, with winners as diverse as The British Heart Foundation, Cash for Kids and Beverley Cherry Tree Community Centre each receiving £250.

Our people

Beverley Building Society thrives in no small part due to the dedication and commitment that every member of our hard working team contributes. During the year we further strengthened our team, promoting Janet Bedford to Deputy Chief Executive and welcoming three new colleagues, Darren Noonan (IT Manager), Dominic Shaw (Finance Manager) and Giselle Wynder (Mortgage Team apprentice). Together they add to the mix of experience, enthusiasm and energy in our organisation and I am sure they will prove to be valuable additions in their new roles.

We also said goodbye to Steve Kennington (Finance Manager), Zoe Fisher (Marketing Manager) and my predecessor Peter Myers. I would like to thank them all for their contributions to our excellent performance in 2017 and in particular to thank Peter for ensuring that the Society has in place the foundations for a successful and sustainable future.

Future Outlook

Despite the uncertain and ever changing economic and political environment, 2017 has been a very

encouraging year for the Society and gives us confidence as we look forward to the future. Whilst the market remains challenging and often unpredictable, we continue to be well served by our founding principle; to help families in our region achieve affordable home ownership, funded by safe, secure, good value savings.

We enter 2018 having strengthened our financial foundations and we continue to seek opportunities to help those savers and borrowers poorly served by the market by providing them with good value products and exceptional personal service. As your new Chief Executive I am excited by the challenge of defining and delivering a purpose, vision and direction for your Society that will sustain it for many years to come.

Our Society only exists because of its members and I would like to thank you all for your ongoing support and I hope that I will get the opportunity to meet you in person at our Annual General Meeting in April 2018.

Karl Elliott

30 January 2018



150th Anniversary Garden Party

Board of Directors

for the year ended
31 December 2017

from left to right: *Standing*

Mark Marsden

Risk Director

Appointed to the Board in November 2014. Member of the Assets and Liabilities and Risk Committees. Experienced risk and compliance professional with 15 years' retail lending and deposit taking experience.

Karl Elliott

Chief Executive
(appointed 3 August 2017)

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

Mike Heenan

Non-Executive Director

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

Sue Symington

Non-Executive Director

Joined the Board in 2013. Chair of the Remuneration Committee. Member of the Assets and Liabilities, Audit and Compliance and Nominations Committees. Chartered Director, Chartered Fellow of the Institute of Personnel and Development. Provides experience in Human Resources and Personnel Development.



from left to right: *Seated*

Janet Bedford

Deputy Chief Executive and
Finance Director

Appointed to the Board in August 2014. Member of the Assets and Liabilities and Risk Committees. Qualified Chartered Accountant with extensive experience of the financial services sector.

Brian Young

Non-Executive Director, Chairman

Joined the Board at the end of 2009, and became Chairman in 2015. Chair of the Nominations Committee and member of the Remuneration Committee. Qualified Cost and Management Accountant.



Not pictured

Martin Cocker

Non-Executive Director

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

Richard Pattinson

Non-Executive Director,
Senior Independent Director

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

Peter Myers

Chief Executive
(stepped down 11 May 2017)

Joined the Board in September 2011. Member of the Assets and Liabilities, Nominations and Risk Committees. Chartered Banker with over 30 years' experience in financial services as an Executive and Non-Executive Director.

Directors' Remuneration Report

for the year ended 31 December 2017



Sue Symington

Chair of the Remuneration Committee

This report explains how the Society has regard to the principles in the UK Corporate Governance Code 2016 relating to remuneration.

The Society has adopted a Remuneration Policy, which describes how the Society complies with the relevant sections of the Financial Conduct Authority's (FCA) Remuneration Code. The Remuneration of individual Directors is detailed on page 16.

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 remuneration of all Non-Executive Directors is reviewed on an annual basis by the Remuneration Committee, 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, participation in a Group income protection scheme, and, where applicable, a company car.

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 Remuneration Committee consists of two Non-Executive Directors.

The Remuneration Committee is responsible for the remuneration policy for all Directors and senior management of the Society. It meets at least once a year 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.

Sue Symington

Chair of the Remuneration Committee
30 January 2018

Directors' remuneration (audited)

Directors' emoluments	2017	2016
	£000	£000
For services as a Director	84	87
For executive services	312	333
Total	396	420

Emoluments of the Society's Directors are listed below

	Fees	Fees
	£000	£000
<i>For services as a Director</i>		
B Young (Chairman and Chair of the Nominations Committee)	23	23
R M Miles (Chair of the Audit and Compliance Committee, retired 19 April 2016)	-	7
M R Cocker (Chair of the Audit and Compliance Committee, appointed 19 April 2016)	16	12
R A Pattinson (Senior Independent Director and Chair of the Risk Committee)	16	16
M R Heenan (Chair of the Assets and Liabilities Committee)	16	16
S A Symington (Chair of the Remuneration Committee)	13	13
Totals	84	87

	Salary	Benefits	Pension	Total
	£000	£000	£000	£000
<i>For executive services</i>				
2017				
P E Myers Note 1	54	3	-	57
K J D Elliott (appointed August 2017) Note 2	59	-	-	59
J E Bedford	97	1	10	108
M Marsden	79	1	8	88
Totals	289	5	18	312
2016				
P E Myers Note 1	143	8	-	151
J E Bedford	86	1	9	96
M Marsden	77	1	8	86
Totals	306	10	17	333

Note 1: P E Myers resigned as a Director effective from the 11th May 2017. Included in the salary figure above is £4k which represents cash payments in lieu of pension (2015: £11k). In addition to the amounts shown above, he received a £16k benefit (represents the market value of his company car).

Note 2: Included in the salary of K J D Elliott is £4k which represents cash payments in lieu of pension and car benefit.

Corporate Governance Report

for the year ended 31 December 2017

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.



Mark Marsden
Risk Director

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, staff and members and chairing the meeting where the Chairman's performance is appraised.

There are five 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 and Mike Heenan. Two members of the Committee have recent relevant financial experience.

Remuneration Committee

The Remuneration Committee, chaired by Sue Symington, meets at least once a year and independently reviews the remuneration, benefits and contracts of Non-Executive Directors and Executive Directors. The other member of the Committee is Brian Young. Further details can be found in the Directors' Remuneration Report on page 14.

Assets and Liabilities Committee

The Assets and Liabilities Committee, chaired by Mike Heenan, meets 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 is also responsible for reviewing the Society's policies and counterparty list, and ensuring regulatory limits are adhered to. Other members of the committee are Richard Pattinson, Sue Symington, Martin Cocker, Karl Elliott (Chief Executive), Janet Bedford (Deputy Chief Executive), Mark Marsden (Risk Director).

Risk Committee

The Risk Committee, chaired by Richard Pattinson, meets at least quarterly. 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).

Nominations Committee

The Nominations Committee, chaired by Brian Young, meets at least once a year to review 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. Other members of the Committee are Karl Elliott (Chief Executive) and Sue Symington.

Board and Committee membership attendance record

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

	Board	Audit and Compliance	Risk	Assets and Liabilities	Remuneration	Nominations
B Young	11 (11)				2 (2)	4 (4)
M R Cocker	11 (11)	5 (5)	5 (5)	10 (10)		
R A Pattinson	11 (11)		5 (5)	10 (10)		
M R Heenan	10 (11)	4 (5)	4 (5)	9 (10)		
S A Symington	9 (11)	3 (5)		8 (10)	2 (2)	4 (4)
P E Myers (to 11 May 2017)	4 (4)		2 (2)	4 (4)		
K J D Elliott (from 3 August 2017)	4 (4)		2 (2)	3 (3)	2 (2)	
J E Bedford	11 (11)		5 (5)	10 (10)		
M Marsden	11 (11)		5 (5)	10 (10)		

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.

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 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 2017 search for a new Chief Executive this Agency was Fletcher Jones. This Agency has no other connection with the Society. All Directors must meet the regulatory fitness and propriety standards. The Nominations 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 Nominations Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 18.

Development

Code Principle:

B.4. All Directors should receive induction 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. 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. 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 Chairman carries out individual appraisals and completes a skills matrix for each Non-Executive Director and the Board as a whole. The skills matrix for the Board is reviewed by the Nominations 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 of them.

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.

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 2017 Annual Report and Accounts. 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 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 on page 14 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. In 2017 these included the Society's Annual General Meeting and hosting a summer Garden Party. 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 2017 this was arranged through Electoral Reform Services.

B Young Chairman
30 January 2018

Summary Financial Statement

for the year ended 31 December 2017



Janet Bedford
Deputy Chief Executive
and Finance Director

This financial statement is a summary of the information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at the principal office of Beverley Building Society from 31 March 2018.

Approved by the Board of Directors on 31 January 2018 and signed on its behalf by:

B Young Chairman

K Elliott Chief Executive

J E Bedford Deputy Chief Executive

Summary Directors' Report

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).

Strong profit growth in 2017 has improved the Society's capital position, despite continued amortisation of subordinated debt capital, required under CRD regulations, as shown below.

The Society's capital position is set out in more detail in its Pillar 3 disclosure document. The 2017 document is available on the Society's website from mid-April 2018.

	Definition	2017	2016
Total Capital Ratio	Total capital as a percentage of Risk Weighted Assets (RWA)	16.0%	14.7%
Core Equity Tier (CET) 1 Capital Ratio	Core Equity Tier 1 capital (accumulated profit) as a percentage of RWA	14.7%	13.2%

Results for the year

The profit for the year on ordinary activities before tax was £680k (2016: £337k). Profit has increased primarily due to improved net margin (1.30% 2017 v 1.16% 2016) and a reduction in mortgage impairment provisions charge, driven by a strategy focused on low risk residential mortgages, funded primarily by local savings.

Total assets

The total assets of the Society at 31 December 2017 were £185.7m (2016: £191.6m), a decrease of £5.9m or 3.1%. Total assets have decreased primarily due to saver outflows and the scheduled repayment of £1m of subordinated debt.

Liquid assets

Liquid assets in the form of cash and securities at 31 December 2017 were £35.2m (2016: £43.0m), representing 20.39% (201: 24.13%) of shares and borrowings. As illustrated on page 5, liquid assets have returned to historic norms, after significant inflows in 2016.

A more detailed review of events, the performance of the Society and the financial position at the year-end can be found on pages 2 - 6.

Result for the year	2017	2016
	£000	£000
Net interest receivable	2,457	2,167
Other income and charges	2	9
Administrative expenses and depreciation	(1,706)	(1,620)
Provisions for bad and doubtful debts	(73)	(181)
<i>Provisions for liabilities</i>		
FSCS levy	-	(38)
Profit for the year before taxation	680	337
Taxation	(135)	(72)
Profit for the year	545	265

Financial position at the end of the year	2017	2016
	£000	£000
Assets		
Liquid assets	35,248	43,041
Mortgages	148,682	146,977
Fixed and other assets	1,722	1,629
Total assets	185,652	191,647
Liabilities		
Shares	154,448	162,078
Borrowings	18,179	16,289
Other liabilities	399	287
Provisions for liabilities	27	59
Subordinated liabilities	1,750	2,750
Revaluation reserve	676	556
General reserve	10,173	9,628
Total reserves and liabilities	185,652	191,647

Summary of Key Financial Ratios

	2017	2016
	%	%
Gross capital as a percentage of shares and borrowings	7.30	7.25
Free capital as a percentage of shares and borrowings	6.73	6.71
Liquid assets as a percentage of shares and borrowings	20.42	24.13
Profit for the year as a percentage of mean total assets	0.29	0.14
Management expenses as a percentage of mean total assets	0.90	0.87

Explanation of Key Financial Ratios

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

The gross capital ratio gives an indication of the extent to which the Society is funded by retained earnings compared with retail and non-retail shares and deposits. Gross capital provides a financial buffer against any losses which might arise from the Society's activities and therefore protects investors.

The liquid assets as a percentage of shares and borrowings ratio is a measure of the proportion of the Society's shares and borrowings that are either in the form of cash or readily convertible into cash. Beverley Building Society has a liquid assets ratio in line with those of other societies, and which the Directors consider is appropriate to the activities of the Society.

Mean total assets are calculated as the mean of the 2016 and 2017 total assets, as shown in the balance sheet.

The ratio of profit for the year as a percentage of mean total assets measures the proportion which the profit after taxation for the year bears to the average balance of the total assets during the year. The ratio is similar to a company's return on assets. The Society needs to make an adequate level of profit each year in order to maintain its capital ratios at a suitable level to protect investors.

The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses as reported in the document bear to the mean of total assets. The Board considers that this ratio is a meaningful measure of the cost required to administer the assets of the Society.

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

Opinion

We have examined the summary financial statement of Beverley Building Society ('the Society') for the year ended 31 December 2017 set out on pages 22 - 25.

On the basis of the work performed, as described below, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;

- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017.

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

Directors' responsibilities

The directors are responsible for preparing the summary financial statement, in accordance with applicable United Kingdom law.

Auditor's responsibilities

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

The purpose of our work and to whom we owe our responsibilities

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Richard Gabbertas

for and on behalf of KPMG LLP,
Statutory Auditor Chartered Accountants
1 Sovereign Square, Sovereign Street
Leeds LS1 4DA
30 January 2018

2017: Charities of the month



British Heart Foundation



Crohn's & Colitis UK



Go Kids Go



The Daisy Appeal

Beverley

Building Society

Founded 1866



150th Anniversary Garden Party

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