

Business Review and Summary Financial Statement

for the year ended 31 December 2016



Staff and the Board of Directors at the Society's 150th Anniversary Dinner

CELEBRATING 150 YEARS
Beverley
Building Society
1866 - 2016

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

Business Review and Summary Financial Statement

for the year ended 31 December 2016

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, supported by an unrivalled level of personal service.



Standing: Jenny, Lesley, Nicola, Sophie, Debbie, Becky | Seated: Chris and Andrea | The Savings Team

...an unrivalled level of personal service

www.beverleybs.co.uk

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

...our members trust us

Society Performance

over the past 5 years

Overview of Performance

In 2016, the Society’s profit before tax was £337k, the second highest in the last five years. The profit after tax was £265k, which has been re-invested back into reserves.

The Society has pursued a “back to the future” strategy in the last five years, focussing on low risk residential mortgages, funded primarily by local savings.

Whilst the value of mortgages remain unchanged in 2016, in line with this strategy there has been a shift in portfolio mix, with a significant reduction in the Society’s higher risk commercial mortgage portfolio, being replaced by residential mortgages.

Given the economic uncertainties in 2016, fixed rate mortgages dominated the market. Whilst the Society does not offer fixed rate mortgages, it has successfully lent £24.4m in new variable rate mortgages in 2016, one of the highest years on record.

In summary therefore, despite a difficult mortgages market, the Society has:

- Reduced risk within the mortgage portfolio by focusing on residential mortgages, which has led to lower mortgage provisions.
- Attracted significant amounts of new savings by offering good value rates over the longer term.
- Met the challenge of increased regulations by strengthening the back office functions.



Elliot | Accountant

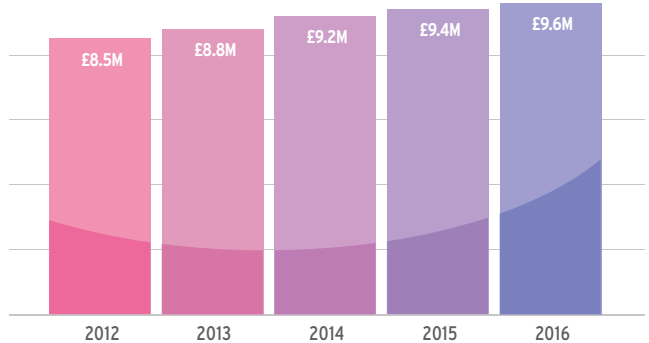
Key Performance Indicators (KPIs)

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 controlled 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.

It should be noted that due to the replacement updating of UK GAAP with the new accounting policy FRS 102 in 2015, the Key Performance Indicators for 2014-2016 are based on FRS102, whilst those relating to 2012-2013 are based on old UK GAAP. The primary impact of the accounting change was to increase reserves by £149k, due to collective provisions being reduced, reflecting the Society’s recent credit risk history.

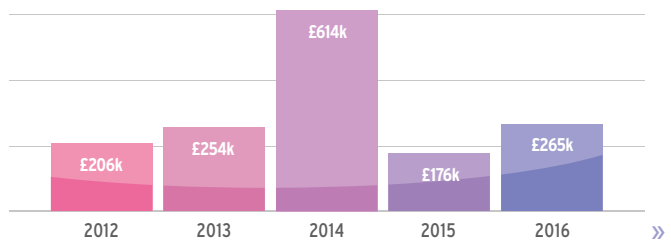
General Reserves

General reserves have increased steadily over the period providing a strong capital position to satisfy regulatory requirements and to protect Depositors.



Profit After Tax

A reasonable level of profits is required to maintain the Society's capital ratios. The Society made £265k profit after tax, higher than the previous year due to lower mortgage provision costs (£181k charge in 2016 versus £446k charge in 2015).



Steve | Finance Manager

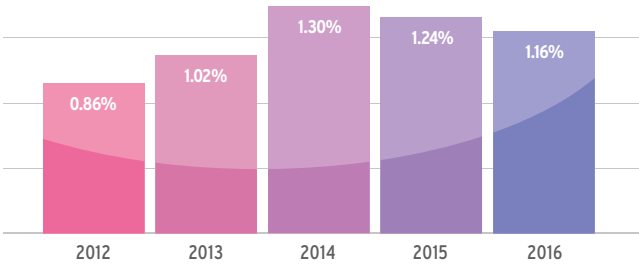
*...straightforward
value for money
products*



Jen | Accountant

Net Interest Margin

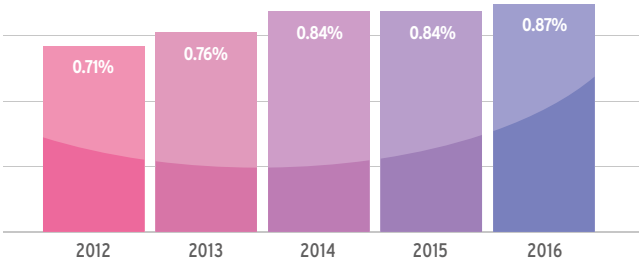
Net Interest Margin for 2016 was 1.16% versus 1.24% in 2015, the reduction was due to both tracker mortgages and treasury investments being impacted by the reduction of the Bank of England base rate and the further reductions in the size of the legacy commercial mortgage portfolio. In the last 5 years, the strategic focus has been moving away from commercial lending which, by nature, tend to be higher margin but higher risk.



Management Expense Ratio

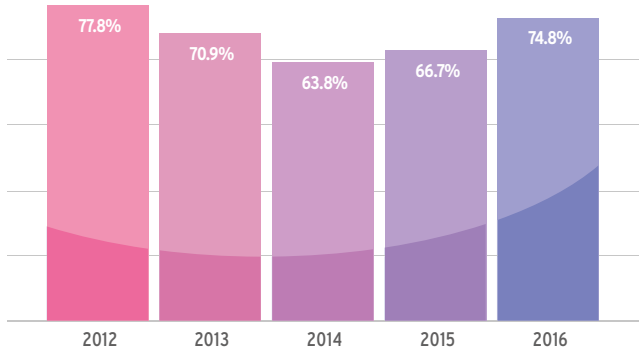
(percentage of mean total assets)

Management expenses have increased year on year due to further investment in and strengthening of the back office functions. The underlying non-staff related costs have remained consistent year on year. It should be noted that the Society continues to have one of the lowest Management Expense Ratio in the Building Society sector (source: KPMG Building Society Dashboard 2016).



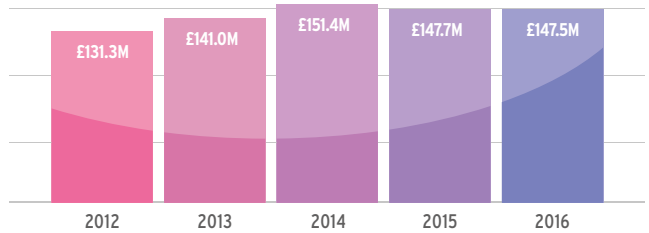
Cost to Income Ratio

Net Interest Income has fallen by 5% in the year, reflecting the difficult mortgage market conditions and the impact of the Bank of England base rate cut. Management expenses have increased as detailed above and therefore the cost income ratio has increased to 74.8% in 2016 (66.7% in 2015).



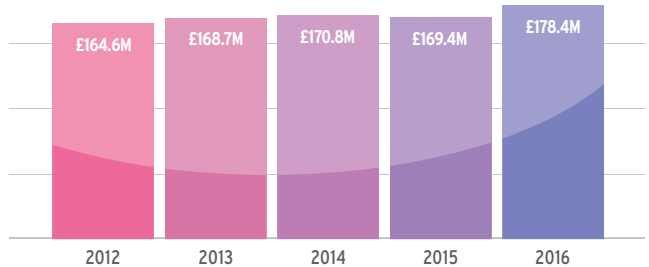
Total Mortgage Balances

In terms of total mortgage balances, whilst the overall balance has remained largely unchanged (£147.5m in 2016 v £147.7m in 2015), there has been a shift in portfolio mix. Lower risk owner occupied mortgages have increased by £5.75m, replacing the higher risk commercial, impaired and buy to let (BTL) mortgages which redeemed during the year. The figures, right, are stated gross of mortgage loss provisions.



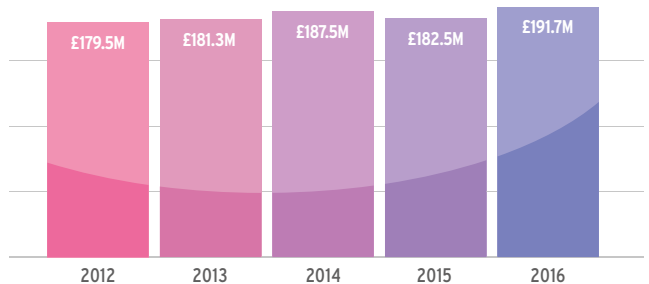
Total Savers Balances

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, right, exclude amounts owed to other credit institutions.



Total Assets

Total Assets are £191.7m, an increase of 5% as a result of saving inflows during the year.



Chairman's Statement

for the year ended 31 December 2016



Brian Young
31 January 2017

2016 was a historic year for the Society as we celebrated our 150 year anniversary.

I was so pleased to see many of our members, local charities and friends of the Society at our celebration dinner at which I had the pleasure of talking a little bit about the history of Building Societies and mutuality. In a year that seemed to produce one shock after another it is reassuring to know that your Society holds precious the values that our founding members cherished so many years ago. We remain as committed to mutuality now as our forefathers did. We do not take our role in serving our community lightly and we will endeavour to continue to offer unrivalled personal service at the heart of all we do.

2016 was also a year of shocks, particularly around the Brexit vote, Donald Trump winning the US election and Leicester City being crowned Premiership champions. The one certainty is that uncertainty will be with us for some time to come. We will continue to balance the needs of both our savers and borrowers whilst ensuring we have sufficient capital to meet any unforeseen risks.

I am pleased to report that during 2016 the Society continued to deliver continued profitability and an improving capital position despite difficult market conditions. This has been achieved whilst continuing to proactively reduce risk in our legacy lending leading to an improved quality of the overall lending book.

The Society performed in line with expectations in 2016 with strong performance in advance (£24.4m), whilst continuing to maintain capital well above regulatory requirements. In 2017 we will be paying off the first tranche of our subordinated debt. Our strategy remains to continue to focus on prime residential lending, especially by using our manual underwriting capability, allowing us to support under-served segments of the market, while still seeking to provide consistent long term good value to savers. The Society does not use wholesale funding, reflecting our "back to the future" strategy whereby we fund our mortgage business primarily by utilising customers' savings.

We have been proactive in meeting the increased burden of regulation and were one of the very first 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, how we do it and what else we could be doing. We take advice from specialists, regulators and review best practice in our industry to ensure we serve our members effectively. I also complete annually a review of the Board's effectiveness and the Board agrees plans to further enhance it each year.

In line with good corporate governance we have a number of directors standing for re-election at the AGM. Mike Heenan, Sue Symington and Martin Cocker 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. All three make significant contributions to the Board and I recommend them to you.

I am sorry to advise you that after more than 5 years' exemplary service our Chief Executive Peter Myers has decided to pursue his non-executive career and will be leaving us shortly after the AGM. Peter has done a terrific job for the Society and our members and we thank him for his invaluable service and wish him every success as he embarks on his new career. The process to find the right successor is well under way and the Nominations Committee have been very active in searching for the right person to lead us through the next phase of our strategic development. Subject to availability and regulatory approval I do hope to be able to introduce Peter's successor to you at the AGM.

2017 and beyond promises to be just as unpredictable as last year but your Board will continue to hold dear and promote our mutual values and unrivalled personal service and we do hope to see as many of you as possible at our AGM and at our various events being held in 2017.



Boardroom lunch

*...trusted and
respected by
members because
we regularly consult*

Chief Executive's Review

for the year ended 31 December 2016



Peter Myers

31 January 2017

I am pleased to report that the Society has delivered another consistent performance for members...

...with profit after tax of £265k reflecting an appropriate balance between generating sufficient profit to protect the Society's capital position, prudent providing against historic lending and setting appropriate rates for savers and borrowers.

The Society lent £24.4m of mortgages in 2016, one of the highest levels of lending in the Society's history. This was particularly encouraging as the mortgage market continues to be dominated by fixed rate products, which the Society currently chooses not to offer, because the Board believes the risks that attach to managing and hedging these products are not in the interests of members.

The overall gross mortgage book finished the year at £147.5m compared to £147.7m in 2015. While the mortgage book has not increased, £5.75m of low loan to value (LTV) owner occupied mortgages have replaced the commercial, impaired and BTL mortgages which redeemed during the year. The average loan to value of the Society's entire mortgage portfolio is now 42%, compared to 49% in 2015. In addition, the Society's lending provisions decreased from £1.6m to £0.5m.

During the year the Society launched an interest only mortgage product, which has proved very popular, particularly to older borrowers. Following feedback from members and the Society's own research, a number of other products are also being considered, all of which are designed to increase home ownership, in East Yorkshire in particular.

One of the highlights of 2016 has been the Society's celebration of its 150th anniversary. The anniversary was marked by a series of events, the main one being a dinner for members, local charities and friends of the Society, at Beverley Racecourse.

Action Duchenne was the Society's 150th Anniversary charity partner. Duchenne is a form of muscular dystrophy, affecting around 1 in 3,600 boys, which results in muscle degeneration and premature death.

Duchenne muscular dystrophy is a poignant choice as the son of Lesley Wegg, our colleague, is a sufferer. The hope is that a means of slowing the condition can be found before he and others become permanently wheelchair bound in their early teens.

During the year £25,911 was raised for Action Duchenne by a series of initiatives, including a dinner and challenges undertaken by colleagues, such as sky dives, entering a shark tank, descending a one mile long zip wire, the Great North run, charity bike ride and a cake sale.

The Society plans to extend the legacy of its 150th anniversary by using fun initiatives to encourage school children to think entrepreneurially. The first of these initiatives - the 'Red Box Challenge' - is scheduled for April 2017.

The Society's 150th anniversary dinner was held on 23rd June, the day of the EU Referendum, which is just one of many significant historic events that have occurred during the Society's long history.

The UK's decision to leave the EU, the election of Donald Trump, Central Bank interventions, global terrorism, volatile commodity prices and speculation about forthcoming elections in Europe have all influenced the economy. The Bank of England has responded with a series of measures which included the first reduction in Bank Base Rate for almost a decade. All of these ultimately impact the financial markets, the cost of funds and therefore the interest rates that the Society is able to offer its members.

The Society continues to balance the needs of savers, who provide the funds which are lent to mortgage customers, with the demands of mortgage customers who pay the interest which the Society then shares with savers.

To allow the Society to protect the rates offered to savers we have restricted the opening of some accounts, to existing members only, in order to reward loyalty. Despite this it has still been necessary to reduce savers rates during the year; the Society did this very reluctantly and continues to operate on both a relatively low management expense ratio and margin, in order to provide the maximum return to savers, while still building long term reserves. The Society's ISA remains among the most competitive on the market. In making any decision the Society always pays close

attention to delivering its Vision, in particular 'value for money' and 'unrivalled personal service'.

The regulatory environment in which all financial services firms operate continues to introduce new requirements and in 2016, 17 mandatory Regulatory change programmes were successfully implemented.

The Society continues to employ high calibre staff and in 2016 recruited Steve Kennington (Finance Manager), Jen Allott (Accountant) and Zoe Fisher (Marketing Manager). In addition, Jessica Briggs, an apprentice with the Society, joined the Mortgage team on a permanent contract.

The Society will continue to support the Beverley Folk Festival, Driffeld Agricultural Show, Beverley Food Festival and annual Cycle Races. In addition, we have agreed support to East Riding Theatre for three years. Details of these and other events will be announced in the branch, local press and social media (please follow the Society on twitter @BeverleyBS).

As many of you know I will be leaving the Society, after five and a half years as Chief Executive, to focus on my portfolio of Non-Executive Director roles. The intention is to introduce my successor to members at the AGM.

I would like to thank all members for their support and I look forward to seeing as many of you as possible at the AGM.



The Executive Team

from left to right

Janet Bedford
Finance Director

Graham Carter
Head of Lending

Peter Myers
Chief Executive

Lesley Wegg
Head of
Operations

Mark Marsden
Risk Director

Board of Directors

for the year ended
31 December 2016

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.

Peter Myers

Chief Executive

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.

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, awarded the Institute of Directors prestigious New Chartered Director of the Year award 2014. Provides experience in Human Resources and Personnel Development.

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.



From left to right seated:

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 and Audit and Compliance Committees. Richard has almost 40 years' banking experience covering treasury and risk management.



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.

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.

Janet Bedford

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.

Directors' Remuneration Report

for the year ended 31 December 2016



S A Symington

Chair of the Remuneration Committee
31 January 2017

This report explains how the Society has regard to the principles in the UK Corporate Governance Code 2014 relating to remuneration. (The 2016 edition is applicable from the next reporting year).

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 14.

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 and so any termination payment would not exceed six 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 three 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 industry 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. »



Society's Debbie at the 2016 AGM

» Directors' remuneration (audited)

Directors' emoluments	2016	2015
	£000	£000
For services as a Director	87	87
For executive services	333	319
Totals	420	406

Emoluments of the Society's Directors are listed below	Fees	Fees
	£000	£000
For services as a Director		
B Young (Chairman and Chairman of the Nominations Committee)	23	20
R M Miles (Chair of the Audit and Compliance Committee)	7	15
M C Cocker (Chair of the Audit and Compliance Committee)	12	-
R A Pattinson (Senior Independent Director and Chair of the Assets and Liabilities and Risk Committees)	16	16
M R Heenan (Chair of the Lending Committee)	16	16
S A Symington (Chair of the Remuneration Committee)	13	13
S L Young (Chairman, Retired 27 April 2015)	-	7
Totals	87	87

	Salary	Benefits	Pension	Total
	£000	£000	£000	£000
For executive services				
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

2015				
P E Myers (Note 1)	137	8	-	145
J E Bedford	82	1	8	91
M Marsden	75	1	7	83
Totals	294	10	15	319

Note 1: Included in the salary of P E Myers is £11k which represents cash payments in lieu of pension (2015: £11k).

Corporate Governance Report

for the year ended 31 December 2016



Mark Marsden
Risk Director

The Society has regard to the best practice principles in the UK Corporate Governance Code issued by the Financial Reporting Council, to the extent that they apply to a building society. For the year ended 31 December 2016 the September 2014 edition is relevant.

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:

Annually the Society's strategic aims are discussed and approved by the Board. It then meets approximately monthly and will challenge and monitor management performance in delivering the strategy in line with the long term success 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 Audit and Compliance Committee, now 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 Richard Pattinson, Sue Symington and Mike Heenan. Three 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 pages 12 to 14.

Assets and Liabilities Committee

The Lending Committee, chaired by Mike Heenan, The Assets and Liabilities Committee, chaired by Mike Heenan, meets on a monthly basis to manage 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, Peter Myers (Chief Executive), Janet Bedford (Finance Director), Mark Marsden (Risk Director) and Graham Carter (Head of Lending).

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 (Finance Director), Peter Myers (Chief Executive), Mark Marsden (Risk Director) and Graham Carter (Head of Lending).

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 Peter Myers (Chief Executive) and Sue Symington.



Cashier Becky at the Beverley Food Festival, sponsored by the Society

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	10 (10)				2 (2)	2 (2)
R M Miles (to 19 April 2016)	3 (3)	1 (1)	2 (2)	4 (4)		
M R Cocker (from 19 April 2016)	8 (8)	4 (4)	2 (3)	1 (1)		
R A Pattinson	9 (10)		5 (5)	9 (10)		
M R Heenan	10 (10)	4 (5)	5 (5)	10 (10)		
S A Symington	10 (10)	5 (5)		8 (8)	2 (2)	2 (2)
P E Myers	10 (10)		5 (5)	10 (10)		2 (2)
J E Bedford	10 (10)		5 (5)	10 (10)		
M Marsden	10 (10)		5 (5)	10 (10)		

»



Head of Operations Lesley Wegg and Chief Cashier Andrea Walker at the 2016 AGM

» 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, to ensure 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.



Jenny | Cashier

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. 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.



Christine | Cashier

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 17.

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 Non-Executive 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 Director's 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 will annually carry 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 the 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.



Zoe | Marketing Manager



Becky | Cashier

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 on page 14 within the 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 four 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 16. 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.

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View of Beverley Food Festival 2016 from the Society boardroom, sponsored by the Society

» Remuneration

The Directors' Remuneration Report on page 12 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.

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.

...value for money products

B Young

Chairman

31 January 2017



Mortgage Managers Anette and Maria at the 2016 AGM, held at Browns

Summary Financial Statement

for the year ended 31 December 2016



Janet Bedford
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 2017.

Approved by the Board of Directors on 31 January 2017 and signed on its behalf by:

B Young	Chairman
P E Myers	Chief Executive
J E Bedford	Finance Director

»

» Summary Directors' Report

Capital

At 31 December 2016 gross capital has increased to £12.9m (2015: £12.6m) or 7.25% (2015: 7.44%) of shares and borrowings. The Directors ensure that a satisfactory level of capital is maintained to protect the Society against adverse market movements or changes in economic conditions.

Results for the year

The profit for the year on ordinary activities before tax was £337k (2015: £223k). The net profit for the year after taxation was £265k (2015: £176k) and has been added to the general reserve which now totals £9,628k (2015: £9,360k). Profit has increased year on year due to the increase in new mortgage advances £24.4m (2015: £19.2m) and lower mortgage provisions costs within the loan portfolio (£181k charge in 2016 versus £466k change in 2015).

Total assets

The total assets of the Society at 31 December 2016 were £191.6m (2015: £182.5m), an increase of £9.1m or 5%. Total assets have increased primarily due to saver inflows.

Liquid assets

Liquid assets in the form of cash and securities at 31 December 2016 were £43.0m (2015: £34.9m), representing 24.13% (2015: 20.59%) of shares and borrowings.

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 to 9.



Head of Lending Graham Carter at intermediary conference Personal Touch Live



Nicola | Cashier

Result for the year	2016	2015
	£000	£000
Net interest receivable	2,167	2,285
Other income and charges	9	38
Administrative expenses and depreciation	(1,620)	(1,549)
Provisions for bad and doubtful debts	(181)	(466)
Provisions for contingent liabilities and commitments		
FSCS levy	(38)	(85)
Profit for the year before taxation	337	223
Taxation	(72)	(47)
Profit for the year	265	176

Financial position at the end of the year	2016	2015
	£000	£000
Assets		
Liquid assets	43,041	34,874
Mortgages	146,977	146,119
Fixed and other assets	1,629	1,533
Total assets	191,647	182,526

Liabilities		
Shares	162,078	149,253
Borrowings	16,289	20,105
Other liabilities	287	506
Provisions for contingent liabilities and commitments	59	70
Subordinated liabilities	2,750	2,750
Revaluation reserve	556	482
General reserve	9,628	9,360
Total reserves and liabilities	191,647	182,526

»

» Summary of Key Financial Ratios

	2016	2015
	%	%
Gross capital as a percentage of shares and borrowings	7.25	7.44
Free capital as a percentage of shares and borrowings	6.71	6.90
Liquid assets as a percentage of shares and borrowings	24.13	20.59
Profit for the year as a percentage of mean total assets	0.14	0.10
Management expenses as a percentage of mean total assets	0.87	0.84

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 2015 and 2016 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.



Beverley Building Society to round off 150th Anniversary celebrations by burying Time Capsule in June 2017, check the website for more details

Independent Auditor's Statement

to the Members and Depositors of
Beverley Building Society

We have examined the summary financial statement of Beverley Building Society ('the Society') for the year ended 31 December 2016 on pages 23 to 26.

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

Respective responsibilities of Directors and Auditor

The directors are responsible for preparing the summary financial statement within the Business Review and Summary Financial Statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Business Review and 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.

Basis of opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016, 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 2016.

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

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

Opinion on summary financial statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Richard Gabbertas

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square, Sovereign Street, Leeds LS1 4DA
31 January 2017

2016: Charities of the month



January | Macular Society



February | Beverley Consolidated Charity



March | Sue Ryder Holme Hall



April | Guide Dogs Hull Mobility Team



May | MENCAP



June | Hull Animal Welfare Trust



July | Wilf Ward Family Trust



August | Canine Partners



September | Downright Special



October | Cardiac Risk in the Young



November | Yorkshire Cancer Research



December | Cash For Kids:
Mission Christmas

2016: Events supported



2016 AGM



2016 AGM



2016 AGM



Society supports Beverley Community Lift Halloween Treasure Hunt



Mortgage Manager Annette zip wires for Action Duchenne



Society Staff at the Beverley Food Festival



Society Staff at the Beverley Food Festival



Beverley Building Society sponsor the Beverley Cycle Race



Society sponsor Beverley Folk Festival



Marketing Manager Ed does Great North Run for Action Duchenne



Society with business guests at Driffeld Show



Society staff on Christmas Jumper Day



Society's Nicola, Sophie and Becky at the 2016 Drifffield Show

*Best Local Building Society 2016
...a strong independent mutual*

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