Annual Report and Accounts

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)

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for the year ended 31 December 2017

beverleybs.co.uk

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 charge, 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.

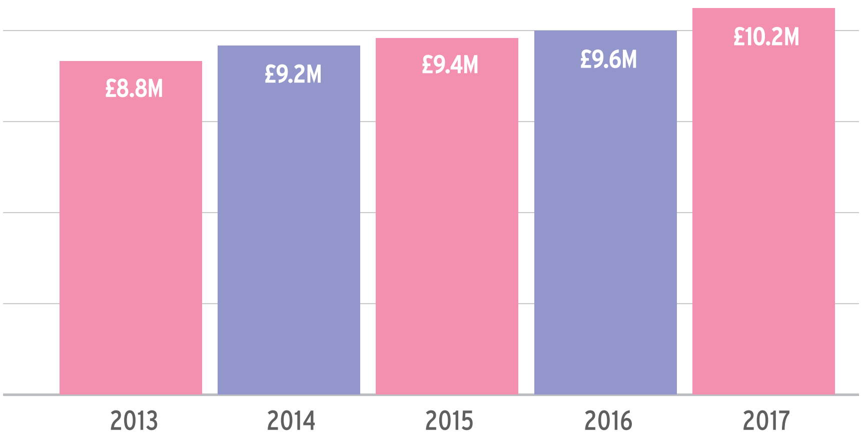
Given the continued economic uncertainties in 2017 and upward pressure on the Base Rate, fixed rate mortgages dominated the market. Whilst the Society does not offer fixed rate mortgages, it has successfully lent £20.3m in new variable rate mortgages in 2017.

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.

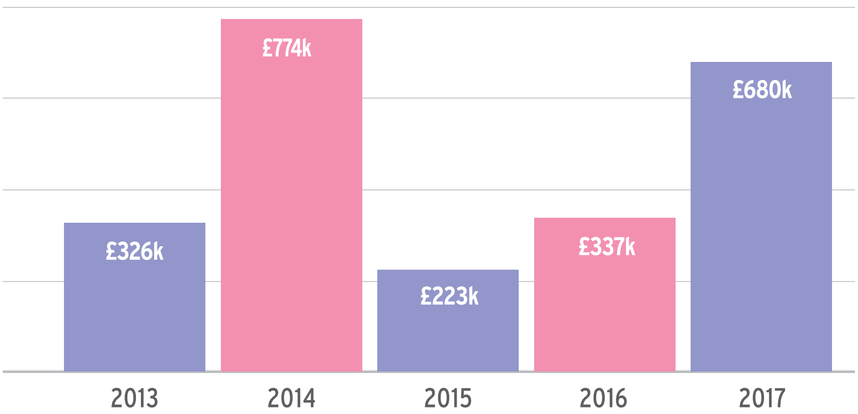
Key Performance Indicators (KPIs)
The Board uses a number of KPIs to measure and monitor progress and performance. In managing the business, the Society has sought to ensure that it operates in a prudent manner and that the interests and security of borrowers and savers are safeguarded. Some of the Society's KPIs are illustrated over the next few pages 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.

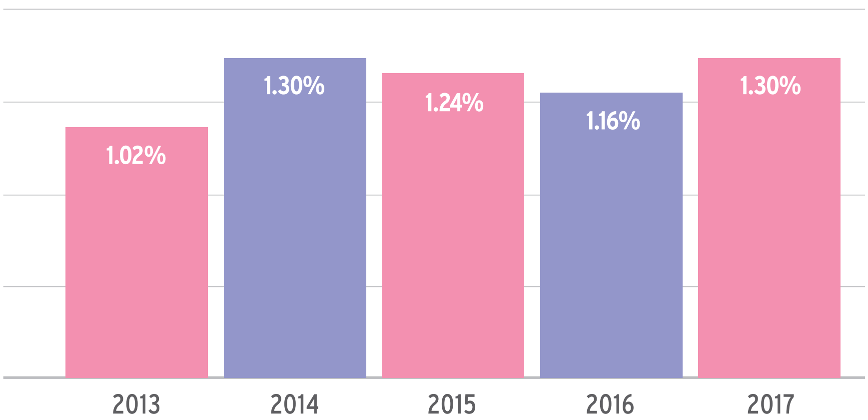


Profit before Tax
A reasonable level of profit is required to maintain the Society's capital ratios.

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.

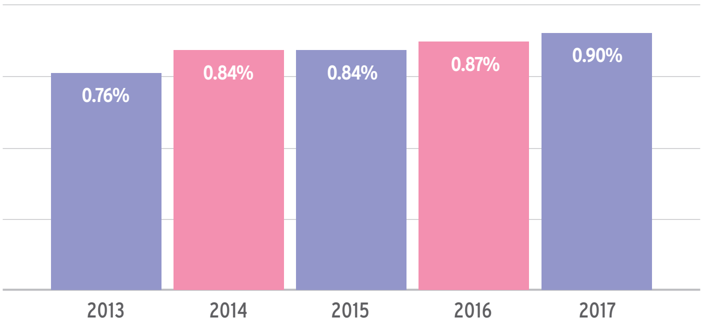


Management Expense Ratio

(percentage of mean total assets)

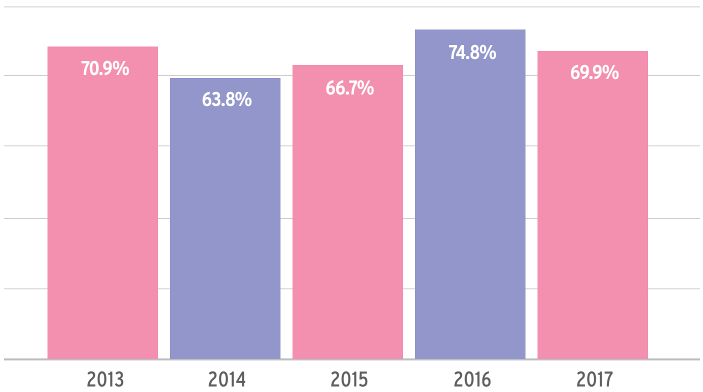
Management expenses have increased year on year primarily due to further investment in information technology resource and one-off CEO recruitment costs.

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).



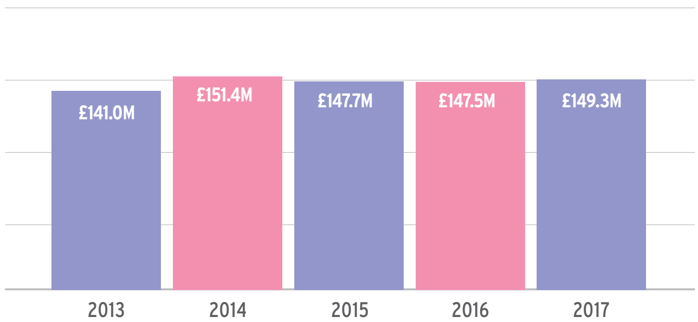
Cost to Income Ratio

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



Total Mortgage Balances

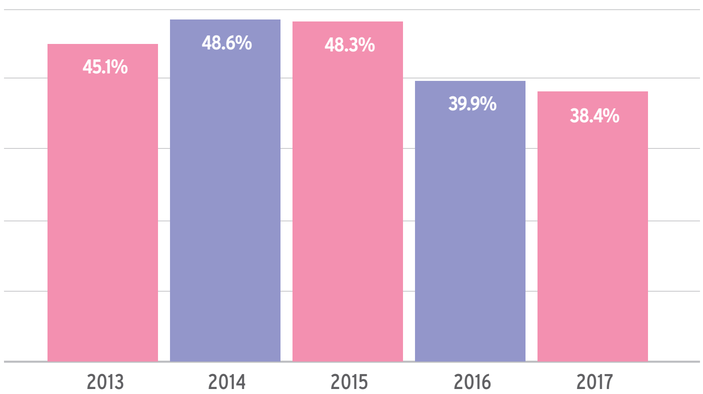
The Society's mortgage book has grown by £1.8M thanks to a combination of healthy levels of new business and strong retention of existing residential mortgage customers. The figures below are stated gross of mortgage loss provisions.



Mortgages – Average Loan to Value (LTV)

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

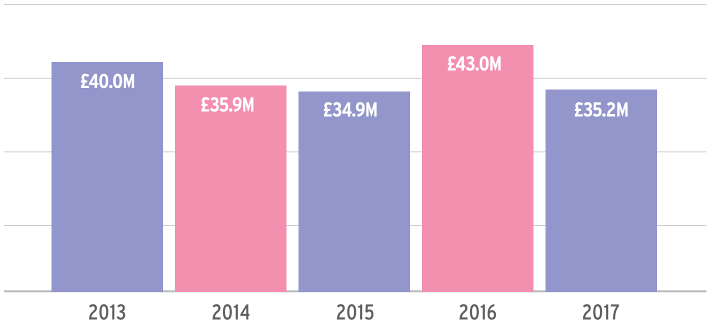
As a result of effective management of our mortgage book, the average LTV has fallen consistently over the last 5 years, significantly reducing the Society's credit risk.



Liquid Assets and Liquidity Ratio

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

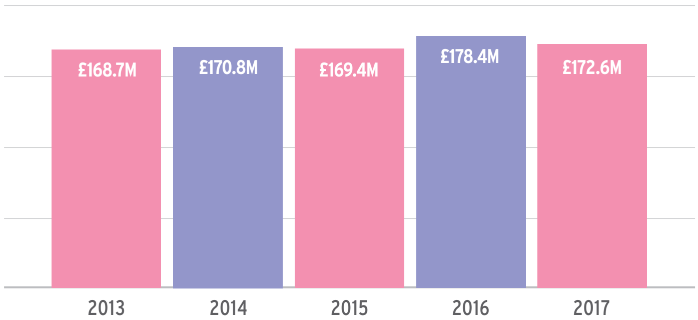
Liquid assets have reduced by £7.8m in 2017, returning the Society to historic norms after the significant savings inflows in 2016 which increased liquid assets by £8.6m in 2016.



Total Savers' Balances

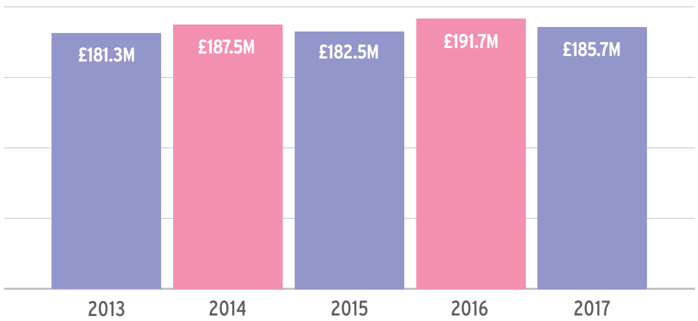
Savings balances have returned to historic trend as noted above. The Society continues to ensure that the rates offered to members are in line with the market and represent long term good value.

The figures below 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.

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.

Driffield Show: Zoe, Jess and Debbie

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.

150th Anniversary Garden Party

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, Driffield 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

Board of Directors

for the year ended 31 December 2017

from left to right:

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.

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.

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.

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.

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.

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.

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.

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, and Chartered Fellow of the Institute of Personnel and Development. Provides experience in Human Resources and Personnel Development.

Not pictured

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' Report

for the year ended 31 December 2017

The Directors have pleasure in presenting their Annual Report and Audited Accounts and Annual Business Statement for the year ended 31 December 2017.

Business objectives and activities

The Society's business objectives and principal activities are to help families in our region achieve affordable home ownership through the provision of mortgage finance, funded by safe, secure, good value savings. The Society intends to remain an independent local Society that plays an active role in its community, providing exceptional personal service and care, underpinned by experience and expertise and managed prudently to ensure long term sustainability.

Business Review and Results for the year

The Society's profit performance and key performance indicators are set out on pages 2 – 5.

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 sub ordinated 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.

Loans and advances to customers

During the year the Society advanced gross mortgages of £20.3m (2016: £24.4m) and retained more than 80% of residential mortgage schemes maturing in 2017 (2016: 80%).

In 2017, the mortgage impairment charge for the year was £73k (2016: £181k). This was primarily due to the updating of assumptions within the provisioning model being adopted over properties already held in possession and rented in the private market (as noted on page 34). There were no new cases of mortgage possession in 2017. Our overall mortgage portfolio remains of high quality with an average loan to value ratio (LTV) of 38% (2016: 40%).

At 31 December 2017 there were 2 cases, with a total balance outstanding of £184k and a total arrears balance of £32k (2016: 2 cases with a total balance outstanding of £158k, and total arrears of £26k) where repayments were more than 12 months in arrears. At 31 December 2017 there were 7 cases in possession (2016: 8 cases). The Society will continue to take all necessary steps to help borrowers in genuine difficulties whilst at the same time trying to minimise losses to the Society and ensure that our lending policy has appropriate regard to economic conditions and the customer's ability to repay.

	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%

AGM 2017

Shares and deposits

The Society continues to maintain a strong retail funding base with limited reliance on wholesale funding; as at 31 December 2017 £172.6m of funding came from retail savings and deposits (99% of total funding). In 2017 retail savings and deposits reduced by £5.8m, following abnormally high inflows in 2016 (£9m), primarily following the uncertainty of the Brexit vote.

Liquid assets

Liquid assets in the form of cash and securities at 31 December 2017 were £35.2m (2016: £43.0m), representing 20.42% (2016: 24.13%) of shares and borrowings. The Society continues to balance the need to hold liquid assets to counter liquidity risk with the need to maximise returns from its assets. The 2017 level of liquidity is within the Society's optimal range as agreed with the Regulator.

Financial risk management objectives and policies

The Society operates in an environment that contains financial risks. To mitigate these risks the Board has implemented a clearly defined risk management framework.

The key policies that the Society has implemented to manage the risks that it faces include a lending policy, liquidity policy and financial risk management policy.

These are reviewed and approved by the Board on an annual basis. More details can be found in the Financial Risk Management Report on page 15. The Society's exposure to interest rate risk is detailed in note 23 of the accounts.

Principal risks and uncertainties

As a result of its normal business activities, the Society is exposed to a variety of risks, the most significant of which are conduct and operational risk, credit risk, market risk and liquidity risk. The Society has established a number of committees and policies to manage these risks. The role of these committees is described in the Corporate Governance Report on page 20. Policies are subject to continual re-evaluation.

The financial risk management objectives and policies of the Society are also shown in the Financial Risk Management Report on page 15. The Society aims to manage appropriately the risks that arise from its activities and the Board maintains risk appetite statements which are embedded in specific risk management policy statements, and promotes a culture and philosophy that reflects an awareness and management of actual and potential risk exposures.

Whilst the Society is a low-risk organisation, we inevitably face challenges that present risks to the delivery of our strategic objectives. We operate in an uncertain international environment which creates risks and challenges for the mutual building society model, in particular the impact of ongoing ultra-low bank Base Rates. These risks and uncertainties, and how we mitigate them, are summarised below.

Continued pressure on mortgage margins

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

Liquidity

The Society invests surplus liquidity in highly rated Certificates of Deposits. This provides an income above that available on its deposits but does leave an exposure to counterparty defaults. The Board has satisfied itself that the combination of counterparty quality and limits is appropriate, and has modelled the impacts of any defaults and the Society's resilience to them.

Lending impairments

Levels of impairments continue to remain benign, with a low number of legacy arrears cases (none of which originated after 2011). While arrears levels are expected to remain stable for the time being, should interest rates rise significantly and/or quickly then customers could come under financial pressure. This risk is mitigated by the application of strict affordability checks for all new lending, which ensures borrowers have significant capacity to maintain their monthly payments in an increased interest rate environment.

In addition the Society carries out stress testing on the mortgage book to model the potential impact of higher interest rates on arrears, impairments and potential losses.

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

…trusted and respected by members and non-members

House price risk
Residential mortgage lending businesses are very closely linked to the housing market. Any significant downturn in the housing market is likely to have an adverse impact on the Society's performance. The Society carries out stress testing on the mortgage book to model the potential impact of a range of house price reductions on capital requirements, arrears, impairments and potential losses, and monitors this market very closely both nationally and regionally.

Cyber risk
High profile cyber attacks on both financial and non-financial services institutions are increasingly common. Continuously improving the levels of protection from such incidents continues to be a priority. During 2017 the Society progressed a number of investments in people and infrastructure to further improve its cyber resilience, and will continue to do so.

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

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

The Society's objectives, policies and processes for managing risk are set out in the Financial Risk Management Report on page 15.

Creditor payment policy
The Society's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit once the supplier has discharged its contractual obligations. During 2017, amounts due to relevant creditors of the Society were paid on average within 10 days (2016: 10 days) of receipt of invoice.

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

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

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

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

Directors
P E Myers stepped down from the Board at the 2017 Annual General Meeting.

K J D Elliott was appointed to the Board effective 3 August 2017. In accordance with Rule 25(4) K J D Elliott retires and being eligible offers himself for election.

In accordance with Rule 26(1) J E Bedford retires by rotation and being eligible offers herself for re-election.

In accordance with Rule 26(1) M Marsden retires by rotation and being eligible offers himself for re-election.

In accordance with Rule 26(1) R A Pattinson retires by rotation and being eligible offers himself for re-election.

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

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

- Board
- Nominations Committee
- Audit and Compliance Committee
- Remuneration Committee
- Risk Committee
- Assets and Liabilities Committee

Independent auditor
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant information of which the Society's Auditor is unaware. Each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant information and to establish that the Society's Auditor is aware of that information.

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

On behalf of the Board of Directors

Brian Young Chairman
30 January 2018

Financial Risk Management Report

for the year ended 31 December 2017

Janet Bedford
Deputy Chief Executive
and Finance Director

Financial risk management objectives and policies

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

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

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Board of Directors, who are charged with the responsibility of managing and controlling the balance sheet exposure and the use of financial instruments for risk management purposes.

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

Statement of exposure to conduct and operational, credit, liquidity and interest rate risk

Conduct and operational risk

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

Operational risk is the risk of loss due to inadequate or failed internal processes, the actions of people, fraud and financial crime, non-compliance with applicable laws and regulations, or external physical events. The effectiveness of systems and controls for the management of conduct and operational risk is monitored by the Risk Committee. This Committee reviews risk management information including:

- Key Risk Indicators (KRIs): Reflecting the overall Risk Appetite, Internal Capital Adequacy Assessment Process (ICAAP) assumptions and policy limits/requirements, KRIs are reviewed to provide an indication of the operating effectiveness of the systems and controls for the management of conduct and operational risk. Operational performance outside normal limits is reviewed in detail to establish any material issues and confirm the adequacy of management responses to address both direct and root causes.

- Operational risk incidents (including operational loss data) are reviewed to identify remedial actions and control enhancements which may be required. 'Near misses' are also considered

- Complaints data is considered to ensure there is no evidence of adverse customer outcomes or deficiencies in the Society's responsiveness to complaints. In addition to reviewing internal complaints data the Society reviews experience elsewhere (for example as reported by the Financial Ombudsman Service) with a view to proactive risk reduction.

- Compliance monitoring results are monitored to ensure that remedial actions are undertaken on a timely basis.

- Regulator communications are reviewed for evidence of any concerns in relation to risk governance or conduct risk.

- Training Completion Rates are monitored to ensure that our staff have the necessary up to date skills and knowledge to fulfil their roles.

- The Risk Register is reviewed at least twice a year to ensure it remains up to date and is appropriately reflected in the operational risk capital requirement, assessed in the ICAAP.

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

Credit risk

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

Credit Risk – Mortgages

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

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

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

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty, for example agreeing a temporary transfer to interest-only payment in order to reduce the borrower's financial pressures. These measures are managed in accordance with an internal policy statement, which reflects Treating Customers Fairly (TCF) principles and regulatory requirements including the Finalised Guidance on Forbearance and Impairment Provisions issued by the Financial Services Authority in October 2011. We aim to put our members first in all instances and as a result aim to support the customers whenever we can. In each case an individual assessment is made to establish affordable and sustainable forbearance options, and to ensure that forbearance is in the best interests of both the borrower and the Society. It is expected that the borrower will resume normal payments once they are able. At the year end there were 7 (2016: 5) accounts where forbearance measures were currently exercised; the balance of these accounts amounted to £1.70m (2016: £1.12m), or 1.14% (2016: 0.76%) of mortgage balances. There is £1k (2016: £2k) provision held against forborne accounts due to the low LTVs on these properties.

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

Credit Risk – Liquidity Counterparties

The Society's Liquidity Policy includes strict criteria for counterparties to ensure that its liquidity investments are both diversified and of a high quality. There are Policy criteria in relation to eligible counterparties, eligible investments, single counterparty exposures and maturity structure. A large proportion of the Society's liquid asset exposure is primarily to the Bank of England. The remaining treasury investment portfolio is primarily held in the form of Certificates of Deposit (CDs), maturing in up to one year and placed with institutions with a Fitch long term credit rating above A- at the time of acquisition. In all cases, regardless of credit rating, the Society's Deputy Chief Executive undertakes an appropriate due diligence assessment prior to recommending any new counterparty to the Board.

Liquidity risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due. Its main liabilities are its retail savings products. The Society's policy is to maintain sufficient liquid funds at all times to ensure that liabilities can be met as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities, thereby maintaining public confidence in the solvency of the Society. The majority of the Society's liquid funds are either deposited with the Bank of England or invested in tradable financial instruments which can readily be converted to cash should the need arise.

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

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

At 31 December 2017 the Society held £35.2m (2016: £43.0m) of liquid assets, representing 20.42% (2016: 24.13%) of shares and borrowings.

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

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

The Society operates segregated treasury front and back offices. The front and back offices are responsible for adherence on a day-to-day basis to the liquidity limits. The Society's liquidity position is calculated and monitored by the finance department daily. The treasury front office checks that any new transactions will not result in a breach of a Liquidity Policy limit before agreeing a trade. The treasury back office confirms these before settling the trade.

In December 2017, the Society signed its commitment to the new, voluntary, UK Money Market Code. The code represents a set of principles generally recognised as good market practice in the UK money markets. The Society's activity in these markets is limited to the purchase of fixed return Certificates of Deposit.

Interest rate risk

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

- Re-pricing Risk - the mismatch of re-pricing of assets and liabilities and off balance sheet short and long-term positions.

- Basis Risk – the risk of loss arising from assets and liabilities repricing on different interest rate bases. This may arise from holding assets and liabilities that reprice from different floating rate indices.

Re-pricing Risk

- Re-pricing Risk for the Society is mainly driven by its fixed rate treasury investments. The Society has no fixed rate lending and limited fixed rate saving products..

- The Society has reduced interest rate risk in the last few years by restricting these treasury investments to maturity of one year or less. The Assets and Liabilities Committee monitors both the actual and forecast risk monthly against its stated risk appetite.

Basis Risk

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

- Base rate linked assets (tracker mortgages and Bank of England Reserve).

- Fixed interest investments.

- Administered rate savings and mortgages.

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

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

The interest rate sensitivity of the Society as at 31 December 2017 is detailed in note 23 to the accounts.

Janet Bedford
30 January 2018

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 19.

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
For services as a Director	£000	£000
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
For executive services				
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.

Mark Marsden
Risk Director

The Role of the Board

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

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

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

Richard Pattinson is appointed as the Senior Independent Director, providing an alternative channel of communication for Directors, 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 18.

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 21, and Board members' significant other commitments are set out on page 48.

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. The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained in the Statement of Directors' Responsibilities on page 27

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 13. The Board concludes that the Society has a strong compliance culture and that the systems are effective and appropriate to the scale and complexity of the business.

Audit Committee and Auditors

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

Board Comment:
The Society has an Audit and Compliance Committee comprising three Non-Executive Directors. These Directors have relevant experience and expertise. The Society's external and internal auditors and the Executive Directors and other Senior Management attend by invitation. The responsibilities of the Committee are set out on page 24. The Committee meets at least four times a year and on occasion the members of the Committee meet with the external and internal auditors without the Executive Directors present.

Remuneration

The Directors' Remuneration Report on page 18 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.

Brian Young Chairman
30 January 2018

Annual Report of the Audit Committee

for the year ended 31 December 2017

Martin Cocker
Chairman of the Audit and Compliance Committee

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

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

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

The Chair of the Committee is a Chartered Accountant with significant audit and accounting experience. He also chairs the Audit Committees of three other entities.

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

During the Reporting Period, the Committee met five times.

The Chair of the Risk Committee, the Chair of the Society's Board of Directors, the Chief Executive, the Deputy Chief Executive, the Risk Director, the Head of Operations, Internal Audit and External Audit were invited to attend each meeting. All attended each meeting.

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

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

Key Responsibilities:

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

Financial Reporting

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

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

Internal Controls and Risk Management

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

Internal Audit

- Considering and approving Internal Audit's 2018 work programme and the associated costs;
- Monitoring compliance with that work programme and, where necessary, considering and approving proposed changes to the work programme;
- Monitoring management responses to recommendations and the time taken to implement those recommendations; and
- Assessing the effectiveness, performance and remuneration of the outsourced internal audit function.

External Audit

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

Whistleblowing

- Overseeing the application by the Society of the Financial Conduct Authority's policies and procedures on whistleblowing; and
- Assessing the independence, autonomy and effectiveness of the resolution of any significant matters subject to a whistleblowing event.

Financial Reporting

The Committee has debated and concluded on the following significant judgements and estimates. More detail on the principal judgements and estimates is set out in the notes to the Financial Statements on pages 34 – 46:

1. Integrity of financial reporting

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

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

The Committee concluded that the Financial Statements for 2017 had been properly prepared in accordance with the accounting policies of the Society, those policies were appropriate and had been applied consistently.

2. Loan Loss Provision:

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

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

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

3. Effective Interest Rate

The application of the Effective Interest Rate ('EIR') method of accounting for interest requires a number of assumptions and judgements to be made by management.

Accordingly, the Committee spent time understanding and challenging those assumptions and judgments and the methodology used by management in recognising interest income and expense.

The Committee concluded that management's judgements and assumptions were appropriate.

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

External Audit

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

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

There were no non-audit services provided by KPMG in 2017.

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

During 2017, the Committee met with KPMG regularly without management presence.

Internal Audit

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

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

The Committee reviewed, challenged and approved the proposed Internal Audit plan and budget for 2017. Internal Audit completed 12 engagements during the year and made 41 findings. None of the findings were classified as 'high priority'.

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

Internal Control and Risk Management

The Financial Risk Management Report on pages 15 – 17 identifies the principal risks and the controls in place to mitigate those risks. The Committee is satisfied that the Society has an adequate and effective framework for risk management, governance and internal control that operated effectively throughout the year.

Whistleblowing

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

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

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

Other Matters:

Compliance Reports
The Committee received, considered and approved the Compliance Monitoring Plan for 2017. Compliance Reports were tabled at each meeting of the Committee during the year.

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

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

Martin Cocker
Chairman of the Audit and Compliance Committee
30 January 2018

Statement of Directors' Responsibilities

for the year ended 31 December 2017

In respect of the Annual Report and Accounts, the Annual Business Statement, the Directors' Report and the annual accounts for the year ended 31 December 2017.

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

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

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

In preparing these annual accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the society will continue in business.

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

Directors' responsibilities for accounting records and internal control

The directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

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

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

Brian Young Chairman
30 January 2018

Independent Auditor's Report to the Members of Beverley Building Society

for the year ended 31 December 2017

1. Our opinion is unmodified

We have audited the Society annual accounts of Beverley Building Society for the year ended 31 December 2017 which comprise the Society Balance Sheet, the Society's Profit and Loss Account, the Society's Statements of Other Comprehensive Income, the Society's Cash Flow Statement and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the Society as at 31 December 2017 and of the income and expenditure of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

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

We were appointed as auditor by the directors on 25 September 2013. The period of total uninterrupted engagement is for the 5 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.
We summarise below the key audit matters in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

i) Impairment of loans – Provision for bad and doubtful debts: £585k (2016: £511k)

Refer to page 24 (Audit Committee Report), note 1.5 and note 10.

The risk:

Subjective estimate

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

The directors judge individual impairments by reference to loans that are three months in arrears or in possession. During the year, management have updated the exit strategy for a number of the properties in possession to an immediate sale, which has resulted in changes to assumptions utilised in the model.

The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In particular, judgement is required on the key assumptions of probability of default and loss given default, which the impairment model is most sensitive to movements in.

Our response:

Benchmarking assumptions

We compared the key assumptions used in the collective and specific impairment models underpinning loss given default with externally available data, including those assumptions used by other KPMG Building Society clients.

Our sector experience

We challenged the key impairment assumptions used in the collective and specific impairment models of probability of default and loss given default using our knowledge of recent impairment experience in this sector.

Sensitivity analysis

We assessed the collective model and specific individual impairments for their sensitivity to changes in the key assumptions of probability of default and loss given default by performing stress testing to help us assess the reasonableness of the assumptions.

Historical comparisons

We compared the Society's key assumptions to experience of losses in recent years to determine whether the assumptions appropriately reflect actual behaviour. We assessed the key assumptions used in the collective and specific impairment models, being probability of default and loss given default, against the Society's historical experience.

Test of detail

We identified a sample of loans which included specific items identified based on the higher risk characteristics of the commercial loan book to identify individual loans which may have unidentified impairments. We tested the provision attached to these loans by reference to relevant supporting information such as collateral valuations to challenge the completeness and accuracy of the Society's specific impairment provision estimate.

Assessing transparency

We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the provision.

Our results:

The results of our testing were satisfactory.

ii) Revenue recognition (EIR) – Interest receivable and similar income: £3,649k (2016: £3,955k)

Refer to page 24 (Audit Committee Report), note 1.2 and note 2

The risk:

Subjective estimate

Using a model, fees earned and incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected cash flows over the expected lives of the loans.

The directors apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This is informed by product mix and past customer behaviour of when loans are repaid.

Our response:

Historical comparisons

We assessed the reasonableness of the model's expected repayment profile assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance.

Assessing transparency

We assessed the adequacy of the Society's disclosures regarding income recognition.

Our results:

We found the resulting estimate of interest income to be acceptable.

The risk:

Accounting application

Transaction costs are required to be spread over the effective interest rate ('EIR') period. Given that transaction costs are often one off costs, usually occurring either at the start or at the end of the contract, it is not uncommon for these to be overlooked when constructing EIR models.

The EIR model is simplistic and so open to the possibility that the modelling principles are not in accordance with accounting requirements.

Our response:

Methodology implementation

We compared the model's methodology with the requirements of the relevant accounting standard.

Benchmarking assumptions

We assessed the appropriateness of the inclusion of fees earned and incurred by the Society against our own knowledge of industry experience and trends, including benchmarking with comparable lenders.

Our results:

The results of our testing were satisfactory.

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

The materiality for the annual accounts was £22,860 (2016: £23,200), determined with reference to a benchmark profit before tax, of which it represents 3.4% (2016: 6.9%). We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £17,145 (2016: £17,400) in addition to other identified misstatements that warranted reporting on qualitative grounds.

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

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

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

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

Annual Business Statement and Directors' Report
In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year is consistent with the accounting records and the Annual Report; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

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

Under the Building Societies Act 1986, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 27, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the annual accounts.

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

Irregularities – ability to detect
Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the annual accounts. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the annual accounts including financial reporting (including related building society legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, and conduct risk, recognising the financial and regulated nature of the Society's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

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

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

Income Statement

for the year ended 31 December 2017

	Notes	2017	2016
		£000	£000
Interest receivable and similar income	2	**3,649**	3,955
Interest payable and similar charges	3	**(1,192)**	(1,788)
Net interest income		**2,457**	2,167
Fees and commissions receivable		**1**	4
Fees and commissions payable		**(117)**	(89)
Other operating income		**158**	141
Net operating income		**2,499**	2,223
Administrative expenses	4	**(1,610)**	(1,513)
Depreciation and amortisation	13,14	**(96)**	(107)
Operating charges		**(40)**	(47)
		753	556
Impairment provision for losses and advances	10	**(73)**	(181)
Provisions for liabilities			
FSCS Levy	19	**-**	(38)
Profit on ordinary activities before tax		**680**	337
Tax on profit on ordinary activities	7	**(135)**	(72)
Profit for the financial year	22	**545**	265

Statement of other Comprehensive Income

for the year ended 31 December 2017

	Notes	2017	2016
for the year ended 31 December 2016		£000	£000
Profit for the financial year		**545**	265
Other comprehensive income			
Revaluation of freehold land and buildings	22	**120**	77
Total comprehensive income for the period		**665**	342

The notes on pages 34 to 46 form part of these accounts.

Profit for the financial year arises from continuing operations.

Both the profit for the financial year and total comprehensive income for the year are attributable to the members of the Society.

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

Note of historic profits and losses
If the accounts had been prepared on an historic cost basis depreciation for the year would have been reduced by £4,160 and profit before tax increased by £4,160.

Statement of Financial Position

as at 31 December 2017

Assets	Notes		2017		2016
		£000	£000	£000	£000
Liquid assets					
Cash in hand and balances with the Bank of England		**26,101**		28,111	
Loans and advances to credit institutions	8	**9,147**		14,930	
			35,248		43,041
Loans and advances to customers					
Loans fully secured on residential property	9	**141,622**		139,715	
Other loans	9	**7,060**		7,262	
			148,682		146,977
Investments	11	**106**		106	
Tangible fixed assets	12	**1,193**		1,125	
Intangible assets	13	**54**		51	
Prepayments and accrued income	14	**369**		347	
Total assets			**185,652**		191,647

Liabilities	Notes		2017		2015
		£000	£000	£000	£000
Shares	15	**154,448**		162,078	
Amounts owed to other customers	16	**18,179**		16,289	
			172,627		178,367
Other liabilities	17	**139**		72	
Accruals and deferred income	18	**260**		215	
Provisions for liabilities	19	**27**		59	
Subordinated liabilities	21	**1,750**		2,750	
Total liabilities			**174,803**		181,463
Revaluation reserve	22	**676**		556	
Reserves					
General reserve	22	**10,173**		9,628	
Total liabilities and reserves			**185,652**		191,647

The notes on pages 34 – 46 form part of these accounts.

Approved by the Board of Directors on 30 January 2018 and signed on its behalf by:

B Young Chairman

K Elliott Chief Executive

J E Bedford Deputy Chief Executive

Statement of Cash Flow of the Society

for the year ended 31 December 2017

	2017	2016
	£000	£000
Net cash inflow from operating activities	**(568)**	7,462
Returns on investment and servicing of finance		
Interest paid on subordinated liabilities	**(57)**	(83)
Proceeds received from disposal of debt securities	**-**	2,000
Taxation	**(72)**	(68)
Capital expenditure and financial fixed assets		
Purchase of tangible and intangible fixed assets	**(62)**	(76)
Proceeds from disposal of tangible fixed assets	**-**	-
(Decrease)/Increase in cash	**(759)**	9,235

Notes to cash flow statement

	2017	2016
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	**680**	337
Decrease/(Increase) in prepayments and accrued income	**12**	(25)
Increase/(Decrease)in provision for bad and doubtful debts	**75**	(1,091)
Depreciation and amortisation	**96**	150
Interest payable on subordinated liabilities	**57**	83
Loss on disposal of tangible fixed assets	**16**	-
Net cash inflow/(outflow) from trading activities	**936**	(546)
Net (decrease) in subordinated debt	**(1,000)**	-
Net cash outflow from financing activities	**(1,000)**	-
Loans and advances made to customers	**(20,262)**	(24,444)
Loans and advances repaid by customers	**18,485**	24,677
Net (decrease)/increase in shares	**(7,630)**	12,825
Net (decrease)/increase in amounts owed to credit institutions and other customers	**1,890**	(3,816)
Net (increase) / decrease in loans and advances to credit institutions	**7,000**	(1,000)
Net increase/(decrease) in other liabilities	**45**	(223)
Decrease in provisions for liabilities	**(32)**	(11)
Net cash (outflow)/inflow from operating activities	**(568)**	7,462

Reconciliation of cash balances	2016	Cashflow	2017
	£000	£000	£000
Cash in hand and balances with the Bank of England	28,111	(2,010)	**26,101**
Loans and advances to credit institutions – repayable on demand	1,880	1,251	**3,131**
Total	29,991	(759)	**29,232**

Notes to the Accounts

for the year ended 31 December 2017

1. Accounting Policies

1.1 Basis of accounting

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

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

The financial statements have been prepared on a going concern basis. This is discussed in the Directors' Report on page 14, under the heading "Going concern".

1.2 Interest

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

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

1.3 Fees and commission

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

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

1.4 Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts.

1.5 Financial Instruments

Recognition

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

Classification

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

De-recogniton

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

Identification and measurement of impairment

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

Individual assessments are made of all loans and on properties which are in possession or more than three months in arrears at the year end date. Specific provision is made against those loans and advances that are considered to be impaired, based on expected discounted cashflows. In arriving at the specific provision, account is taken of discounts required against each individual property value at the balance sheet date, the amounts expected to be recovered under mortgage indemnity policies, estimated sale expenses and an appropriate discount rate.

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

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

1.6 Investments

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

1.7 Fixed assets

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

Freehold buildings are stated at valuation, a full revaluation is carried out at least every two years by an independent valuer.
The depreciation of revalued assets is recognised in full in the Income Statement. Revaluation surpluses are transferred to a revaluation reserve and may then be transferred to the income statement in equal instalments over the life of the asset.

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

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

Freehold buildings	2% on valuation
Office furniture and computer equipment	10% to 30% on cost
Motor vehicles	25% on cost

1.8 Intangibles

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

1.9 Leases

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

1.10 FSCS Levy

The Society has made provision for its expected share of interest charges to be levied by the FSCS, based on its liability to contribute by reference to the amount of protected deposits held by the Society. The Society's estimates are sensitive to interest rates over the period.

In accordance with IFRIC21 – Levies the trigger date for recognition of a provision in respect of the FSCS levy is 1 April each year and at 31 December the Society holds a provision for one year's interest levy.

1.11 Pension costs

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

1.12 Segmental reporting

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

2. Interest receivable and similar income

	2017 £000	2016 £000
On loans fully secured on residential property	**3,363**	3,562
On other loans	**145**	185
On debt securities	**-**	55
On other liquid assets	**140**	195
On loan to participating interest	**1**	1
Premium amortisation	**-**	(43)
Total	**3,649**	3,955

3. Interest payable and similar charges

	2017 £000	2015 £000
On shares held by individuals	**1,098**	1,647
On deposits and other borrowings	**37**	58
On subordinated liabilities	**57**	83
Total	**1,192**	1,788

4. Administrative expenses

	2017 £000	2016 £000
Staff costs (note 5)	**879**	832
Other administrative expenses	**731**	681
Total	**1,610**	1,513

Included in other administrative expenses are:

	2017	2016
Remuneration of auditors		
Audit of these financial statements	**44**	39
Taxation compliance services	**-**	-
All other services	**-**	-

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

Taxation compliance services for 2017 were provided by PricewaterhouseCoopers LLP.

The above amounts are inclusive of VAT at a rate of 20%.

5. Staff numbers and costs

	2017 Number	2016 Number
The average number of persons employed by the Society (including the executive directors) during the year was as follows		
Full time	**17**	16
Part time	**8**	8
Total	**25**	24

	2017 £000	2016 £000
The aggregate cost of these persons was as follows:		
Wages and salaries	**745**	712
Social security costs	**82**	74
Other pension costs	**52**	46
Total	**879**	832

The Society operates a group personal pension scheme (a defined contribution scheme) of which 22 employees are members.

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

6. Directors

Remuneration

Total remuneration of the Society's Directors for the year was £396k (2016: £420k).

Full details are given in the Directors' Remuneration Report on page 19.

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

Directors' loans and transactions

At 31 December 2017 there was 1 (2016: 1) outstanding mortgage loan granted in the ordinary course of business to a Director and their connected persons, amounting in aggregate to £127,386 (2016: £134,839).

P E Myers received a £16k benefit in the period, representing the market value of his company car as at the date of his resignation.

A register is maintained at the principal office of the Society under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the register for the financial year ended 31 December 2017 will be available for inspection at the principal office for a period of 15 days up to and including the date of the Annual General Meeting and at the meeting.

7. Tax on profit on ordinary activities

	2017 £000	2016 £000
The tax charge for the year comprises:		
Corporation tax at 19.25% (2016: 20.00%) on profit for the year on ordinary activities	139	72
Adjustment in respect of prior periods	-	3
Total current tax	139	75
Deferred taxation (note 20)		
Adjustment in respect of prior periods	-	(3)
Origination and reversal of timing differences	(4)	1
Effect of tax rate change on opening balance	-	(1)
Total corporation tax	135	72
Reconciliation of tax on profit on ordinary activities		
Profit on ordinary activities before tax	680	337
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	131	67
Depreciation in excess of capital allowances	4	6
Other short term timing differences	-	(1)
Total	135	72

8. Loans and advances to credit institutions

	2017 £000	2016 £000
Loans and advances to credit institutions have maturities as follows:		
On demand	3,131	1,880
In not more than three months	2,000	2,000
In more than three months but not more than one year	4,000	11,000
	9,131	14,880
Accrued interest	16	50
Total	9,147	14,930

The ALCO is responsible for approving treasury counterparties for investment purposes. The credit risk appetite for liquid assets is defined by: the minimum counterparty credit rating; the permissible instruments; the maximum percentage of total liquid assets held at each credit risk level; and the investment term. This is monitored daily by the Society's Finance team and reviewed monthly by the ALCO.

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

Credit Quality	Description	2017 £000	2017 %	2016 £000	2016 %
AA	Bank of England Reserve	26,065	74.0	28,040	65.1
A+	Certificates of Deposit with UK financial institutions; operational account with Barclays Bank plc	6,014	17.1	12,044	28.0
A	Certificates of Deposit with UK financial institutions	1,002	2.8	-	-
BBB+	Operational bank accounts with NatWest Bank plc	2,130	6.0	2,888	6.7
Unrated	Cash on site	37	0.1	69	0.2
Total		35,248	100.0	43,041	100.0

9. Loans and advances to customers

	2017 £000	2016 £000
Loans fully secured on residential property	**141,622**	139,715
Loans fully secured on land	**7,060**	7,262
Total	**148,682**	146,977

Maturity analysis

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

	2017	2016
Repayable on demand	**876**	891
In not more than three months	**811**	840
In more than three months but not more than one year	**6,105**	4,938
In more than one year but not more than five years	**30,219**	27,318
In more than five years	**111,256**	113,501
	149,267	147,488
Less: Provisions (note 10)	**(585)**	(511)
Total	**148,682**	146,977

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

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

	2017	2016
Average LTV	**38.4%**	39.9%

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

	2017 £000	2017 %	2016 £000	2016 %
East Anglia	**2,203**	**1.5**	2,394	1.6
East Midlands	**6,047**	**4.1**	5,776	3.9
Greater London	**3,768**	**2.5**	2,735	1.8
North	**2,381**	**1.6**	2,727	1.8
North West	**6,615**	**4.4**	6,739	4.6
Outer Metropolitan Area	**6,720**	**4.5**	5,275	3.6
South East	**7,683**	**5.2**	7,877	5.4
South West	**9,148**	**6.1**	7,793	5.3
Wales	**2,720**	**1.8**	2,523	1.7
West Midlands	**4,685**	**3.1**	4,252	2.9
Yorkshire and Humberside	**97,297**	**65.2**	99,396	67.4
Total	**149,267**	**100.0**	147,488	100.0

10. Provisions for bad and doubtful debts

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 31 December 2016			
Collective provision	98	105	**203**
Specific provision	248	60	**308**
Total	346	165	**511**
Movement during 2017			
Collective provision	(36)	(26)	**(62)**
Specific provision	86	50	**136**
Total	50	24	**74**
At 31 December 2017			
Collective provision	62	79	**141**
Specific provision	334	110	**444**
Total	396	189	**585**
The total movement in provisions is made up as follows:			
Income and expenditure charge for the year			**74**
Write-off of loans previously provided			**-**
Total			**74**

Comparative position at 31 December 2016

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 31 December 2015			
Collective provision	100	116	**216**
Specific provision	1,227	159	**1,386**
Total	1,327	275	**1,602**
Movement during 2016			
Collective provision	(2)	(11)	**(13)**
Specific provision	(979)	(99)	**(1,078)**
Total	(981)	(110)	**(1,091)**
At 31 December 2016			
Collective provision	98	105	**203**
Specific provision	248	60	**308**
Total	346	165	**511**
The total movement in provisions is made up as follows:			
Income and expenditure charge for the year			**181**
Write-off of loans previously provided			**(1,272)**
Total			**(1,091)**

11. Investments

	2017 £000	2016 £000
Cost and net book value		
Shares in participating interests	**7**	7
Loans to participating interests	**99**	99
Total	**106**	106

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

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

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

12. Tangible fixed assets

	Freehold buildings £000	Office furniture and computer equipment £000	Motor vehicles £000	Total £000
Cost or valuation				
At 31 December 2016	1,025	297	27	**1,349**
Additions	-	20	-	**20**
Disposals	-	-	(27)	**(27)**
Revaluation	100	-	-	**100**
At 31 December 2017	1,125	317	-	**1,442**
Depreciation				
At 31 December 2016	-	215	9	**224**
Charge for the year	20	34	2	**56**
On disposals	-	-	(11)	**(11)**
Revaluation	(20)	-	-	**(20)**
At 31 December 2017	-	249	-	**249**
Net book amount				
At 31 December 2017	1,125	68	-	**1,193**
At 31 December 2016	1,025	82	18	**1,125**

	2016 £000	2015 £000
Particulars relating to revalued tangible fixed assets are given below		
Freehold buildings at 2017 open market value	**1,125**	1,025
Historical cost of re-valued assets	**817**	817

The freehold buildings at 57/58 Market Place, Beverley were valued on 31 December 2017 by Scotts Property LLP, an external qualified Chartered Surveyor appointed by the Society on the basis of the open market value for existing use, with vacant possession of the property that is currently occupied by the Society but subject to an existing tenancy.

Freehold land and buildings relate to property substantially occupied by the Society for its own activities (£900,000 at current valuation occupied by the Society of the total £1,125,000).

13. Intangible fixed assets

	Purchased Software £000	Total £000
Costs		
At 31 December 2016	777	777
Additions	43	43
At 31 December 2017	820	820
Amortisation		
At 31 December 2016	726	726
Charge for the year	40	40
At 31 December 2017	766	766
Net book amount		
At 31 December 2017	54	54
At 31 December 2016	51	51

14. Prepayments and accrued income

	2017 £000	2016 £000
Due within one year		
Prepayments and accrued income	369	347
Total	369	347

15. Shares

	2017 £000	2016 £000
Shares held by individuals	154,410	162,042
Shares held by others	38	36
Total	154,448	162,078
Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	328	602
On demand	153,127	160,403
In not more than three months	62	73
In more than three months but not more than one year	131	104
In more than one year but not more than five years	336	437
In more than five years	464	459
Total	154,448	162,078

16. Amounts owed to other customers

	2017 £000	2016 £000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
On demand	17,924	16,039
In not more than three months	255	250
Total	18,179	16,289

17. Other liabilities

	2017 £000	2016 £000
Amounts falling due within one year		
Income tax	-	-
Corporation tax	139	72
Total	**139**	**72**

18. Accruals and deferred income

	2017 £000	2016 £000
Amounts falling due within one year		
Accruals and deferred income	260	215
Total	**260**	**215**

19. Provisions for liabilities

	Deferred tax £000	FSCS Levy £000	Total £000
At 31 December 2016	17	42	59
Paid in the year	-	(28)	(28)
Charge for the year	(4)	-	(4)
At 31 December 2017	**13**	**14**	**27**

a. *Financial Services Compensation Scheme (FSCS) Levies*

Based on its share of protected deposits, the Society, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims made against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. The only material loan the FSCS has outstanding at December 2017 relates to Bradford and Bingley, which is expected to be repaid in 2018.

The FSCS has met the claims by way of loans received from HM Treasury on which it is liable to pay interest. The FSCS has, in turn, acquired the rights to the realisation of the assets of these institutions. The FSCS will have further liabilities if there are insufficient funds available from the realisation of the assets of the institutions to fully repay the respective loans from HM Treasury.

As a result of information received from the FSCS, the Society has recognised in this year's accounts a provision totalling £14k (2016: £42k), comprising the expected interest costs relating to the year ending April 2018. This provision for interest has been calculated with reference to the relative level of the Society's protected deposits at 31 December 2016 and the expected total interest costs for the period announced by the FSCS in 2017.

b. *Capital commitments*

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

	2017 £000	2016 £000
Contracted	39	38

20. Deferred taxation

	2017 £000	2016 £000
Deferred tax liability		
At 1 January	**17**	19
Charge for the year	**(4)**	(2)
At 31 December	**13**	17

The deferred taxation liabilities are set out below:	Amount recognised £000	Amount recognised £000
Corporation tax deferred by accelerated capital allowances	**16**	20
Short term timing differences	**(3)**	(3)
Total	**13**	17

A reduction in the UK corporation tax rate from 20% to 19% came into effect on 1 April 2017. A further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Society's future current tax charge accordingly. The deferred tax liability at 31 December 2017 has been calculated based on these rates.

21. Subordinated liabilities

	2017 £000	2016 £000
Loans repayable 2017	**-**	1,000
Loans repayable 2019	**1,750**	1,750
Total	**1,750**	2,750

In 2017, the Society made the first capital repayment of £1,000,000 on the subordinated debt.

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

23. Reserves

	General Reserve £000	Revaluation Reserve £000
At 31 December 2016	**9,628**	556
Profit for the year	**545**	-
Revaluation of office premises	**-**	120
At 31 December 2017	**10,173**	676

23. Interest rate risk

The Society is exposed to movements in interest rates, and manages this exposure on a continuous basis, within the limits set by the Board. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing or the maturity date. The interest rate sensitivity of the Society at 31 December 2017 was:

Assets	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	Non interest bearing	Total
	£000	£000	£000	£000	£000	£000
Liquid assets	29,195	2,000	4,000	-	53	**35,248**
Loans fully secured on residential property and other loans	149,267	-	-	-	(585)	**148,682**
Tangible and Intangible fixed assets	-	-	-	-	1,247	**1,247**
Other assets	-	-	-	-	475	**475**
Total assets	178,462	2,000	4,000	-	1,190	**185,652**
Liabilities						
Shares	154,120	-	-	-	328	**154,448**
Deposits and other borrowings	18,179	-	-	-	-	**18,179**
Other liabilities and provisions	-	-	-	-	426	**426**
Subordinated liabilities	1,750	-	-	-	-	**1,750**
Reserves	-	-	-	-	10,849	**10,849**
Total liabilities	174,049	-	-	-	11,603	**185,652**
Interest rate gap						
At 31 December 2017	4,413	2,000	4,000	-	(10,413)	**-**

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

Comparative position at 31 December 2016

Assets	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	Non interest bearing £000	Total £000
Liquid assets	31,917	4,000	7,000	-	124	**43,041**
Loans fully secured on residential property and other loans	147,488	-	-	-	(511)	**146,977**
Tangible and Intangible fixed assets	-	-	-	-	1,176	**1,176**
Other assets	-	-	-	-	453	**453**
Total assets	179,405	4,000	7,000	-	1,242	**191,647**

Liabilities						
Shares	161,476	-	-	-	602	**162,078**
Deposits and other borrowings	16,289	-	-	-	-	**16,289**
Other liabilities and provisions	-	-	-	-	346	**346**
Subordinated liabilities	2,750	-	-	-	-	**2,750**
Reserves	-	-	-	-	10,184	**10,184**
Total liabilities	180,515	-	-	-	11,132	**191,647**
Interest rate gap						
At 31 December 2016	(1,110)	4,000	7,000	-	(9,890)	**-**

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

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

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

Name	Type of Entity	Nature of Activity	Location	Turnover (£m)	Corporation Tax Paid	No. of Employees
The Beverley Building Society	Building Society – UK Registered Entity	UK financial institution owned by its members as a mutual organisation. The principal purpose of the Society is that of loans that are secured primarily on residential property, funded largely by its members. The Society has no active subsidiaries and is wholly based in the UK. The Society has transactions only in GBP.	Beverley, East Yorkshire England	£3.6m based on interest receivable	£0.1m based on corporation tax outstanding at 31 December 2017	25 employees, 17 full time and 8 part time.

Annual Business Statement

for the year ended 31 December 2017

1. **Statutory percentages**	**2017** %	Statutory Limit %
Lending limit	**5.29**	25.00
Funding limit	**10.53**	50.00

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

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

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

2. **Other percentages**	**2017** %	**2016** %
As a percentage of shares and borrowings		
Gross capital	**7.30**	7.25
Free capital	**6.73**	6.71
Liquid assets	**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

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

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

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

Free capital represents the aggregate of gross capital and general provisions for bad and doubtful debts less tangible fixed assets.

Mean total assets are the average of the 2016 and 2017 total assets.

Liquid assets represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Management expenses represent the aggregate of administrative expenses and depreciation.

3. Information relating to Directors

As at 31 December 2017

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

Name and date of birth	Date of appointment	Business occupation	Other directorships
B Young FCMA **Chairman** (27.03.1952)	2009	Chief Executive	Seafish Industry Authority Ripon Select Foods Ltd Thera Trust
R A Pattinson Senior Independent Director (19.05.1952)	2011	Company Director and Financial Services Consultant	A & T Advisory Ltd
K J D Elliott BA(Hons), Mdip, MCIM (25.05.1972)	2017	Chief Executive Officer	
M R Cocker BSC (Hons), Member of the ICAEW (19.09.1959)	2016	Chartered Accountant	Northumberland Tyne and Wear NHS Foundation Trust Etalon Group plc Pride Capital Tinkoff Credit Systems Group Holding Council of Durham University Nostrum Oil and Gas plc Zemenik Trading Ltd
M R Heenan BSc (Hons), FCA (27.02.1951)	2012	Company Director and Retired Chartered Accountant	The Inglewood Investment Company Ltd TIIC Projects Ltd TIIC Developments Ltd Stafford Town Football Foundation Masonic Charitable Foundation Coltkell Ltd Masonic Charitable Services
S A Symington C Dir, FCIPD (04.03.1965)	2013	Non-Executive Director	Chair - York Teaching Hospital NHS Foundation Trust Director- Lodge Cottages Ltd
J E Bedford FCA (13.02.1970)	2014	Deputy Chief Executive Officer	Mutual Vision Technologies Ltd Beverley DMO Ltd
M Marsden BSc (Hons), MBA (28.01.1967)	2014	Risk Director	Beverley Grammar School

Documents may be served on the above named directors at:
c/o Addleshaw Goddard & Co, Solicitors, Sovereign House, PO Box 8, Sovereign Street, Leeds, LS1 1HQ.

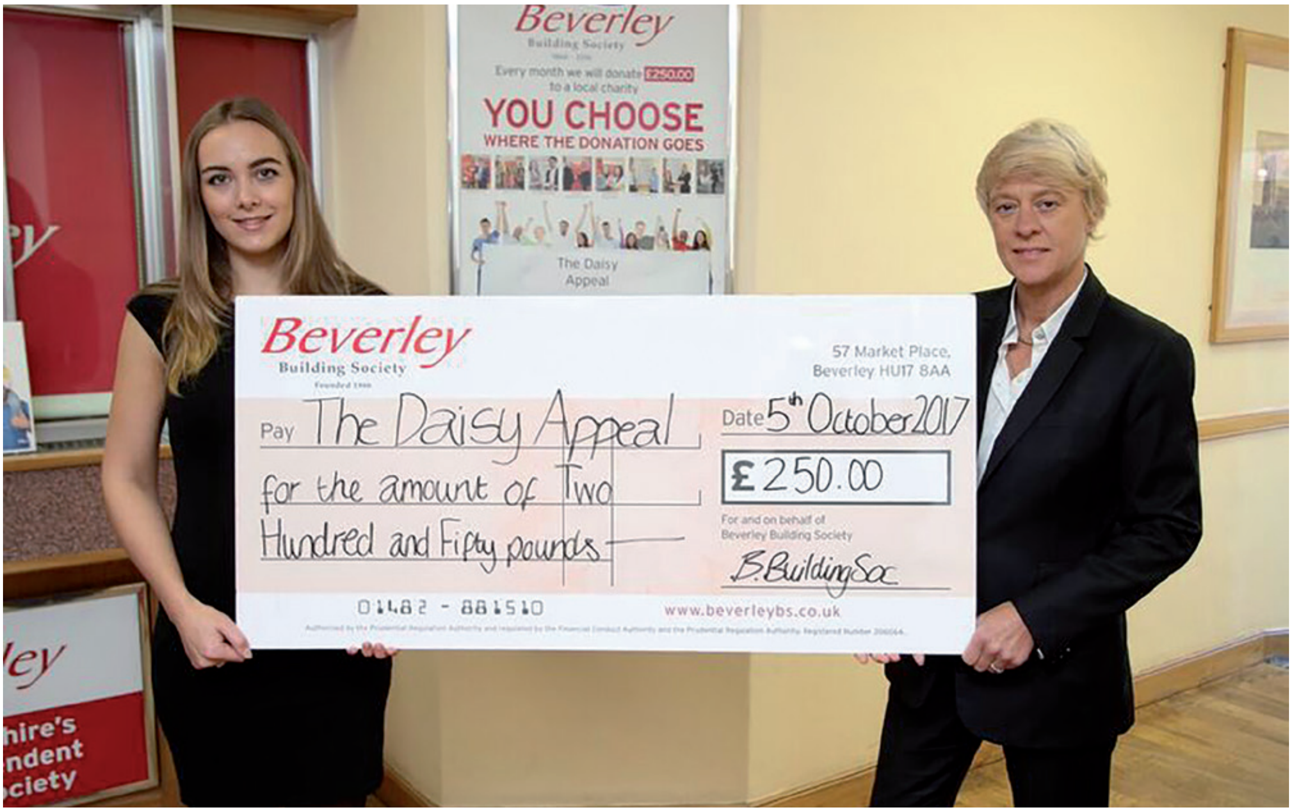
The Executive Directors J E Bedford and M Marsden have service contracts with the Society, termination of which may be effected by either party giving not less than six months written notice. The service contract of K J D Elliott requires either party to provide written notice of at least 9 months for termination. The contract dates of the above Executive Directors are 11 April 2015, 12 August 2015 and 25 April 2017, respectively. No other Directors have contracts in place.

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

BEVERLEY BUILDING SOCIETY
57 Market Place, Beverley HU17 8AA.

Tel: 01482 881510
Fax: 01482 872680

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website@beverleybs.co.uk

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