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BEVERLEY
BUILDING SOCIETY

Building Better Futures

Annual Report & Accounts
for the year ended
31 December 2019

Customers like Suzanne Wadsworth, Richard Avery and Janet Gale are the beating heart of the Society and tell us they are delighted by the personal service they receive.

Our Vision

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

Contents

Sharing our success

2019 saw us helping numerous good causes which contribute to the vitality of our region.

From Dementia Friendly East Riding to Guide Dogs, the Andy's at St Andrew's children's hospice, Down's Syndrome charity Downright Special and Hull & East Yorkshire Mind, we saw some hugely worthy regional causes – all nominated and voted for by our members in-branch – benefitting from our £250 Charity of the Month donations.

In addition, we had the privilege of working with some of our long-standing community partners in new ways – including sponsoring the production of the new Horseshoes for Hand Grenades play at East Riding Theatre, with discounted seats for users of the Beverley Community Lift transport charity and young East Riding Voluntary Action Services charity volunteers.

We also helped Beverley RUFC and funded some good causes – like new shirts for the Beverley Grammar School Sixth Form football team – for the first time, as well as participating in the Beverley Business Improvement District (BID).

Top left: Beverley Community Lift.

Top middle: Beverley Grammar School students sporting their new Sixth Form football team kit.

Top right: Team with Mission Christmas toys.

Bottom: Jess with the cast of Horseshoes for Hand Grenades.

Chairman's Statement

for the year ended 31 December 2019

It is my pleasure to have completed my first full year as Chairman of your Society. Our Annual General Meeting in April provided a great opportunity to get to know members and I look forward to meeting, and receiving feedback from, you during 2020.

Your Society enters its 154th year financially robust and with an intent to be as relevant as ever to people and families aspiring to own and stay in their own homes. We are grateful that our members continue to rely on and trust us to provide them with common-sense lending and fair-value savings, delivered with a real focus on personal service and care. It is these things that we believe distinguish the Beverley, and they are the reasons why we continue to build your support.

The mortgage and savings market in the UK are complex and, with evolving standards of regulation and a fast moving technological environment; some of these changes have a real impact on our members. Beverley Building Society offers consistent availability of straightforward and good value products, with a focus on long term sustainability, ensuring that we provide a safe, secure and reliable home for members finances, at a time when our competitors are increasingly moving to online-only solutions.

Subdued economic growth and the continuing uncertainty created by Brexit and a general election have combined to cause uncertainty for businesses and members alike. There was no movement from the Bank of England on interest rates in 2019, and speculation about future changes continues to fluctuate as we seek to anticipate the impact of global and national events.

Against this uncertain backdrop, the region has again experienced relatively positive house price inflation in 2019, growing at 1.6% compared to the national average of 1.4%, with re-mortgaging, rather than house purchase, continuing to dominate.

We enter 2020 hoping for more certainty, and that this in turn will breed more confidence and prosperity in our economy. Unfortunately the spread of coronavirus COVID-19 to the UK, confirmed in early 2020, is likely to cause signficant disruption both to communities and to economic activity. The Society, through contingency planning, will ensure the impact of the virus to the Society's business is minimimised as far as possible. In addition, as a response to the coronavirus, the Bank of England has reduced the base rate by 0.5% on the 11th March 2020, to 0.25%, returning the UK to an environment of ultra low lending and saving rates.

Our response is our Building Better Futures strategy, which focuses on delivering those products and services in the best way to meet the needs of Beverley, our region and its communities, and making these available nationally. In 2019, this has specifically meant serving the borrowing needs of those approaching and in retirement, the self-employed, first-time buyers and those looking to build their own homes, while providing a safe and accessible place on the high street for our savers' hard-earned funds. In 2020, we will continue to extend our reach in these key product areas where our members needs are growing.

We are encouraged by our overall performance in 2019, helping more members to own or remortgage their homes and save for their futures. Financially, the Society delivered a profit before tax of £177K, whilst savings balances have been maintained and gross new lending has grown, which maintained our Net Interest Margin.

We continue to be true to our regional roots and to the mutual values of support, self-help and shared community, with over 90 per cent of our savers and 65 per cent of our borrowers living in our region.

Our branch remains key to maintaining member's access to our services and gives our colleagues the opportunity to display their outstanding commitment to our members day in, day out. We continue to invest back into our region through our charitable giving, increased employment and, where possible, sourcing suppliers from within our local community.

Our Chief Executive's Review and Directors' Report gives full details and context for the progress we have made over the past year in delivering our strategy, as well as outlining our future plans.

Your Board continues to challenge itself to ensure that we are operating effectively and in the best interests of our members, giving equal balance to both governance and strategic progress. We have implemented a new board calendar, providing more time for key strategic, governance and operational matters and, where appropriate, we utilise outside expertise to inform and complement our existing board skills.

A critical element of effective governance is succession planning, ensuring that we continue to have the necessary skills and capabilities we need to meet our obligations and serve our members' interests. Richard Pattinson, the Chairman of our Risk Sub Committee and Senior Independent Director, will be standing down in September 2020 after 9 years of outstanding service. As such, we have spent the latter half of 2019 considering candidates with suitable skills to join the Board and I'm delighted that following a thorough process involving external consultants, the Board have approved the appointment of Esther Morley, who comes to us with with significant lending and executive experience having previously led Secure Trust Bank's mortgage division. Esther's arrival will further bolster our board capability and also ensure an effective and timely handover with Richard.

In line with good practice, the Board recommend Esther's election at our AGM in April. They also recommend the re-election of our CEO Karl Elliott, our Chair of Audit & Compliance, Martin Cocker, our Chair of People & Culture, Sue Symington and our Non-Executive Director Mike Heenan. Further details of each can be found on pages 8&9.

We have also carried out a thorough selection process to replace our current auditors KPMG, who are standing down after this year's audit. We have selected PWC as our auditors for 2020 and have already begun a seamless handover and transition ahead of their formal commencement in 2020. As such your Board recommends them to members for approval.

While we anticipate that uncertainty and competitive pressures will continue indefinitely, we believe our strategy is an enduring one that will continue to resonate with those seeking a financial services provider they can trust to act with their needs and interests at heart. Serving our members and their communities well will continue to be our biggest focus and despite the ever changing market and economic environment, the Board believes that Beverley Building Society will continue to be ever more relevant both to members and our local community in the years ahead.

I would like to thank you for your support in 2019 and look forward to meeting some of you at our AGM in April, or at one of our member events throughout the year.

Stuart Purdy
Chairman
March 2020

"Your Board continues to challenge itself to ensure that we are operating effectively and in the best interests of our members."

"I would like to thank you for your support in 2019 and look forward to meeting some of you at our AGM in April, or at one of our member events throughout the year."

Chief Executive's Review

for the year ended 31 December 2019

I'm delighted to report that your Society has delivered another positive year of strategic and financial progress, while continuing to provide excellent personal service and support to members across the region and beyond.

Thriving in challenging times

We made significant progress during the year as we continue to implement our Building Better Futures strategy, most notably growing our new mortgage lending and savings balances, with our total mortgage book now at its highest ever level. As a result, our balance sheet and capital have grown.

All of this has been achieved against a continued back-drop of consumer uncertainty and an increasingly competitive market and despite significant investment in people, growing external costs and the repayment of the final tranche of subordinated debt. My thanks goes to our highly committed and dedicated team who continue to put the wellbeing and needs of our members first and foremost.

Economic, Political & Regulatory Outlook

We have seen economic growth and productivity continue to struggle in the UK amidst ongoing political and economic uncertainty. The Bank of England left its bank base rate unchanged at 0.75 per cent throughout the year, with little sign of a return to more historically normal levels in the short-to-medium term.

A new government brings the potential for greater certainty and progress for our economy and we await to see the impact of its emerging policies on the financial wellbeing of our members and our industry. As noted in the Chairman's Statement, the spread of coronavirus in 2020 is impacting the UK, and there was a reduction in bank base rate to 0.25 per cent in March 2020.

We put further resources into ensuring we effectively adopted a number of new regulatory requirements in the year, with the revised Payment Services Directive (PSD2) and operational resilience prominent. We also put increasing focus on those regulatory initiatives to more fully understand and proactively manage the financial risks associated with Climate Change and we anticipate the regulatory overhead will continue to grow in line with ever-increasing standards and expectations.

Brexit

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

We continue to monitor the emerging implications and assess their potential to affect our members. We are confident that we can navigate even the most extreme of the Bank of England's stressed scenarios, although there remain limited mitigating actions we can take in the short term. As such, we retain a watching brief while maintaining our focus upon meeting members' needs and protecting their interests in the short and long term.

Mortgage growth to record levels

2019 saw us make real progress in the face of an ever-more-competitive and stagnant market, dominated by cheap, fixed rate lending. Our focus remains on those niches relevant to our region and generally underserved by bigger lenders, such as later life, self-employed and self-build, along with an increase in first-time buyer lending. This approach, coupled with the expansion of broker distribution nationwide and online, saw us increase gross new lending by 16 per cent year on year. Despite an increase in national and broker-led lending, we continue to have a strong regional franchise, attracting almost 50 per cent of gross new lending direct through our Beverley branch. We were also able to buck the downward pressure on margins, maintaining our Net Interest Margin at 1.25%, thereby ensuring that we charged proportionately for the increased complexity and risk in our underwriting.

We faced a significant increase in mortgage schemes due to mature in 2019, but strong retention meant that together with the growth in new lending, we were able to increase our gross mortgage book by two per cent to its highest ever level at over £152m. We had no new mortgage possessions in 2019 and no amounts were written off during the year. We did however elect to make some substantial additions to our mortgage provisions (see page 9 for further details) which will ensure we are well protected if this position worsens in future years. Looking forward, our pipeline of new applications is strong and we are hopeful of building upon our hard-won momentum in 2020.

Savings

Historically low interest rates meant it remained a challenging environment for savers. That said, we maintained our long-standing commitment to transparent, good value savings rates and excellent personal service, generating a modest increase in saving balances in the year. Our average savings rate was above one per cent in 2019, well above the banking sector average, which meant we continued to prove attractive to savers across our region.

Our 30 Day Notice Account was again popular with both new and existing savers, and balances grew by three per cent in the year, despite being closed to new customers from mid-year to December as we looked to manage our inflows and liquidity.

We plan to issue fixed rate savings bonds in 2020, in support of our move to offer fixed rate mortgages, which we believe will be a welcome addition for new and existing savings members.

Customer offer and member engagement

New and existing customers continued to give very positive feedback to our customer satisfaction survey during the year, many referencing the excellent personal service they receive from us compared to other, larger providers in our industry. This, together with the high levels of mortgage retentions, longevity of savings customers and very low levels of complaints, suggests that we almost always provide our customers with what they need.

Our lending strategy is founded on meeting the individual needs of borrowers in our region and supporting those with more complex circumstances who typically require a more personal, less hurried approach and are not well served by mainstream lenders. We developed this approach in early in 2019 with the launch of our Retirement Interest Only (RIO) mortgage offer to augment our later-life lending proposition. We believe this will be a growing market in years to come as home equity becomes an increasingly common element of retirement planning. In addition to our continued support for later-life borrowers and those seeking to build their own home, we further developed our offer to focus on the help we can provide to the self-employed and those who are trapped with their current lenders, two areas where borrowers' needs are poorly served in the current market, and where we believe our customised underwriting approach can make a real difference.

We will also launch a fixed rate mortgage early in 2020, to further support the niches we serve, and will continue to seek out further opportunities, ensuring that we stay relevant to those potential borrowers most in need of our help.

We have fully integrated the new Beverley Building Society brand during 2019 and will be launching a 'new and improved' website in early 2020, to promote the Society more effectively and enable customers and brokers alike to more easily navigate and access the services and information they need from us.

Next year will also see us investigate a new product switching facility for those whose mortgage schemes are approaching the end of their discount period, simplifying the process for customers and reducing administration.

Supporting our Community

We see our role in the ongoing success and prosperity of our region as an integral part of our purpose as a member-owned organisation, and we have continued to provide support to a number of initiatives and good causes across the communities in which our members live and work.

We had the privilege of working with some of our longstanding community partners in new ways in 2019, including sponsoring the production of the new Horseshoes for Hand Grenades play at East Riding Theatre, with discounted seats for users of the Beverley Community Lift transport charity and young East Riding Voluntary Action Service volunteers, enabling those less mobile and isolated in our community to attend and enjoy the production.

From Dementia Friendly East Riding to Guide Dogs, the Andy's at St Andrew's children's hospice, Down's Syndrome charity Downright Special and Hull and East Yorkshire Mind, we saw some worthy regional causes benefitting from our £250 Charity of the Month donations, all of which were nominated and voted for by our members inbranch.

We will engage with members through our 2020 AGM and customer mailing to better understand which community initiatives and charitable organisations they believe we should be giving our time and support to in the future.

People

Our members continue to be well served by our very dedicated and experienced team, who put their heart and soul into providing the best possible customer outcomes, and this is consistently reflected in members' feedback.

In line with our strategic intent, we invested further in our people in 2019. Austin Green joined our mortgage team to support our anticipated lending growth, while Verity Woodward joined our risk team to ensure we continue to have the necessary oversight and control in our business as regulatory requirements continue to grow. We are delighted with the immediate impact both have made.

Sadly we said goodbye to Jen Allott and Dom Shaw from our Finance team, who left us during 2019 with our thanks and very best wishes for the future. In their place we are delighted to have recruited Sam Moore and Simon Westmaas to the Society and we anticipate adding more people into our mortgage and IT teams in 2020, as we continue to build the capacity and capability we need to support our strategy.

Future outlook

We have made significant and meaningful progress in delivering our strategic intent during 2019 and are particularly encouraged by our ability to grow our new lending in a challenging market, while maintaining our margins.

We have also achieved this while remaining true to our principles of helping those in the market whose needs are poorly served by mainstream providers; giving members the time, help and guidance they need to achieve their goals and supporting the communities in which we operate.

Our Society exists because of the continued loyalty and support of our members, and the hard work and commitment of our colleagues. I look forward to our continued success in 2020.

Karl Elliott
Chief Executive
March 2020

Board of Directors

for the year ended 31 December 2019

Stuart Purdy

Chairman

Joined in 2018. Member of the People & Culture Committee. Experienced in developing businesses and implementing strategic growth plans in financial services companies. Stuart leads an effective Board, promoting inclusive discussion based on relevant information. He is responsible for policies and procedures for the induction, training and development of our senior team, and developing the Society's culture.

Janet Bedford

Deputy Chief Executive and Finance Director

Joined in 2014. Qualified Chartered Accountant with extensive financial services experience. Janet is responsible for the Society's financial management and controls, allocation and maintenance of capital, funding and liquidity; treasury, financial information and regulatory reporting and internal stress tests.

Martin Cocker

Non-Executive Director

Joined in 2016. Chair of the Audit & Compliance Committee and member of the Risk Committee. Qualified Chartered Accountant with over 30 years' business experience. Martin ensures the integrity of the Society's financial statements via his Audit & Compliance Committee role, and oversees the independence and performance of our internal audit and compliance functions.

Karl Elliott

Chief Executive

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

Mike Heenan

Non-Executive Director

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

Mark Marsden

Risk Director

Joined in 2014. Mark has 15 years' retail lending and deposit-taking experience. He defines and oversees implementation of the Society's credit and operational risk management arrangements (including as Money Laundering Reporting Officer and Data Protection Officer). He also manages the financial risks associated with climate change.

Esther Morley

Non-Executive Director

Joined in January 2020. Member of the Audit & Compliance and Risk Committees. Esther was formerly Managing Director of a challenger bank's mortgage division, with full profit and loss accountability. She brings extensive experience in specialist lending, credit risk management, marketing and product analysis. Once familiar with the Society, it is anticipated that Esther will become Chair ofthe Risk Committee.

Richard Pattinson

Non-Executive Director, Senior Independent Director

Joined in 2011. Chair of the Risk Committee and Senior Independent Director, with almost 40 years' banking experience in treasury and risk management. Richard advises the Board on the Society's overall risk appetite, tolerance and strategy, and oversees performance. He also safeguards the independence and performance of our risk function, including whistleblowing policies and procedures.

Sue Symington

Non-Executive Director

Joined in 2013. Chair of the People & Culture Committee, which discharges the functions of a remuneration and a nominations committee. Member of the Audit & Compliance (until January 2019) and Risk Committees. Award-winning Chartered Director and Chartered Fellow of the Institute of Personnel and Development. Sue provides human resources experience focusing on colleague matters such as succession planning, reward, learning and development and performance management.

Directors’ Report

for the year ended 31 December 2019

The Directors have pleasure in presenting their Annual Report and Audited Accounts and Annual Business Statement for the year ended 31 December 2019.

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 local savings. The Society intends to remain an independent local Society that plays an active role in its community, providing exceptional personal service and care, underpinned by experience and expertise and managed prudently to ensure long term sustainability.

Business Review and Results for the year

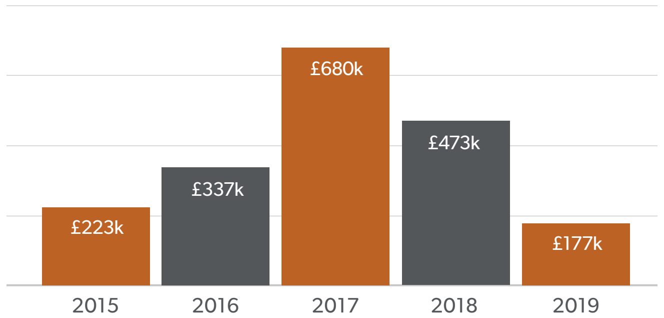
During a period of continued UK economic uncertainty and a challenging mortgage market, where regulatory costs in financial services are increasing annually, the Society has delivered a strong set of results. Key highlights include:

- Profit before tax of £177K.
- Despite the exceptionally challenging mortgage environment, with a number of competitors such Tesco Bank pulling out of the mortgage market, the Society has maintained net income at £2.4m.
- New mortgage advances were £25.8m, 16% higher than 2018 and the highest new business level for the last five years. The Society has focussed on customers underserved by the mortgage market such as lending in retirement and the self-employed.
- The Society maintains a conservative lending policy, which is reflected in the average loan to value (LTV) ratio which has fallen for the sixth-consecutive year to 36%.
- The final tranche of the Society’s subordinated debt was repaid in March, we are now funded solely by our members.

Profitability

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

Profit before Tax



Profit before tax of £177k has fallen £296k, despite an increase in net income in 2019, due to an increase in costs of £131k and impairment charges of £189k.

Impairment charges have increased primarily due the application of modified loan accounting rules to a legacy large BTL mortgage which has been extended by ten years in 2019, the impact of which is £108k. This is because the loan has been recognised at fair value at the point of modification. Assuming the loan performs, as indeed it has done historically, the impact will be released over the remaining life of the mortgage.

The provision over properties in possession has increased by £70k, primarily reflecting the latest information on freehold valuations.

Whilst impairment has increased in the year, it should be noted no amounts were written off during the year, and there were no new cases of mortgage possession in 2019. Arrears cases are limited and largely restricted to low loan-to-value cases which do not require provisions.

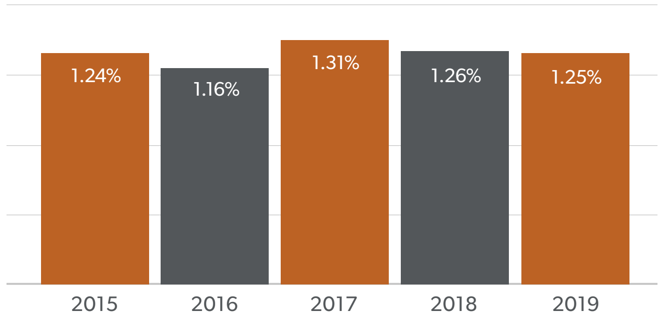
In terms of costs, the Society has recruited both to support the increase in regulatory workload impacting the sector and to support mortgage volume growth. In line with the sector the Society has also experienced significant increase in external audit costs in 2019, given all Building Societies are captured as Public Interest Entities which demand enhanced auditing requirements.

Despite this increase in costs, the Society monitors the cost base carefully and continues to have one of the lowest cost/ mean assets ratio in the Sector.

Net Interest Margin

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

This is the Society’s main source of income. Net interest margin has been broadly maintained in 2019, despite a general downward pressure on the mortgage rate in the market, causing a number of established providers to exit

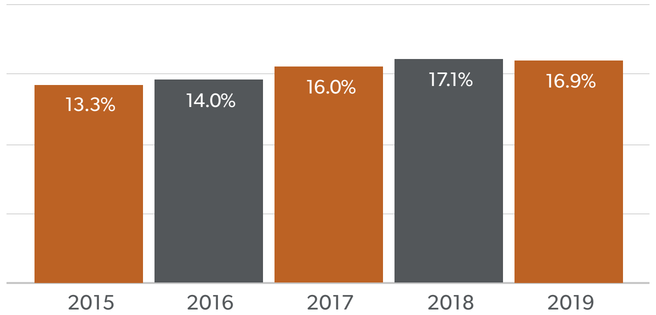


Capital

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

Total Capital Ratio

Total capital as a percentage of Risk Weighted Assets (RWA) has increased consistently over the 4 year period (2015-2018), due to strong profitability and reducing risk within the asset base (as measured by RWA). This growth has been despite the amortisation of sub ordinated debt capital, required under CRD regulations. In 2019, due to the growth of the mortgage book, there has been a 0.2% reduction in our total capital ratio.



The minimum regulatory capital requirement remains unchanged in the year:

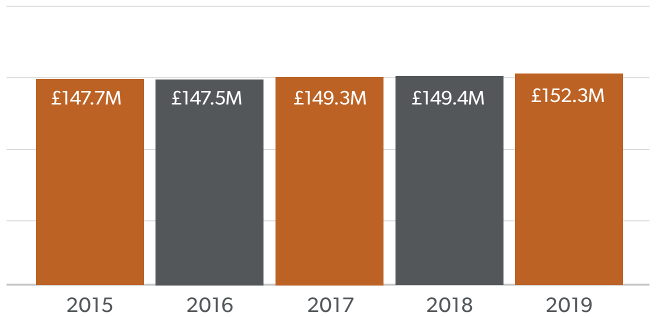
	Definition	2018	2019
Total Capital Requirement	The Society’s minimum regulatory capital requirements. Presented as a percentage of RWA.	9.48%	9.48%

The Society’s capital position is set out in more detail in its Pillar 3 disclosure document. The 2019 document is available on the Society’s website from mid-April 2020.

Loans and advances to customers

During the year the Society advanced gross mortgages of £25.8m (2018: £22.2m) and retained 77% of residential mortgage schemes maturing in 2019 (2018: 80%).

Total Mortgage Balances (gross of mortgage loss provision)



The mortgage portfolio has grown steadily over the last 5 years, with 2% growth recorded in 2019.

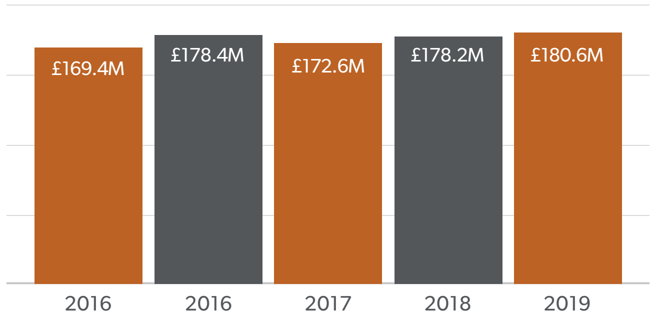
At 31 December 2019 there was 1 case, with a total balance outstanding of £113k and a total arrears balance of £14k (2018: 2 cases with a total balance outstanding of £169k, and total arrears of £27k) where repayments were more than 12 months in arrears. At 31 December 2019 there were 6 cases in possession (2018: 6 cases).

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

Shares and deposits

The Society offers straightforward saving products, which offer good value, transparent savings rates. Savers balances have grown by a further £2.4m in 2019.

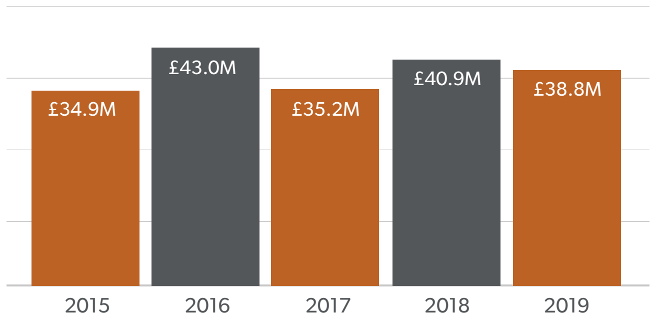
Shares and deposits



Liquid assets

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

Liquid assets



In 2018 the Board took the decision to stop investing in fixed term certificates of deposit and invest only in the Bank of England. The impact of this conservative treasury approach is to reduce both liquidity and capital risk, important in an uncertain economic environment.

Directors' Report

continued

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

	2018	2019
Liquidity Coverage Ratio	457	427

Financial risk management objectives and policies

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

Principal risks and uncertainties

As a result of its normal business activities, the Society is exposed to a variety of risks, the most significant of which are conduct and operational risk, credit risk, market risk and liquidity risk. The Society has established a number of committees and policies to manage these risks. The role of these committees is described in the Corporate Governance Report, below. Policies are subject to continual re-evaluation. The financial risk management objectives and policies of the Society are also shown in the Financial Risk Management Report, below. The Society aims to manage appropriately the risks that arise from its activities and the Board maintains risk appetite statements which are embedded in specific risk management policy statements, and promotes a culture and philosophy that reflects an awareness and management of actual and potential risk exposures.

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

Continued pressure on mortgage margins

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

Brexit

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

Whilst the UK has left the EU, the terms of our departure are still under negotiation and a no-deal Brexit remains a possibility. The shape of a "no deal" Brexit is difficult to quantify but the Board concludes inflation (due to an expected sterling collapse), recession leading to unemployment and reduced mortgage affordability, together with significant house and commercial real estate price reductions are potential outcomes.

The Bank of England presented a suite of severe downside assumptions in 2019 (known as the anchor scenario) which was explicitly based on a "worst case" no deal Brexit. As part of the ICAAP (Internal Capital Adequacy Assessment Process), the Society forecast the impact of these assumptions. The conclusion of this analysis was that whilst we would be impacted by higher impairment charges and reduced mortgages volumes, the business had sufficient capital buffers to withstand this worst-case Brexit scenario.

In terms of Society's asset base, all treasury assets are invested with the Bank of England and therefore the risk of counterparty default or liquidity shortfalls, due to inability to sell investments on a timely basis due to Brexit, is minimised. Within the Society's mortgage portfolio, the average Loan to Value is currently 36%, which will help ensure the Society is protected in the event of a severe house price collapse following Brexit.

In conclusion therefore, the Board anticipates the Society's balance sheet together with the increase in capital and healthy liquidity levels in 2019 will help ensure the business is protected from any potential Brexit shocks.

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

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

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

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

Liquidity

As at 31st December 2019, the Society invests surplus liquidity exclusively in its Bank of England Reserve account, significantly reducing liquidity risk.

Lending impairments

The Society has a low number of legacy arrears cases. While arrears levels are expected to remain stable for the time being, should interest rates rise significantly and/or quickly then customers could come under financial pressure. The Society also uses forbearance in cases where this is in both the customer and Society's best interests. Impairment 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. In 2019 the Society has increased its provisioning around legacy loan which are either approaching or extended beyond their original term, as noted on page 11. 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.

As noted on page 17, the credit risk implication of Coronavirus are currently anticipated to be within the assessed range of stress scenarios undertook within the ICAAP process.

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 2019 the Society continued to progress investments in people and infrastructure to further improve its cyber resilience, and will continue to do so.

Going concern

The Directors have satisfied themselves that the Society has adequate resources to continue in business for the foreseeable future, by having reviewed its capital and liquidity forecast and the Business Plan. The forecasts are updated at least quarterly and reflect the latest economic and political environment, including consideration of the potential impacts arising from Brexit and Coronavirus. Whilst the situation is rapidly evolving, the Directors have not seen any material change in the Society's financial position or performance as at the date of this report.

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

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

Creditor payment policy

The Society's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit once the supplier has discharged its contractual obligations. During 2019, amounts due to relevant creditors of the Society were paid on average within 10 days (2018: 10 days) of receipt of invoice.

Charitable donations

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

People

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

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

Health and safety

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

Directors

In accordance with Rule 26(1) Karl Elliott, Mike Heenan, Martin Cocker and Sue Symigton retire by rotation and being eligible offer themselves for re-election.

Esther Morley was appointed as a Director on 27 January 2020. In accordance with Rule 25(4) Esther Morley retires and being eligible offers herself for election.

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

Independent auditor

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

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

Independent auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant information of which the Society's Auditor is unaware. Each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant information and to establish that the Society's Auditor is aware of that information. As highlighted in the annual accounts for the year ended 31 December 2018 the Society placed it external audit to competitive tender in 2019. As a result of this tender process, a resolution to appoint PWC LLP as Auditor to the Society will be proposed at the Annual General Meeting.

On behalf of the Board of Directors

S E Purdy
Chairman
13 March 2020

Financial Risk Management Report

for the year ended 31 December 2019

Financial risk management objectives and policies

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

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

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

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

Conduct and operational risk

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

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

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

- Key Risk Indicators (KRIs): Reflecting the overall Risk Appetite, Internal Capital Adequacy Assessment Process (ICAAP) assumptions and policy limits/requirements, KRIs are reviewed to provide an indication of the operating effectiveness of the systems and controls for the management of conduct and operational risk. Operational performance outside normal limits is reviewed in detail to establish any material issues and confirm the adequacy of management responses to address both direct and root causes.
- Operational risk incidents (including operational loss data) are reviewed to identify remedial actions and control enhancements which may be required. 'Near misses' are also considered.
- Complaints data is considered to ensure there is no evidence of adverse customer outcomes or deficiencies in the Society's responsiveness to complaints. In addition to reviewing internal complaints data the Society reviews experience elsewhere (for example as reported by the Financial Ombudsman Service) with a view to proactive risk reduction.
- Compliance and risk monitoring results are monitored to ensure that remedial actions are undertaken on a timely basis.
- Regulator communications are reviewed for evidence of any concerns in relation to risk governance or conduct risk.
- Training Completion Rates are monitored to ensure that our staff have the necessary up to date skills and knowledge to fulfil their roles.
- The Risk Register is reviewed at least twice a year to ensure it remains up to date and reflective of the strategic plan and is appropriately reflected in the operational risk capital requirement, assessed in the ICAAP.

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

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

The emergence of the Coronavirus in early 2020 has led to significant uncertainly in the global social-economic environment. As a small Building Society we anticipate potential operational disruption, however contingency arrangements are in place to deliver operational resilience to a level consistent with regulatory expectations.

Credit Risk – Mortgages

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

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

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

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty, for example agreeing a temporary transfer to interest-only payment in order to reduce the borrower's financial pressures or by offering a short-term extension in specific cases where borrowers have reached the end of their contractual term and have been unable to repay the outstanding principal balance. These measures are managed in accordance with an internal policy statement, which reflects Treating Customers Fairly (TCF) principles and regulatory requirements including the Finalised Guidance on Forbearance and Impairment Provisions issued by the Financial Services Authority in October 2011. We aim to put our members first in all instances and as a result aim to support the customers whenever we can. In each case an individual assessment is made to establish affordable and sustainable forbearance options, and to ensure that forbearance is in the best interests of both the borrower and the Society. It is expected that the borrower will resume normal payments once they are able. At the year end there were 24 (2018: 6) accounts where forbearance measures were currently exercised; the balance of these accounts amounted to £3.12m (2018: £2.15m), or 2.05% (2018: 1.14%) of mortgage balances. There is £51k (2018: £Nil) provision held against forborne accounts, the majority of balances do not require provision due to the low loan-to-values on these properties.

The credit risk implication of Coronavirus are currently anticipated to be within the assessed range of stress scenarios undertook within the ICAAP process

Credit Risk – Liquidity Counterparties

The Society's Liquidity Policy includes strict criteria for counterparties to ensure that its liquidity investments are both diversified and of a high quality. There are Policy criteria in relation to eligible counterparties, eligible investments, single counterparty exposures and maturity structure. A large proportion of the Society's liquid asset exposure is primarily to the Bank of England. During 2019 the held no treasury instruments, with the liquidity portfolio held with the Bank of England or on call with a clearing bank.

Liquidity risk

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

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

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

At 31 December 2019 the Society held £38.8m (2018: £40.9m) of liquid assets, representing 21.5% (2018: 22.9%) of shares and borrowings.

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

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

Interest rate risk

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

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

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

Basis Risk

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

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

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

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

The interest rate sensitivity of the Society as at 31 December 2019 is detailed in note 23 to the accounts.

Directors' Remuneration Report

for the year ended 31 December 2019

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

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

The level and components of remuneration

Code Principles:

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

Board Comment:

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

Non-Executive Directors' remuneration

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

Executive Directors' remuneration

The main components of the Executive Directors' remuneration are:

Basic salary

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

Pensions

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

Other benefits

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

Bonus scheme

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

Contractual Terms

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

The Procedure for Determining Remuneration

Code Principle:

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

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

Board Comment:

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

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

Directors' remuneration (audited)

Directors' emoluments	2019 £000	2018 £000
For services as a Director	92	89
For executive services	372	361
Total	464	450

Emoluments of the Society's Directors are listed below

For services as a Director	Fees £000	Fees £000
S Purdy (Chairman of the Board)	26	1
M R Cocker (Chair of the Audit and Compliance Committee)	17	17
R A Pattinson (Senior Independent Director and Chair of the Risk Committee)	18	17
M R Heenan	14	15
S A Symington (Chair of the People & Culture Committee)	17	15
B Young (Former Chairman of the Board)	0	24
Totals	92	89

	Salary £000	Benefits £000	Pension £000	Total £000
For executive services				
2019				
K J D Elliott (Note 1)	161	-	-	161
J E Bedford	106	1	11	118
M Marsden	84	1	8	93
Total	351	2	19	372
2018				
K J D Elliott (Note 1)	157	-	-	157
J E Bedford	103	1	10	114
M Marsden	81	1	8	90
Total	341	2	18	361

Note 1: Included in the 2019 salary of K J D Elliott is £19k which represents cash payments in lieu of pension and car benefit (2018: £18k).

S A Symington
Chair of the People & Culture Committee
March 2020

Corporate Governance Report

for the year ended 31 December 2019

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

Board Leadership and Society Purpose

Code Principle:

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Board Comment:

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

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

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

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

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

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

Audit and Compliance Committee

The Committee, chaired by Martin Cocker, considers regulatory compliance matters, the adequacy of internal controls, reviews reports from both the Society's internal and external auditors and reviews any changes in accounting policy and practice. Meetings are held at least four times a year and other members of the Committee are Richard Pattinson, and Mike Heenan. Sue Symington stepped down from this Committee after its January meeting.

People & Culture Committee

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

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

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

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

Risk Committee

The Risk Committee, chaired by Richard Pattinson, meets at least four times a year. The Committee is responsible for the oversight and challenge of the Society's risk management framework to identify, manage and mitigate key risks faced by the Society. Other members of the Committee are Martin Cocker, Mike Heenan and Sue Symington (Sue joining the Committee after its March 2019 meeting).

Board and Committee membership attendance record

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

	Board	Audit Compliance	People & Culture	Risk
S E Purdy	7 (7)		6 (6)	
M R Cocker	6 (7)	5 (5)		5 (5)
R A Pattinson	7 (7)	5 (5)		5 (5)
M R Heenan	6 (7)	5 (5)		5 (5)
S A Symington	7 (7)	1 (1)	6 (6)	4 (4)
K J D Elliott	7 (7)		6 (6)	
J E Bedford	7 (7)			
M Marsden	7 (7)			

Division of Responsibilities

Code Principle:

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently

Board Comment:

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

The Board maintains a comprehensive skills matrix.

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

A Senior Independent Director has been appointed.

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

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

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

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

Dialogue with Shareholders

Code Principle:

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

Board Comment:

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

Constructive use of the Annual General Meeting (AGM)

Code Principle:

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

Board Comment:

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

The proper conduct of voting at the Annual General Meeting is assured by engaging professional support. In 2019 this was arranged through Electoral Reform Services.

Composition, Succession and Evaluation

Code Principle:

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Corporate Governance Report

continued

Board Comment:

The Chairman

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

Non-Executive Directors

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

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

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

The Composition of the Board

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.

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

Appointments to the Board

Board appointments are managed through the People & Culture Committee. This Committee also maintains succession plans for all senior management and the Board. Recruitment process for Board members involves external support explicitly instructed to seek a diverse range of candidates. Board appointments are limited to 9 years.

The Society values diversity but always makes Non-Executive Director appointments on merit, based on the specific skills and experience required to complement existing skills under the succession plan. To this end external search agencies are generally engaged. During 2019 a search for a non-executive director/ Risk Committee Chair designate commenced with the assistance of Warren Partners. This Agency has no other connection with the Society. This recruitment process is led by the Chair of the People & Culture Committee.

All Directors must meet the regulatory fitness and propriety standards. The People & Culture Committee leads the process and recommends a candidate. The Board decides whether to appoint the candidate. Each Director must obtain appropriate regulatory approvals prior to fulfilling their control function as a Director. Given the small size of the Society's staffing, the Society has not adopted all detailed elements of the Women in Finance Charter, but is committed to having regard to its principles.

Commitment

Directors are informed of the time commitment in the letter of appointment. The People & Culture Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 24, and Board members' significant other commitments are set out in the Annual Business Statement, below.

Development

Code Principle:

Board Comment:

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

Information and Support

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

Evaluation

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

Re-election

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

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

Audit Committee and Auditors

Code Principle:

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

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

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objective

Board Comment:

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

The Board is collectively responsible for determining the risk appetite and strategies for risk management and control as described in the Society's Risk Appetite Policy. Senior management is responsible for designing, operating and monitoring risk management systems and controls. Each Board Committee has oversight responsibility for the risks and controls within its remit. The Risk Committee assesses the adequacy of the risk related output of this process. The Society's internal auditors, RSM LLP, provide independent assurance to the Audit Committee that the systems are appropriate and controls effectively applied. The Audit Committee also receives reports on internal controls from the Society's external auditor. Where recommendations for improvements to the Society's controls are identified by a Board Committee these are monitored by Senior management, and are reported to the appropriate committee. The Society has plans to address the recommendations identified during 2019.

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

Audit Committee and Auditors

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

Remuneration

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

S E Purdy
Chairman
March 2020

Annual Report of the Audit & Compliance Committee

for the year ended 31 December 2019

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

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

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

Key Responsibilities:

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

Financial Reporting

- Monitoring the integrity of the financial statements of the Society (the 'Financial Statements') and the Annual Report;
- Reviewing and, where necessary, challenging critical accounting policies and significant financial reporting judgments and estimates in the Financial Statements;
- Reviewing the Annual Report;
- Reviewing the draft management representation letters requested by the external auditors, prepared in conjunction with the Financial Statements and certain related disclosures; and
- Providing guidance and advice to the Board on whether the Financial Statements and Annual Report, when taken as a whole, are fair, balanced and understandable.

Internal Controls and Risk Management

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

Internal Audit

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

External Audit

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

Whistleblowing

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

Financial Reporting

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

1. Integrity of financial reporting

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

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

The Committee concluded that the Financial Statements for 2019 had been properly prepared in accordance with the accounting policies of the Society, those policies were appropriate and had been applied consistently.

2. Loan Loss Provision:

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

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

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

3. Going Concern:

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

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

External Audit

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

The external auditor is KPMG LLP. 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 2019.

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 2019, the Committee met with KPMG regularly without management presence.

As noted on page 15, the Society conducted a competitive tender process during 2019 and is proposing that PWC replace KPMG as the external auditor for the year ending 31 December 2020.

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 2019. Internal Audit completed 11 engagements during the year and made 40 findings. These findings have been or are being addressed by management with realistic resolution dates. None of the findings were classified by Internal Audit as 'high priority'.

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

Annual Report of the Audit & Compliance Committee

continued

Internal Control and Risk Management

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

Whistleblowing

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

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

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

Other Matters:

Compliance Reports

The Committee received, considered and approved the Compliance Monitoring Plan for 2019. Compliance Reports were provided at each meeting of the Committee during the year.

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

Assessment of Effectiveness

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

Martin Cocker
Chairman of the Audit and Compliance Committee
March 2020

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the annual accounts

for the year ended 31 December 2019

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's 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 a nd prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

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

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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 are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the society and to prevent and detect fraud and other irregularities.

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

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

for the year ended 31 December 2019

1. Our opinion is unmodified

We have audited the annual accounts of Beverley Building Society for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows of the Society, and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the Society as at 31 December 2019 and of the income and expenditure of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

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

We were first appointed as auditor by the directors on 25 September 2013. The period of total uninterrupted engagement is for the seven financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

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

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

Key audit matter

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

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

The risk

Unprecedented levels of uncertainty

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

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

Our response

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

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

Our results

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

Key audit matter

Impairment of loans and advances to customers
(£533,000; 2018: £384,000)

Risk vs 2018: ▲

Refer to page 30 (Audit Committee Report), page 46 (accounting policy) and page 53 (financial disclosures).

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

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

There is also an overlay to reflect known limitations of the Society's impairment model.

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

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

The Society also offers forbearance to customers in financial difficulty, and there is a risk that the Society's provisioning may not reflect the increased probability of default in such cases.

Individual impairments are derived from a model with key assumptions of probability of possession and forced sales discounts against collateral.

For properties held in possession, the impairment requirement for the loan is determined based on estimated future cash flows discounted to present value at the original effective interest rate of the loan. The key assumption is the period over which the sale of the property is expected to be achieved.

The effect of these matters is that, as part of our risk assessment, we determined that impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole.

Our response

Our procedures included:

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

Our results

We found the resulting estimate of impairment of loans and advances to customers to be acceptable (2018: result acceptable).

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

continued

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

Materiality for the annual accounts as a whole was set at £80,000 (2018: £23,500), determined with reference to a benchmark net assets of £11,270,000, of which it represents 0.7% (2018: 5.0% profit before tax of £473,000).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £4,000 (2018: £1,175), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We have changed the selected benchmark for calculating materiality to net assets from profit before tax as this reflects the fact that the Society does not seek to maximise profits as its primary objective, and that net assets more closely reflects regulatory capital which is a key area of focus for regulators.

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

4. We have nothing to report on going concern

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

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

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

Based on this work, we are required to report to you if we have 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 a year from the date of approval of the financial statements.

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

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

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

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

Annual Business Statement and Directors' Report

In our opinion:

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 31, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

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

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

Secondly, the Society is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Society's licence to operate.

We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of building society legislation recognising the financial and regulated nature of the Society's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any.

Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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

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

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

Karl Pountney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
16 March 2020

Income Statement

for the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Interest receivable and similar income	2	4,233	3,897
Interest payable and similar charges	3	(1,831)	(1,523)
Net interest income		2,402	2,374
Other operating income		55	68
Net operating income		2,457	2,442
Administrative expenses	4	(1,893)	(1,758)
Depreciation and amortisation	12,13	(100)	(98)
Operating charges		(30)	(40)
		434	546
Impairment provision for losses and advances	10	(257)	(78)
FSCS Levy	19	-	5
Profit on ordinary activities before tax		177	473
Tax on profit on ordinary activities	7	(34)	(90)
Profit for the financial year	22	143	383

Statement of other Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Profit for the financial year		143	383
Other comprehensive income			
Revaluation of freehold land and buildings	22	(105)	-
Total comprehensive income for the period		38	383

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

Profit for the financial year arises from continuing operations.

Both the profit for the financial year and 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 £6,160 and profit before tax increased by £6,160.

Statement of Financial Position

for the year ended 31 December 2019

Assets	Notes	2019 £000	2019 £000	2018 £000	2018 £000
Liquid assets					
Cash in hand and balances with the Bank of England	8	33,203		35,763	
Loans and advances to credit institutions	8	5,610		5,099	
			38,813		40,862
Loans and advances to customers					
Loans fully secured on residential property	9	145,683		142,412	
Other loans	9	6,080		6,535	
			151,763		148,947
Investments	11	89		89	
Tangible fixed assets	12	1,039		1,167	
Intangible assets	13	87		75	
Prepayments and accrued income	14	278		262	
Total assets			192,069		191,402

Liabilities	Notes	2019 £000	2019 £000	2018 £000	2018 £000
Shares	15	164,294		160,740	
Amounts owed to other customers	16	16,278		17,412	
			180,572		178,152
Other liabilities	17	35		89	
Accruals and deferred income	18	179		162	
Provisions for liabilities	19	13		17	
Subordinated liabilities	21	0		1,750	
Total liabilities			180,799		180,170
Reserves					
Revaluation reserve	22	571		676	
General reserve	22	10,699		10,556	
Total liabilities and reserves			192,069		191,402

The Notes to the Accounts, below, form part of these accounts.
Approved by the Board of Directors on 13 March 2020 and signed on its behalf by:

S E Purdy Chairman

K Elliott Chief Executive

J E Bedford Deputy Chief Executive

Statement of Cash Flows of the Society

for the year ended 31 December 2019

	2019 £000	2018 £000
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	177	473
(Increase)/Decrease in prepayments and accrued income	(15)	1
Increase/(Decrease) in provision for impairment	149	(203)
Impact of substantial loan modification	108	-
Depreciation and amortisation	100	98
Interest payable on subordinated liabilities	15	56
Loss on disposal of tangible fixed assets	-	-
Net cash inflow/(outflow) from trading activities	534	425
Net (decrease) in subordinated debt	(1,750)	-
Net cash outflow from financing activities	(1,750)	-
Loans and advances made to customers	(25,830)	(22,195)
Loans and advances repaid by customers	22,734	22,097
Net increase/(decrease) in shares	3,554	6,292
Net increase/(decrease) in amounts owed to credit institutions and other customers	(1,134)	(767)
Net (increase)/decrease in loans and advances to credit institutions	-	6,000
Net increase/(decrease) in other liabilities	54	49
Net increase/(decrease) in provisions for liabilities	(17)	(10)
Taxation paid	(88)	(139)
Net cash inflow/(outflow) from operating activities	(727)	11,752
Cash flow from investing activities		
Interest paid on subordinated liabilities	(15)	(56)
Proceeds received from repayment of loan to participating interest (see note 11)	-	17
Capital expenditure and financial fixed assets		
Purchase of tangible and intangible fixed assets	(90)	(93)
Proceeds from disposal of tangible fixed assets	-	-
Net increase/(decrease) in cash	(2,048)	11,620
Cash and cash equivalents at the beginning of the year	40,852	29,232
Cash and cash equivalents at the end of the year	38,804	40,852

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

Notes to the Accounts

for the year ended 31 December 2019

1. Accounting Policies

1.1 Basis of accounting

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

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

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

1.2 Interest

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

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

1.3 Fees and commission

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

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

1.4 Taxation

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

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

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

1.5 Financial Instruments

Recognition

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

Classification

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

De-recognition

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

Identification and measurement of impairment

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

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

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

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

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

Notes to the Accounts

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Modification of loans

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

1.6 Investments

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

1.7 Fixed assets

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

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

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

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

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

1.8 Intangibles

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

1.9 Leases

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

1.10 Pension costs

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

1.11 Segmental reporting

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

1.12 Significant accounting estimates and judgements

Collective methodology

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

If the forced sales discount was to increase by 5%, the estimated impact on the impairment provision would be an increase of £7.6k, with a corresponding charge in the Income Statement. If the probability of default increased by 10%, the estimated impact on the impairment provision would be an increase of £12.9k, with a corresponding charge to the Income Statement.

Properties in possession

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

Substantial modification

There is judgement involved in determining the market rate of interest to establish the fair value at which the renegotiated loan is recorded. The Society has made its judgement over the applicable market rate of interest with reference to a basket of lenders operating in the appropriate space of the market.

If the market rate of interest were to change by 10% (e.g. 6% to 6.6%), the estimated impact on the impairment provision would be an additional impairment charge of £56k.

2. Interest receivable and similar income

	2019 £000	2018 £000
On loans fully secured on residential property	3,784	3,540
On other loans	155	156
On other liquid assets	293	200
On loan to participating interest	1	1
Total	4,233	3,897

3. Interest payable and similar charges

	2019 £000	2018 £000
On shares held by individuals	1,745	1,410
On deposits and other borrowings	71	57
On subordinated liabilities	15	56
Total	1,831	1,523

4. Administrative expenses

	2018 £000	2017 £000
Staff costs (note 5)	1,026	945
Other administrative expenses	867	813
Total	1,893	1,758

Included in other administrative expenses are:

Remuneration of auditors		
Audit of these financial statements (Note 1)	78	48
Taxation compliance services	-	-
All other services	-	-

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

In common with peer group external audit fees have increased significantly due to the additional audit requirements in auditing an EU public interest entity (PIE). All Building Societies, by default, are classified as an EU PIE.

Note 1: These figures are presented exclusive of VAT.

5. Staff numbers and costs

	2019 Number	2018 Number
The average number of persons employed by the Society (including the executive directors) during the year was as follows:		
Full time	17	17
Part time	9	8
Total	26	25

	2019 £000	2018 £000
The aggregate cost of these persons was as follows:		
Wages and salaries	871	800
Social security costs	96	89
Other pension costs	59	56
Total	1,026	945

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

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

Notes to the Accounts

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6. Directors

Remuneration

Total remuneration of the Society's Directors for the year was £464,000 (2018: £450,000).

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

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

Directors' loans and transactions

At 31 December 2019 there were 0 (2018: 0) outstanding mortgage loans granted in the ordinary course of business to a Director and their connected persons, amounting in aggregate to £0 (2018: £0).

A register is maintained at the principal office of the Society under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the register for the financial year ended 31 December 2019 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

	2019 £000	2018 £000
The tax charge for the year comprises:		
Corporation tax on profits for the period	35	89
Adjustment in respect of prior periods	-	-
Total current tax	35	89
Deferred taxation (note 20)		
Adjustment in respect of prior periods	-	-
Origination and reversal of timing differences	(1)	1
Effect of tax rate change on opening balance	-	-
Total corporation tax	34	90
Reconciliation of tax on profit on ordinary activities		
Profit on ordinary activities before tax	177	473
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	34	90
Depreciation in excess of capital allowances	-	-
Other short term timing differences	-	-
Total	34	90

8. Loans and advances to credit institutions

	2019 £000	2018 £000
Loans and advances to credit institutions have maturities as follows:		
On demand	5,610	5,099
In not more than three months	-	-
In more than three months but not more than one year	-	-
	5,610	5,099
Accrued interest	-	-
Total	5,099	5,099

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

Credit Quality	Description	2019 £000	%	2018 £000	%
AA	Bank of England Reserve	33,124	85.3	35,738	87.4
A+	Certificates of Deposit with UK financial institutions and operational account with Barclays Bank plc	1,385	3.6	1,879	4.6
A	Certificates of Deposit with UK financial institutions	4,225	10.9	3,220	7.9
Unrated	Cash on site	79	0.2	25	0.1
Total		38,813	100.0	40,862	100.0

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

Notes to the Accounts

continued

9. Loans and advances to customers

	2019 £000	2018 £000
Loans fully secured on residential property	145,683	142,412
Loans fully secured on land	6,080	6,535
Total	151,763	148,947

Maturity analysis

The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:		
Repayable on demand	539	429
In not more than three months	1,973	970
In more than three months but not more than one year	6,535	5,071
In more than one year but not more than five years	31,026	31,811
In more than five years	112,279	111,084
	152,352	149,365
Less: Provisions (note 10)	(533)	(384)
Less: Net EIR liability	(56)	(34)
Total	151,763	148,947

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.

	2019	2018
Average LTV	36.5%	37.1%

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

	2019 £000	%	2018 £000	%
East Anglia	2,076	1.4	1,832	1.2
East Midlands	7,066	4.6	5,757	3.9
Greater London	4,911	3.2	4,359	2.9
North	2,260	1.5	2,327	1.6
North West	5,878	3.9	6,122	4.1
Outer Metropolitan Area	5,611	3.7	6,488	4.3
South East	7,071	4.6	7,533	5.0
South West	10,428	6.9	9,576	6.4
Wales	2,728	1.8	2,889	1.9
West Midlands	6,003	3.9	5,565	3.7
Yorkshire and Humberside	98,320	64.5	96,917	65.0
Total	152,352	100.0	149,365	100.0

The table below provides further information on the Society's loans and advances to customers by payment due status as at 31 December 2019:

	2019 £000	%	2018 £000	%
Not impaired				
Neither past due or impaired	145,926	95.8	145,467	97.4
Past due but not impaired	2,436	1.5	1,363	0.9
Impaired				
Not past due but impaired	1,020	0.7	-	-
Past due	1,007	0.7	325	0.2
Possessions	1,963	1.3	2,210	1.5
Total loans and advances to customers	152,352	100.0	149,365	100.0

Past due but not impaired - relates to any asset where a payment due is received late or missed but no specific impairment has been made against the asset. The amount included is the entire loan amount and not just the overdue amount.

Not past due but impaired – relates to specific mortgages which are up to date, however a specific impairment has been made against the asset. These are mainly accounts with a high LTV (i.e. >80%) and nearing end of term (i.e. <5 years) but are not in arrears.

Notes to the Accounts

continued

10. Provisions for impairment losses

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 31 December 2018			
Collective provision	67	76	143
Specific provision	87	154	241
Total	154	230	384
Movement during 2019			
Collective provision	(5)	(7)	(12)
Specific provision	67	94	161
Total	62	87	149
At 31 December 2019			
Collective provision	62	69	131
Specific provision	154	248	402
Total	216	317	533
The total movement in provisions is made up as follows:			
Income and expenditure charge for the year	62	87	149
Write-off of loans previously provided	-	-	-
Impairment due to modified loan	108	-	108
Total	170	87	257

Impairment charges increased primarily due the application of modified loan accounting rules in relation to a legacy BTL mortgage for £1.6m, the impact of which was £108k. This is because the loan has been recognised at fair value at the point of modification. Assuming the loan performs, as it has done since its origination in 2005, the impact will be released over the remaining life of the mortgage.

Comparative position at 31 December 2018	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 31 December 2017			
Collective provision	62	79	141
Specific provision	334	110	444
Total	396	189	585
Movement during 2018			
Collective provision	5	(3)	2
Specific provision	(247)	44	(203)
Total	(242)	41	(201)
At 31 December 2018			
Collective provision	67	76	143
Specific provision	87	154	241
Total	154	230	384
The total movement in provisions is made up as follows:			
Income and expenditure charge for the year			78
Write-off of loans previously provided			(279)
Total			(201)

Notes to the Accounts

continued

11. Investments

	2019 £000	2018 £000
Cost and net book value		
Shares in participating interests	7	7
Loans to participating interests	82	82
Total	89	89

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

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

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

12. Tangible fixed assets

	Freehold buildings £000	Office furniture and computer equipment £000	Total £000
Cost or valuation			
At 31 December 2018	1,125	321	1,446
Additions	-	24	24
Disposals	-	(18)	(18)
Revaluation	(150)	-	(150)
At 31 December 2019	975	327	1,302
Depreciation			
At 31 December 2018	23	256	279
Charge for the year	22	25	47
On disposals	-	(18)	(18)
Revaluation	(45)	-	(45)
At 31 December 2019	-	263	263
Net Book Value			
At 31 December 2019	975	64	1,039
At 31 December 2018	1,102	65	1,167

	2019 £000	2018 £000
Particulars relating to revalued tangible fixed assets are given below		
Freehold buildings at open market value	975	1,125
Historical cost of re-valued assets	817	817

The freehold buildings at 57/58 Market Place, Beverley were re-valued on 31 December 2019 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 (£780,000 at current valuation occupied by the Society of the total £975,000).

13. Intangible fixed assets

	Purchased Software £000
Costs	
At 31 December 2018	874
Additions	66
Disposals	(98)
At 31 December 2019	842
Amortisation	
At 31 December 2018	799
Charge for the year	53
Disposals	(97)
At 31 December 2019	755
Net book amount	
At 31 December 2019	87
At 31 December 2018	75

14. Prepayments and accrued income

	2019 £000	2018 £000
Due within one year		
Prepayments and accrued income	278	262
Total	278	262

Notes to the Accounts

continued

15. Shares

	2019 £000	2018 £000
Shares held by individuals	164,262	160,693
Shares held by others	32	47
Total	164,294	160,740

Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	519	475
On demand	162,769	159,337
In not more than three months	51	50
In more than three months but not more than one year	131	76
In more than one year but not more than five years	824	802
In more than five years	-	-
Total	164,294	160,740

16. Amounts owed to other customers

	2019 £000	2018 £000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
On demand	16,019	17,155
In not more than three months	259	257
Total	16,278	17,412

17. Other liabilities

	2019 £000	2018 £000
Amounts falling due within one year		
Income tax	-	-
Corporation tax	35	89
Total	35	89

18. Accruals and deferred income

	2019 £000	2018 £000
Amounts falling due within one year		
Accruals and deferred income	179	162
Total	179	138

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

19. Provisions for liabilities

	Deferred tax £000	FSCS Levy £000	Total £000
At 31 December 2018	14	3	17
Paid in the year	-	(3)	(3)
Charge/(credit) to the income statement for the year	(1)	-	(1)
At 31 December 2019	13	-	13

a. Financial Services Compensation Scheme (FSCS) Levies

Based on its share of protected deposits, the Society, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims made against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The FSCS has met the claims by way of loans received from HM Treasury on which it is liable to pay interest. The FSCS has, in turn, acquired the rights to the realisation of the assets of these institutions. The FSCS will have further liabilities if there are insufficient funds available from the realisation of the assets of the institutions to fully repay the respective loans from HM Treasury. In December 2019 the FSCS has announced there is a small surplus which is expected to be re-imbursement back to levy payer for 2019. Consequently the Society has nil provision (2018: £3k).

b. Capital commitments

Capital commitments relating to purchased software costs at 31 December 2019, for which no provision has been made in the accounts, were as follows:

	2019 £000	2018 £000
Contracted	45	42

20. Deferred taxation

	2019 £000	2018 £000
Deferred tax liability		
At 1 January	14	13
Charge for the year	(1)	1
At 31 December	13	14

The deferred taxation liabilities are set out below:	2019 Amount recognised £000	2018 Amount recognised £000
Fixed asset timing differences	16	17
Short term timing differences – trading	(3)	(3)
Total	13	14

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Society's future current tax charge accordingly. The deferred tax liability at 31 December 2019 has been calculated based on these rates.

21. Subordinated liabilities

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

During the first half of the year, the Society has repaid its final tranches of subordinated liabilities. As a result, the Society is now fully funded by its members.

Notes to the Accounts

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22. Reserves

	General Reserve £000	Revaluation Reserve £000
At 31 December 2018	10,556	676
Profit for the year	143	-
Revaluation of office premises	-	(105)
At 31 December 2019	10,699	571

23. Financial Instruments

Interest rate risk

The Society is exposed to movements in interest rates, and manages this exposure on a continuous basis, within the limits set by the Board. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing or the maturity date. The interest rate sensitivity of the Society at 31 December 2019 was:

	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	Non interest bearing £000	Total £000
Interest rate sensitivity gap	11,069	-	-	-	(11,069)	-
NPV sensitivity to a +2% interest rate movement	(27)	-	-	-	-	(27)
NPV sensitivity to a -2% interest rate movement	28	-	-	-	-	28

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

The interest rate sensitivity of the Society at 31 December 2018 was:

	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	Non interest bearing £000	Total £000
Interest rate sensitivity gap	10,764	-	-	-	(10,764)	-
NPV sensitivity to a +2% interest rate movement	(26)	-	-	-	-	(26)
NPV sensitivity to a -2% interest rate movement	27	-	-	-	-	27

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

Maturity Analysis

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

	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Shares	164,294	-	-	-	-	164,294
Deposits and other borrowings	16,278	-	-	-	-	16,278
Other liabilities and provisions	273	-	-	-	-	273
Subordinated liabilities	-	-	-	-	-	-
Total liabilities	180,845	-	-	-	-	180,845

The maturity analysis of the financial liabilities of the Society at 31 December 2018 was:

	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Shares	160,740	-	-	-	-	160,740
Deposits and other borrowings	17,412	-	-	-	-	17,412
Other liabilities and provisions	268	-	-	-	-	268
Subordinated liabilities	1,750	-	-	-	-	1,750
Total liabilities	180,170	-	-	-	-	180,170

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	£4.2m based on interest receivable	£0.09m paid in settlement of corporation tax on 2018 profits	21 Full Time Equivalents

25. Post balance sheet events

The spread of coronavirus COVID-19 to the UK was confirmed in early 2020 and is causing disruption to businesses and economic activity. The Society considers this outbreak to be a non-adjusting post balance sheet event.

As a response to the coronavirus the Bank of England has reduced the base rate by 0.5% on the 11th March 2020, to 0.25%. This change is a return to a base rate last seen as recently as 2017, when the Society continued to operate profitably. Therefore, whilst the Society remains watchful of further developments, it does not foresee a material impact on its operations as a result of this base rate change.

Annual Business Statement

for the year ended 31 December 2019

1. Statutory percentages

	2019 %	Statutory Limit %
Lending limit	4.38	25.00
Funding limit	9.01	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

	2019 %	2018 %
As a percentage of shares and borrowings		
Gross capital	6.24	7.29
Free capital	5.74	6.71
Liquid assets	21.49	22.94
Profit for the year as a percentage of mean total assets	0.09	0.20
Management expenses as a percentage of mean total assets	1.04	0.98

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

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

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

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

Mean total assets are the average of the 2018 and 2019 total assets.

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

3. Information relating to directors

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

Name and date of birth	Date of appointment	Business occupation	Other directorships
S E Purdy (19.04.1962)	2018	Company Director	London General Life Company Limited London General Insurance Company Limited TWG Services Limited TWG Europe Limited Assurant General Insurance Limited Assurant Group Limited Lifestyle Services Group Limited Assurant Life Limited Assurant Intermediary Limited Age UK Age UK Enterprises Police Care UK British Friendly Society 24 Charles Street Limited
R A Pattinson Senior Independent Director (19.05.1952)	2011	Company Director and Financial Services Consultant	A & T Advisory Ltd Trustee/Director, Pioneer Projects (Celebratory Arts) Ltd.
K J D Elliott BA(Hons), Mdip, MCIM (25.05.1972)	2017	Chief Executive Officer	Beverley Together Limited
M R Cocker BSC (Hons), Member of the ICAEW (19.09.1959)	2016	Chartered Accountant	JEC Property Management Limited Nostrum Oil and Gas plc Etalon Group plc Tinkoff Credit Systems Group Holding Durham University Audit Committee Headhunter Group
M R Heenan BSc (Hons), FCA (27.02.1951)	2012	Company Director and Retired Chartered Accountant	Inglewood Investment Company Limited(THE) TIIC Projects Limited TIIC Developments Limited Stafford Town Football Foundation Masonic Charitable Service Masonic Charitable Foundation Coltkell Limited
S A Symington C Dir, FCIPD (04.03.1965)	2013	Non-Executive Director	Chair - York Teaching Hospital NHS Foundation Trust Director- Lodge Cottages Limited
J E Bedford FCA (13.02.1970)	2014	Deputy Chief Executive Officer	Mutual Vision Technologies Limited (resigned 1 January 2020)
M Marsden BSc (Hons), MBA (28.01.1967)	2014	Risk Director	

Documents may be served on the above named directors at:

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

The Executive Directors J E Bedford and M Marsden have service contracts with the Society, termination of which may be effected by either party giving not less than six months written notice. The service contract of K J D Elliott requires either party to provide written notice of at least nine 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.

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