Est. 1866

BEVERLEY
BUILDING SOCIETY

Building Better Futures

Beverley Building Society
57 Market Place, Beverley HU17 8AA

Call **01482 881510**

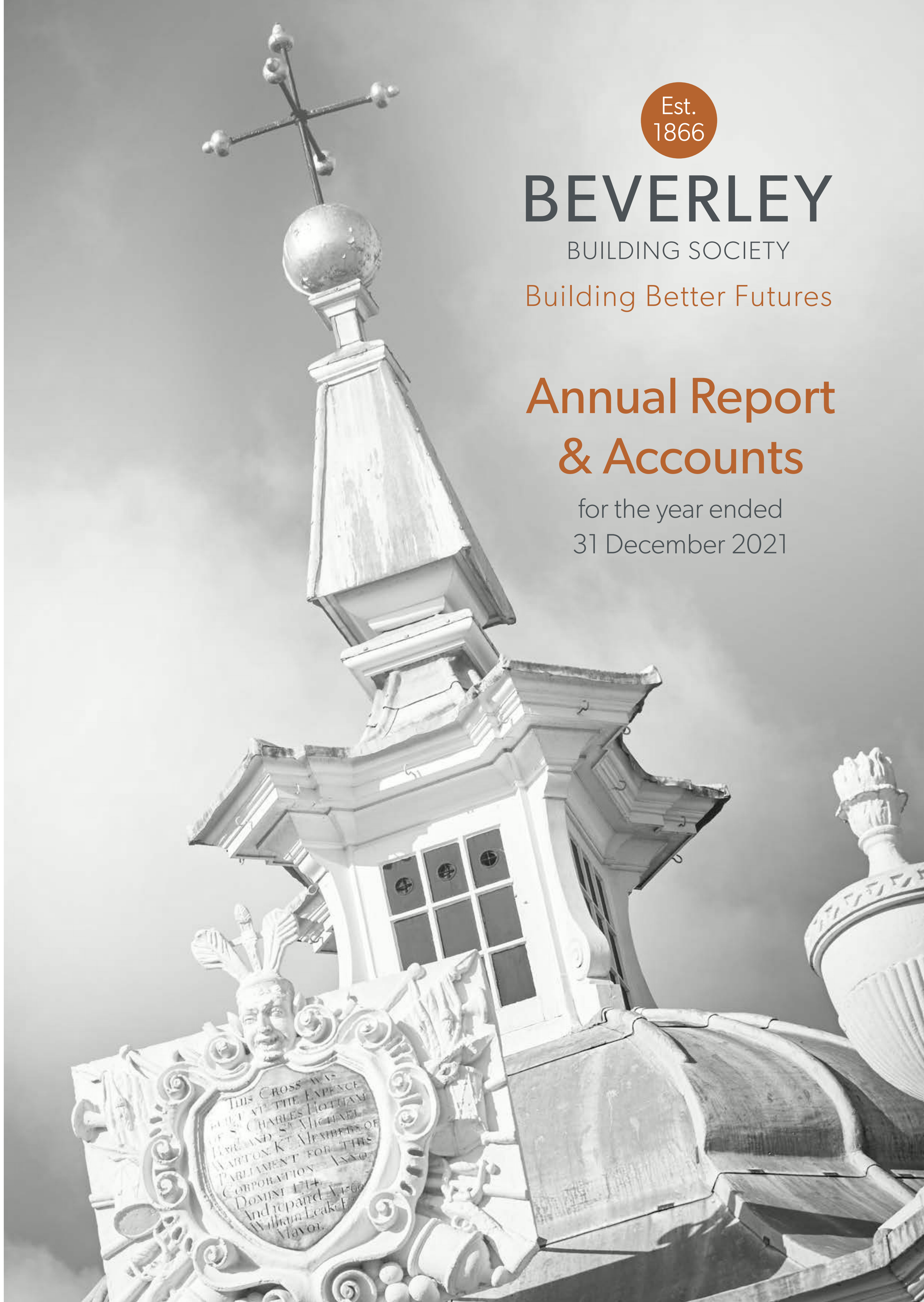
Visit **beverleybs.co.uk**

Protected

The Society is a member of the Building Societies Association.

It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
Registered Number 206064.

Dementia Friends
An Alzheimer's Society initiative



Est. 1866

BEVERLEY
BUILDING SOCIETY

Building Better Futures

Annual Report & Accounts

for the year ended
31 December 2021

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

Chair's Statement

for the year ended 31 December 2021

"We can move forward with a sense of hope, optimism, and positivity for the future

Throughout 2021, we all continued to be impacted by the consequences of COVID-19, as a wider society and at a personal level. Our thoughts remain with customers, colleagues and members of our community who endured hardship, and lost loved ones, during the year.

Despite the ongoing uncertainty and disruption, I am proud to report that your Society delivered continued success. With a focus on being adaptable and available to you, we maintained uninterrupted service, strong operational resilience and support for essential good causes in our region. All achieved while growing our assets, capital and profitability, materially reducing the legacy risks in our lending portfolio and continuing to provide excellent personal service and good value to our borrowers and savers alike.

We entered 2021 in lockdown, but with our branch facility open for business and the majority of colleagues working from home. This prevailed throughout the year as we shifted from lockdown, through an easing of restrictions in August, and then into Plan B at the end of the year. Colleagues adapted well to working from home, while necessary, but their return to our offices for at least two or three days each week, proved better for them and our members. Your Board, having also worked remotely, remained vigilant and supportive and were able to meet in person once, before Plan B required a return to virtual meetings.

The housing market remained healthy, with house price growth, both nationally and regionally, buoyed by the waiving of stamp duty for the vast majority of purchases. We continued to focus on areas less well-served by the mainstream market, including later-life lending and self-employed borrowers, while making significant improvements to our impaired legacy mortgage book through a combination of disposals and capital repayments. This reduced our lending portfolio, but also substantially reduced risk, providing an excellent platform from which to grow lending in the years ahead.

The Board continued to review the Society's strategy during the year, cognisant of the fragilities in our economy and the potential impacts of rising prices and interest rates in the months ahead. A key focus has been the development of a robust new lending strategy, including the critical capabilities required to deliver sustainable growth in the years ahead. We remain fully committed to our Building Better Futures strategy, providing good value for our savers, whose funds, in turn, enable us to lend to borrowers with more complex needs, all underpinned by a commitment to support the wellbeing of our local communities.

Market interest rates for savers remain historically low, despite the small increase in Bank of England base rate at the end of 2021, and the future rises anticipated. We have endeavoured to support savers with a trusted safe haven and consistently higher-than-average returns, and by providing an essential service to our local community as national providers continue to close their facilities. In not seeking to unduly profit from our savers, we have again witnessed strong cash inflows in the year, which we intend to utilise to support our future lending growth wherever possible.

Members can find further details of our progress and future plans in our Chief Executive's Review and Directors' Report.

Your Board continued to ensure effective governance, oversight and succession planning during the year, providing the necessary skills and experience to meet our obligations and strategic intentions, and serve our members' interests.

I trailed in last year's report that Karen Wint joined us, in January 2021, as a Non-Executive Director, bringing extensive and highly-relevant mutual sector and regional experience from her seven years as Chief Operating Officer at Leeds Building Society. Karen also took on the role of Chair of our Risk Committee in September, as Esther Morley, our incumbent Chair of Risk, left us to take on an executive position at another mortgage lender. I would like to thank Esther for her service to the Society and wish her well in her new role.

Richard Pattinson also stepped down from the Board in September 2021, having completed almost 10 years as a non-executive director. Richard oversaw some interesting and challenging times during his tenure, serving the Society diligently and with wise counsel, and we wish him well with his future plans. As a result of Richard's departure, Sue Symington has now taken on the role of Senior Independent Director.

I am also pleased to report that, by the time this report is published, we will have appointed a new non-executive director, Oliver Laird, who is joining us in early 2022. Oliver has a strong background in financial services and brings a wealth of board-level experience, and we are looking forward to his contributions to the Society's success in the years to come.

Oliver will ultimately succeed Mike Heenan, our current Chair of the Audit & Compliance Committee, who will step down at our next AGM. Mike has served with the Society both as acting Chief Executive (CEO) and then Non-Executive Director, for 12 years, and we thank him for his unstinting commitment and contribution to the Society over that time.

Our Finance Director and Deputy CEO Janet Bedford was asked to step up to acting CEO in August, to cover the long-term absence of our CEO, Karl Elliott, and has remained in the role for the remainder of the year. Janet and the Senior Leadership Team have shown real commitment and resilience in adapting to their circumstances and I thank them for their efforts.

I hope we now have the worst of the pandemic behind us and can move forward with a sense of hope, optimism and positivity for the future. I would like to record my sincere thanks and gratitude to Society colleagues, for their continued diligence and commitment in challenging and ever-changing circumstances. Their contribution is critical to our success.

I would also like to thank our members and community partners for their ongoing support, and wish each of you a rewarding, happy and healthy year ahead.

Stuart Purdy
Chair

10 February 2022

Chief Executive's Review

for the year ended
31 December 2021

> "We have a meaningful role to play in building better futures for our members and the communities we serve.

2021 proved to be another year where our focus was primarily on our operational resilience, managing the impacts of the ongoing COVID-19 pandemic on our members, colleagues and community, while continuing to make commercial and financial decisions in the best interests of our members both for today and for the future.

I have continued to be extremely proud of colleagues' efforts in ensuring we maintained the excellent service and personal support that our members have come to expect from us, with our branch and customer operations remaining open throughout the year.

Clearly, the considerable scale of the issues and unique circumstances that prevailed throughout 2021 significantly challenged our plans. Nevertheless, we were able to make planned investment in critical strategic and operational resources, with new recruits in our sales, risk, lending, technology and savings teams during the year. Despite the anticipated increase in costs as a result, our continued commercial focus and prudent management generated strong financial and business performance, growing our profit before tax to our highest level in 10 years, at £756,000 (2020: £462,000). We also substantially reduced our mortgage impairment and maintained record-low arrears levels, as well as further growing our total assets to nearly £207m (2020: £200m), another record.

We were able to further insulate ourselves from market and economic volatility, again strengthening our capital reserves to their highest ever point leaving us confident that we could reasonably withstand even the most extreme of market shocks. Further details of the economic environment and our strategic and financial performance can be found in the Directors' Report on pages 8 to 13.

Economy

Fluctuating economic pressures prevailed throughout the year, with record-low interest rates and significant house price inflation running alongside constrained economic growth and rising unemployment, followed latterly by growing inflationary pressure. The economy continued to be supported by furloughing, business loans, and mortgage payment deferrals, while forecasters' fears of worsening unemployment at the conclusion of the many government interventions has yet to materialise. The year ended with a 0.15% rise in the Bank of England base rate in December, to 0.25%. While our savers will be encouraged by the prediction of long-awaited further rate rises to come, our borrowers will be mindful of the implications in terms of the rising cost of living and mortgage repayments.

The economic outlook is at best uncertain as we await the unwinding of COVID measures and the real impacts of Brexit in a re-opening economy, against a backdrop of global economic unrest, particularly in relation to inflationary pressures driven in part by rising energy prices. We continue to seek opportunity to grow and strengthen our Society, while considering those economic scenarios that may have a detrimental impact on our future business.

Operational resilience

Protecting our Society from the operational implications of the coronavirus meant we maintained a remote working model throughout most of the year, by further evolving and enhancing our technology, processes and communications, while increasing our resources, to ensure that we were able to offer the necessary essential services to our members at all times.

We anticipate a shift back to some form of normality in 2022 and look forward to having the flexibility to get colleagues working together in our offices for the benefit of our members, while continuing to add further technology and efficiency improvements to our service delivery and operational resilience.

We have learned much as a result of the challenges COVID-19 has placed upon our operating model, which is informing our future thinking and plans. However, I am delighted to have witnessed the robustness of our systems, controls, contingencies, and people in achieving what we have to date.

Lending

2021 saw fluctuating fortunes for our lending, as we found it difficult to grow new mortgage volumes, while making strong progress in reducing the risk in our legacy book through a series of disposals, redemptions and capital repayments.

Our new lending performance of just under £20 million was lower than expected, as the fast-changing dynamics of the market, away from our core strengths, meant that we found it difficult to regain our momentum and build on the strong pipeline we saw at the end of 2020. Our later-life and self-build niches were constrained by the impacts of COVID-19, while the first-time-buyer market saw mainstream lenders return with highly competitive offers to gain market share.

Recognising the changing market dynamics, we recruited our first Head of New Business Lending at the end of 2021 and added to our underwriting team while undertaking a full review of our new lending processes, our aim being to identify and efficiently serve the emerging needs of the market and build a higher-profile, even more relevant proposition for borrowers during 2022.

We again retained a very healthy 81% of loans whose mortgage schemes had come to an end, despite a number of key redemptions on higher-risk loans during the year. We also saw the benefit of capital repayments and improved valuations on some legacy properties, which meant we had to put substantially less money aside for impairments this year, compared to the previous two.

We remained fully engaged with the, thankfully, very small number of borrowers who needed to continue accessing the mortgage payment deferral schemes and/or continued to need our support during the year. Our arrears remain some of the lowest in our recent history, as we are rewarded for our prudent lending and careful management of members in financial difficulty. We are, however, mindful that the growing cost of living and potential for rising interest rates will be top-of-mind for some borrowers in the months ahead.

At the same time, we have seen a reduction in our mortgage book to £146 million, but with a very clean legacy mortgage book (over 96% residential borrowing and an average loan-to-value of just 31%). This gives us a firm foundation from which to grow our new lending in the years ahead, through planned resourcing and process and proposition improvements.

Savings

2021 continued to be challenging for savers, with historically-low interest rates continuing throughout the year. Our average savings rate remained above the market average at 0.37% and we saw new savings accounts opened, in part due to our longstanding high street presence, as Virgin Money customers migrated to us following their announced intent to close their Beverley branch.

We continued to offer fixed-rate savings for those willing to lock in for two years, which have proved a welcome alternative. Our range of accounts remained popular with both new and existing savers, and our balances grew by over £6m in the year as a result . We also benefited from the closure of a national bank branch in Beverley, with customers moving their accounts to their longstanding, local provider.

We are very conscious of the continued challenges such low interest rates present to our savers and have striven to maintain our rates, in recognition of our mutual values of providing value to members ahead of maximising profit.

Customer offer & engagement

In unique and operationally challenging circumstances, I am delighted to report that we have sustained excellent customer satisfaction and feedback, continued to maintain healthy mortgage retentions and savings customer loyalty, while again experiencing very low levels of complaints, all of which point to your Society continuing to provide members with the products and services they need in a manner that works for them.

Having invested in new lending resources in 2021, we anticipate introducing new offerings to market in 2022. We also recognise the ever-increasing role technology plays in people's lives, and we will look to utilise technology that complements our personal service and provides increased ease of access and engagement for our members.

We continued to be constrained in terms of our access to members in 2021, our AGM being held remotely and streamed virtually. Assuming no further constraints, we plan to meet and listen to members, brokers, business partners and stakeholders, in person, during 2022, so that we can better understand and respond to the needs of those we work with and serve.

Charitable Support

Our region continued to benefit from our support during 2021, as we made charitable donations to many good causes across our region. Your AGM member vote donations saw £1,000 go to the East Yorkshire Foodbank, to support their invaluable work in feeding families in need across our region at a historically-difficult time.

We have also continued to support many other important causes including the Viking Radio Cash for Kids Mission Christmas appeal and Dove House Hospice, all with the intention of making a positive difference to the lives of those living in our local communities.

We will be introducing a colleague Charity of the Year in 2022, giving sustained support and volunteering resource to a local organisation that we believe will have real impact across our community among those who need it most, while also continuing to support good causes across the communities in which our members live and work.

Strategic intent & future outlook

Nothing has changed and everything has changed since March 2020, and our first experience of lockdown. The way we view and live our lives has been disrupted and challenged like never in recent memory. Changing priorities, employment, families, home needs and the increased adoption of technology are just some of the new phenomena facing households across the UK.

What hasn't changed and indeed, for some, has been exacerbated, is the complexity of our personal lives and financial circumstances. Our strategy of Building Better Futures for our savers, borrowers, and communities, is predicated on understanding, listening, and responding to those complex needs, and helping to provide personalised outcomes that best suit individual situations. Increasingly, we are adopting technology to increase our efficiency and to simplify the processes to make that happen, but never at the expense of being there for our members.

Our strategy remains focused on our principles of helping those in the market whose needs are underserved by mainstream providers, and of giving customers the time, help and guidance they need to achieve their goals – all while supporting the localities in which they live and work.

We will continue to actively promote our individual and personal approach to lending, understanding our borrowers' individual needs and assessing each set of circumstances on their merit.

Critically, we have further developed our understanding of the challenges that climate change presents to our existing and future members. We continue to better understand and plan for the physical and transitional risks of climate change, and give this topic the time and focus it requires, as we support the drive towards a zero-carbon society.

We remain confident that our purpose and relevance to members and the wider market is strong and sustainable, and, while cognisant of the uncertainties ahead, we look forward with confidence knowing that we are increasingly well-capitalised and have a meaningful role to play in building better futures for our members and the communities we serve.

Karl Elliott
Chief Executive Officer

10 February 2022

> "We remain confident that our purpose and relevance to members and the wider market is strong and sustainable.

Board of Directors

for the year ended 31 December 2021

Stuart Purdy

Non-Executive Director, Chair

Joined the Board in November 2018. Member of the People and Culture Committee. Experienced non-Executive and Executive Director skilled in developing businesses and implementing strategic growth plans in financial services companies. Stuart leads an effective Board, promoting inclusive discussion while allocating appropriate time and ensuring all relevant information is presented to it. He also leads on the development and embedding of the Society's culture, with responsibility for the implementation and oversight of the Board's induction, training and professional development.

Mike Heenan

Non-Executive Director

Joined the Board in 2012. Chair of the Audit and Compliance Committee and member of the Risk Committee. 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.

Sue Symington

Non-Executive Director

Joined the Board in 2013. Chair of the People and Culture Committee. Member of the Risk Committee. Chartered Fellow of the Institute of Personnel and Development. Provides experience in Human Resources and Personnel Development. Sue facilitates the discharge of the functions of the Remuneration Committee and the Nominations Committee. She leads the Committee's focus on those strategic matters which relate to the employment of all colleagues in the Society, particularly in relation to Succession Planning, Reward, Learning & Development and Performance Management. The Committee provides oversight that the culture embedded in the Society is aligned to its strategy, purpose, mission, and values.

Karen Wint

Non-Executive Director

Joined the Board in February 2021. Chair of the Risk Committee. Member of the Audit and Compliance and People and Culture Committees. Karen has over 30 years' experience in the building society sector, having been responsible for technology, customer services, operational resilience, change delivery and human resources, most recently as an executive director of Leeds Building Society.

Oliver Laird

Non-Executive Director

Joined in February 2022. Member of our Audit & Compliance and Risk Committees. Oliver is an experienced chief financial officer with significant public and private sector experience, including retail financial services and time as a member of an audit committee. Currently undergoing induction with a view to becoming Chair of the Audit & Compliance Committee (subject to regulatory approval).

Karl Elliott

Chief Executive

Joined the Board in August 2017. 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.

Janet Bedford

Deputy Chief Executive and Finance Director

Joined the Board in August 2014. A Qualified Chartered Accountant with extensive experience of the financial services sector. Janet is responsible for the financial management and controls operating within the Society. This includes management of the allocation and maintenance of capital, funding and liquidity, treasury management, the integrity of the Society's financial information and its regulatory reporting, including all internal stress tests. Janet is also responsibility for the management and oversight of technology within the Society.

Mark Marsden

Risk Director

Joined the Board in November 2014. Experienced risk and compliance professional with 18 years retail lending and deposit taking experience. Mark is responsible for defining and overseeing implementation of the Society's credit and operational risk management arrangements (including as Money Laundering Reporting Officer and Data Protection Officer), and providing regular risk reports to the Board. Mark has also taken on responsibility for managing the financial risks associated with climate change.

Directors' Report

for the year ended 31 December 2021

The Directors have pleasure in presenting their Annual Report, together with the Audited Accounts and Annual Business Statement for the year ended 31 December 2021.

Business objectives and activities

The Society's business objectives and principal activities are to help families, particularly in our region, achieve affordable home ownership through the provision of mortgage finance, funded primarily 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 its experience and expertise.

Its primary financial objective is to grow and manage the business, to ensure long term sustainability.

Business Review and Results for the year

The Covid-19 pandemic has continued to impact on the UK econmy, although we are starting to see some positive signs. UK gross domestic product (GDP) is estimated to have grown by circa 7% in 2021 following the previous year's fall of nearly 10% and although many areas of the job market have recovered strongly with job vacancies currently totalling more than 1.2m, unemployment in the economy remains somewhat uneven.

Through 2021 the UK housing market has remained strong with double digit growth across much of the UK. Strong demand in the market was supported by the impact of stamp duty reductions and continued favourable interest rates. This impact has driven UK house price increases of 10.4%, with Yorkshire and Humberside recording a 10.8% rise (source: Nationwide Building Society House Price Index).

The Society recognises that the longer-term outlook for the mortgage market remains uncertain and will depend on the pace of the economic recovery, inflationary pressures, the impact on borrower confidence of planned tax rises and possible further interest rate increases by the Bank of England. An assessment of how these risks might affect the Society is included later in this section.

The UK saving market has continued to grow in 2021, largely as a result of reduced spending opportunities as well as increased appetite for holding cash savings to safeguard against unforeseen events.

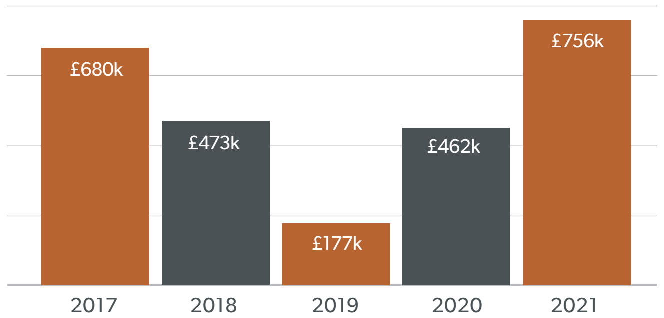
Despite a year of economic uncertainty and further lockdowns, the Society has delivered a strong set of results. Key highlights include :

- Profit before tax of £756,000, an improvement of £294,000 on prior year, driven by an improved Net Interest Margin (NIM) and reduced provisions against non-performing loans.
- The balance sheet has grown by 3%, with the Society total assets now £207m.
- Funding has increased by £6.3m, driven primarily from members in the local area.
- Whilst the Beverley's mortgage portfolio reduced by 2% in 2021 to £146m, this is partly the result of proactively managing down the legacy book to allow the Society to position itself for targeted growth in 2022.
- The Society continues to offer competitively positioned mortgage products that have resulted in the Society retaining 81% of mortgages that had come to the end of their discounted mortgage scheme period in 2021.
- The Society maintains a conservative lending policy, which is reflected in the average loan to value (LTV) ratio which has fallen for the eight-consecutive year to 31%.
- Capital continues to grow steadily helping to protect the Society in challenging economic times.

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

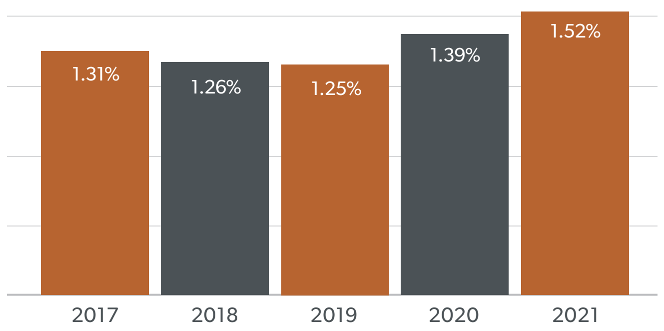


Profit before tax of £756,000 has increased by £294,000, driven by a higher net interest margin and lower provisions against non-performing loans. As shown in the graph, profitability has outperformed recent years but is expected to reduce in 2022 as recruitment and project spend picks up.

Cost have increased compared to 2020 when recruitment and project costs were deferred due to the pandemic. As 2021 opened up, the Society commenced recruitment and other projects. As a consequence the costs base has increased by £339,000. The Society monitors the cost base carefully and continues to have one of the lowest cost/mean assets ratio in the building society sector.

Impairment charges have reduced year on year. The Society has managed to minimise the number of mortgages in arrears through its lending criteria and by actively working to reduce the legacy commercial portfolio, which previously represented a disproportionate share of the provision due to its higher risk.

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



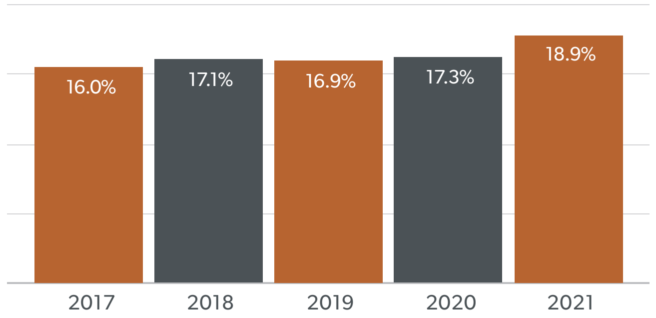
Net interest margin has increased during the year. The Society continues to focus on niche lending to maintain its interest income in a very competitive market place. The cost of funds reduced further in the year with Bank of England base rates remaining at historic lows until the 15 basis-point increase in December.

Capital

Capital is a key measure of the Society's financial strength and is primarily comprised of accumulated profit reserves. Capital supports business growth and protects the business against its principal risks. 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 substantially over the five-year horizon, due to strong profitability and reducing risk within the asset base (as measured by RWA).



The minimum regulatory capital requirement reduced in March 2021, following the latest Prudential Regulation Authority (PRA) capital review that was conducted in December 2020.

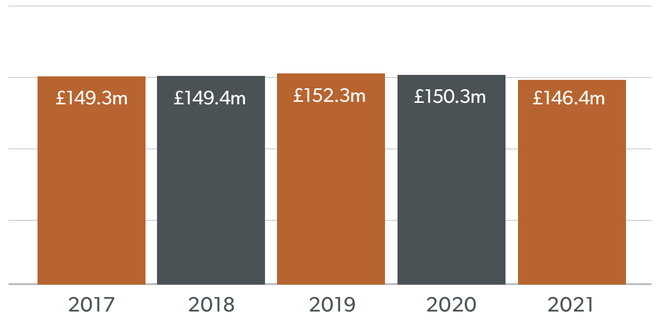
	Definition	2020	2021
Total Capital Requirement	The Society's minimum regulatory capital requirements. Presented as a percentage of RWA.	8.98%	8.00%

The Society's capital position is set out in more detail in its Pillar 3 disclosure document. The 2021 document will be available on the Society's website from April 2022.

Loans and advances to customers

During the year the Society advanced gross mortgages of £19.3m (2020: £19.9m) and retained 81% of residential mortgage schemes that had come to the end of their discounted mortgage scheme period in 2021 (2020: 81%).

Total Mortgage Balances (gross of mortgage loss provision)



At the year end there were outstanding mortgage commitments of £4.8m (2020: £9.5m).

In terms of arrears at the year end, there was 1 arrears case with a total balance outstanding of £27.9k and a total arrears balance of £3.6k (2020: 1 case with a total balance outstanding of £25.5k, and total arrears of £2.3k) where repayments were more than 12 months in arrears. As at 31 December 2021 there were 4 cases in possession or under Law of Property Act Receivership (2020: 5 cases).

The Society will continue to take all necessary steps to help borrowers in payment 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.

Directors' Report

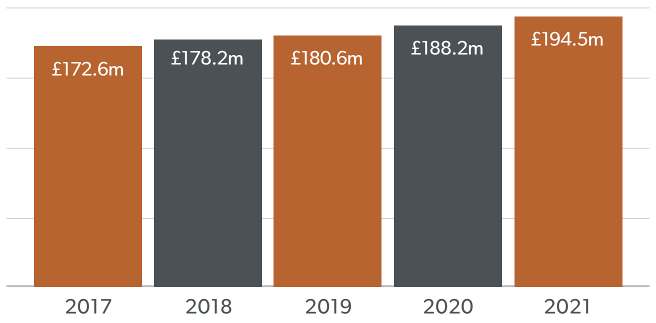
continued

Shares and borrowings

The Society offers straightforward saving products, which offer good value and transparent savings rates. In line with our values, all members are offered the same rate for the same product.

Reflecting the general trend in UK savers balances during the pandemic, the Society's shares and deposits balances grew significantly in 2021 by a total of £6.3m (2020: increase of £7.6m).

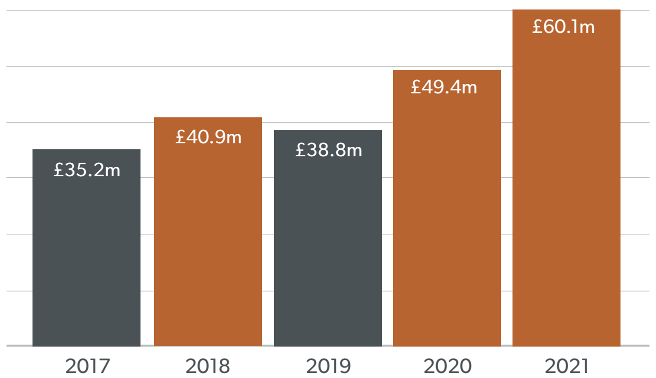
Shares and borrowings



Liquid assets

Liquid assets in the form of cash and securities at year end were £60.1m representing 30.9% of shares and borrowings, driven by the strong inflow in member funding during the year. During 2021 the Society chose to maintain above-average rates for its savers despite this strong inflow, to reward members for their continued loyalty and stay true to its purpose of providing fair and transparent rates. The Board currently invests 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.

Liquid assets



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.

	2020	2021
Liquidity Coverage Ratio	618%	1,135%

Principal risks and uncertainties

Similar to all businesses, the Society operates in an environment that contains financial risks. As a result of its normal business activities, the Society is exposed to a variety of risks, the most significant of which are conduct, operational risk, credit risk, interest rate 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 regular re-evaluation. The financial risk management objectives and policies of the Society to cover this risk are 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 relatively straight forward financial service organisation, we inevitably face challenges that present risks to the delivery of our strategic objectives. 2021 represented a second year of uncertainty due to Covid-19, creating risks and challenges to all businesses including the mutual building society sector. These risks and uncertainties, the expected impact they have and how we mitigate against them, are summarised below.

Covid-19

The Covid-19 pandemic continues to cause uncertainty. The Society has generated a profit before tax of £756k and managed its balance sheet to reduce exposure to legacy assets, however it recognises that the medium-term outlook for the UK economy and the mortgage market remains unclear. The labour market is currently more robust than may have been expected when the Government started to reduce its support measures and there is currently a high level of job vacancies. However, the potential impacts of inflation, increased bank base rates, and supply chain issues means that economic and employment forecasts are difficult to rely upon at this time - but any negative downturn could have an impact on the Society's existing and future business.

The key potential financial risks connected to Covid-19 include:

- **Elevated credit risk** driven by unemployment and business closures as the economic consequences of continuing restrictions continue to bite particular hard in sectors such as hospitality, reducing customers' ability to afford to pay their mortgages payments. Overall the Society's low LTV mortgage portfolio and customer profile, concentrated in areas such as later life lending, is well protected from credit loss. Where pockets of potential elevated credit risk exist, such as the legacy commercial mortgage portfolio, the collective provisioning has been reviewed and increased where deemed necessary.

The overwhelming majority of customers who took advantage of mortgage payment deferrals during 2020 have recommenced and maintained subsequent mortgage payments. None remain on further tailored support. Two customers took advantage of the extension to interest-only residential mortgage terms to 31 October 2021 and have not yet redeemed. Only one is at an LTV where there is potential for loss. Both are treated as impaired for the purposes of provisioning.

The credit risk implications of Covid-19 have been regularly reviewed by the Board and specifically assessed within stress scenarios undertaken within the Internal Capital Adequacy Assessment Process (ICAAP).

- **Economy** Following the decision by the Bank of England to raise Bank Base Rates by 0.15% in December with further increases signalled for 2022 there is potential for a correction in the housing market after a year of large price increases. Given the Society's size, preferred niche lending areas and a cost base lower than peers, the Directors believe it to be reasonably well placed to weather such a challenging market.

Further to potential of base rate changes affecting house price values, in recent months the risk in inflation has seen net disposable incomes fall and this will feed through to tighter mortgage affordability. The increase in Bank of England Base Rate in December 2021 – unlikely to be an isolated increase – compounds this. For existing customers this is considered to be within the stress affordability scenarios which have been applied to new mortgage applications for several years and so would not be expected to materially impact on arrears in the short to medium term.

- **Margin Pressure** In order to support the economy and encourage lending during the Covid-19 pandemic the Bank of England reduced the base rate to 0.1% in March 2020, and has injected c.£900bn of cash directly into the economy through quantitative easing. In such an environment, asset yields tend to fall, which can create margin pressure for Banks and Building Societies. The continuous fall in the average UK mortgage rate during 2021 served as evidence of this. As noted in its 2021 financial performance review, the Society with its focus on niche lending supported by personal underwriting, generates appropriately higher lending rates compared to automated, vanilla mortgage lending, which continues to help mitigate this immediate pressure. In addition, it maintains a clear, risk-based pricing policy and process, to ensure that lending remains profitable in such an environment.

- **Increased operational and compliance risks** The impact of the local and national responses to the emergence of Covid-19 in the UK during 2020 represented an unprecedented challenge to the Society's operational resilience, and many aspects have persisted throughout 2021. Throughout, all critical and important business services have been maintained while providing a safe environment for our staff and customers. During 2021 we have retained a distributed remote working model in accordance with pre-existing business continuity arrangements. Such arrangements are robust and will remain in place in some form for the foreseeable future. These changes present new challenges and operational and compliance risks which have been proactively managed and responded to proportionately.

- **Increased costs of the FSCS levy**, if financial businesses protected by the scheme fail. The Bank of England has built increased resilience in banks capital and liquidity positions to mitigate the risk of business failure. The Society nonetheless forecasts and plans for an increase in the levy in the coming years, in line with communications from the FSCS.

Negative Interest Rates

The Bank of England continues to maintain that negative base rates remain a potential policy tool to stimulate lending and growth, although the recent increase in Bank Base Rate by the Bank of England suggests that this is now less likely than earlier in the pandemic.

Small Building Societies are particularly susceptible to margin pressure in a negative interest rate environment due to their business model of deriving funding from retail customers. Experience to date has shown whilst business and wholesale funding tends to become chargeable, retail rates tend to remain positive.

Ultimately the degree of margin pressure experienced by the sector will depend on market forces, but as highlighted in the stress tests considered as part of the Society ICAAP process, the Society's low-cost base and capital position will help to protect it, if a negative Base Rate scenario were to become reality.

Liquidity

The Society has a low risk treasury model, where non call liquid assets are invested in the Bank of England Reserve account. Whilst the Society has historically high levels of liquidity, we recognise in the volatile environment, and should stand ready for sharp swings in the economy and government policy. The liquidity risk implications of Covid-19 have been regularly reviewed by the Board and specifically considered within the ILAAP process and half yearly liquidity stress tests.

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. House price risk is also a consequence of Climate Change Risk, as outlined further below.

Cyber risk

High profile cyber-attacks on both financial and non-financial services institutions have become increasingly common, particularly during the Covid-19 pandemic. Improving the levels of protection against such incidents is a priority for the Society's Board. The Society continues to progress investments in people and infrastructure to further improve its cyber resilience.

Given it is not possible for any business to be certain it can avoid a cyber-attack, the Society has taken out appropriate insurance cover, both to help cover the costs and to provide access to significant relevant expertise if such an attack were to occur.

Climate change risk

The Society recognises the ever-increasing urgency of understanding and responding to the risks associated with climate change, both in the world as a whole and the arena in which the Society operates. Building on the PRA's regulatory guidance in Supervisory Statement SS3/19 (Enhancing banks' and insurers' approaches to managing the financial risks from climate change) the Society has embedded the management of these risks within its risk management framework. This has included clarifications of key accountabilities, governance arrangement (the Risk Committee leads for the Board), inclusion in the Risk Register, the development of enhanced

Directors' Report

continued

management information and reporting, and establishment of a specific working group to engage with the entire business and facilitate implementation of climate risk reduction initiatives across the entire business.

During the year the Society commissioned a mortgage portfolio climate risk assessment from Landmark, a market leader in the provision of climate-related credit risk analysis and modelling. This for the first time quantified the financial risks associated, with a range of scenarios, from both physical perils (flooding, sea level rise, subsidence) and the transitional risk of likely government policy action to require improvements to property Energy Performance Certificate (EPC) ratings. This highlighted that while the low average LTV of the loan book provides considerable protection from losses associated with physical perils (and well within the bounds of existing credit risk stress tests informing our assessment of capital requirements), the most material risk is associated with the potential early policy intervention to require EPC improvement in short time, for example expanding the approach to Minimum Energy Efficiency Standards (MEES) currently being applied to private rented property through the MEES Regulations to the owner occupied arena. These findings are now influencing the Board's strategic discussions and the evolution of the Society's Lending Policy.

It is also recognised that the combined impact of new 'green' taxes and mandatory obligations (not necessarily limited to EPC targets) on householders to reduce domestic carbon footprints could also place pressure on mortgage affordability and/ or require the drawing down of savings balances to fund capital outlays. The Society will, of course, welcome applications for affordable further advances to fund such capital outlays.

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 COVID-19 and the latest economic forecasts.

The Society, in common with most financial institutions, undertakes stress testing on its capital and liquidity forecasts, taking account of the key and emerging risks. Results indicate the Society has sufficient capital and liquidity to be able to continue in business, even under the stressed scenarios including those involving COVID -19.

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

Post Balance Sheet Events

There have been no material balance sheet events identified after the year end date.

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 2021, amounts due to relevant creditors of the Society were paid on average within 10 days (2020: 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) Stuart Edward Purdy retires by rotation and being eligible offers himself for re-election.

Oliver Walter Laird was appointed as a Director on 10 February 2022. In accordance with Rule 25(4) Oliver Walter Laird retires and being eligible offers himself for election.

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

Terms of Reference

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

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

Independent auditors

PricewaterhouseCoopers LLP ("PwC") were appointed as external Auditors to the Society at the Annual General Meeting in April 2020. PwC have indicated their willingness to continue in office and a resolution to reappoint PwC as external auditors will be proposed at the annual general meeting of the Society.

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 auditors are 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 auditors are aware of that information.

On behalf of the board of directors

Stuart Purdy
Chair

10 February 2022

Financial Risk Management Report

for the year ended 31 December 2021

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. 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.

Details of the Society's Basel III 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.

Credit Risk – Mortgages

Credit risk is the risk of losses arising from a borrower or counterparty failing to meet its obligations as they fall due.

The effectiveness of systems and controls for the management of credit risk is monitored by the Risk Committee.

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

The Society lends only on property in England and Wales. All new lending is prime residential to owner occupiers, although the Society does retain some reducing 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 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 aim to support customers achieve positive outcomes 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 31 December 2021 there were 4 (2020: 5) loan accounts where the securities were in possession or under Law of Property Act Receivership, with a balance outstanding of £1,536k (2020: £1,621k). These securities are let to generate an income stream and marketed for sale as they become vacant. These accounts attract a specific impairment provision of £527k (2020: £401k). This change in provision is primarily driven by continued deterioration of commercial property values, as well as a change in the Society's intentions with regards to holding these properties in the medium term. Where in previous years 3 of the properties in possession were impaired on a medium-term hold basis, as at 31 December 2021 all properties were impaired on an immediate sale basis as all properties are now actively marketed. All properties in possession are legacy exposures taken into possession/receivership in 2010/2011 in the aftermath of the last major financial crisis.

At the year end there were 27 (2020: 17) accounts where forbearance measures were currently exercised; the balance of these accounts amounted to £4.56m (2020: 2.90m), or 3.11% (2020: 1.95%) of mortgage balances. There is £25k (2020: £76k) provision held against forborne accounts, the majority of balances do not require provision due to the low loan-to-values on these properties. The average LTV of the properties under forbearance as at 31 December 2021 was 37.9% (2020: 51.3%).

As noted previously the Society has a low average LTV mortgage portfolio however it does retain a small (<5% of total) legacy commercial (i.e., mortgages fully secured on land) lending portfolio. Such exposures continue to be carefully managed as they run off, and where appropriate provisions are in place to cover losses. Further details around the composition of the mortgage portfolio and its mortgage provisioning are included in notes 9 and 10 of the accounts.

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. Currently all liquid assets are held with the Bank of England or on call with a clearing bank, to minimise as far as possible, credit risk from liquidity counterparties.

Liquidity risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due.

The Society's main liabilities are its retail savings products. The objective of the Society's liquidity risk management policy is to help smooth mismatches between maturing assets and liabilities, thereby maintaining public confidence in the solvency of the Society. As noted above the Society's liquid funds are either deposited with the Bank of England or in call accounts with the Society's clearing banks, all of which allow same day access to funds.

Liquidity risk is managed principally by holding an appropriate level of high quality, easily realisable liquid assets. 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 2021 the Society held £60.1m (2020: £49.4m) of liquid assets, representing 30.9% (2020: 26.2%) 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 ILAAP.

Interest rate risk

Interest rate risk in the banking book is the risk of losses arising from a change in interest rates.

The Society entered the fixed rate lending market during 2020 with a two-year product which it matches against a fixed bond of the same duration. Interest rate risk is created if the products are not sufficiently matched. The Board determines its risk appetite for interest rate risk as part of the ICAAP process based on stress tests. The fixed rate portfolios are currently small (<£5m on either side of the balance sheet), therefore interest rate risk remains limited for the Society. The Society reviews its matching position on both live and pipeline products basis at least monthly.

Basis Risk

Basis risk is the risk of loss arising from assets and liabilities repricing on different interest rate bases.

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.
- Fixed rate assets and liabilities.

Basis risk is assessed monthly against the Board's agreed risk appetite, based on both actual and forecast data.

The interest rate sensitivity of the Society as at 31 December 2021 is detailed in note 21 to the accounts.

Climate Change Risk

Climate change risks are a combination of:

Physical Risk: the risk of the Society being impacted by climate related events, such as heatwaves, droughts, floods, storms, and sea level rises. These have the potential to lead to financial losses, impaired asset values and reduced creditworthiness of borrowers, and;

Transition Risk: the risks arising from the process of adjustment towards a low-carbon economy. Changes in public policy, technology and consumer sentiment could require reassessment of the value of a assets and/or change credit exposures. At present. the Society considers government poicty initiatives in relation to housing Energy Performance Certificate (EPC) ratings to be the most material.

The potential physical risks associated from climate change have been assessed via modelling by an independent third party (Landmark). Based on a High Emissions Scenario ('RCP 8.5') and modelling to 2060 this suggests that:

- The Society has a slightly above average exposure to securities in flood risk areas
- The Society has a lower that average exposure to securities in coastal flood and coastal erosion, and to subsidence risk areas

This reflects the concentration of mortgage lending in Yorkshire and the Humber.

However, when taking into account the low LTV of the portfolio the modelling suggests that the potential losses under this scenario are significantly less that arise from severe economic downturns previously modelled and considered in the ICAAP.

The potential transition risk arising from mandatory EPC remediation policies requiring capital investment and potentially 'blighting' low EPC rated securities has also been modelled by Landmark. While the modelling required some informed estimates in the absence of available EPC Ratings for 47% of the Society's mortgage securities, it does suggest that the Society has an above average exposure to properties rated EPC F or G. Landmark modelled the potential impact of mandatory upgrading of properties to EPC E, EPC C and to their maximum potential. As for physical risk, the Society is significantly protected by the low average LTV of its mortgage book. While the potential losses in these situations are significantly higher than from physical risks, they remain significantly less than those that arise from severe economic downturns previously modelled and considered in the ICAAP.

The Board recognises that the conclusions of these analyses are critically dependent on the LTV profile and will ensure that this is appropriately considered in new lending plans.

The Society has only a small exposure to securities used for commercial purposes and none of these are considered to be businesses with particular exposure to transition risks.

Directors’ Remuneration Report

for the year ended 31 December 2021

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 (‘NEDs’) and senior management.

Non-Executive Directors’ remuneration

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

Executive Directors’ remuneration

The main components of the Executive Directors’ remuneration are:

Basic salary

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

Pensions

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

Other benefits

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

Bonus scheme

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

Contractual Terms

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

The Procedure for Determining Remuneration

Code Principle:

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 three Non-Executive Directors and the Chief Executive. The Chief Executive takes no part in the determination of their 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	2021	2020
	£000	£000
For services as a Director	107	104
For executive services	398	382
Total	505	486

Emoluments of the Society’s Directors are listed below	2021	2020
	£000	£000
S Purdy (Chair of the Board)	27	27
R A Pattinson (Former Senior Independent Director, former Chair of the Risk Committee)	14	19
M R Cocker (Former Chair of the Audit and Compliance Committee)	-	4
M R Heenan (Chair of the Audit and Compliance Committee)	18	17
S A Symington (Senior Independent Director, Chair of the People & Culture Committee)	17	17
E Morley (former Chair of the Risk Committee)	15	20
K R Wint (Chair of the Risk Committee)	16	-
Total	107	104

	Salary	Benefits	Pension	Total
	£000	£000	£000	£000
For executive services				
2021				
K J D Elliott (Note 1)	169	1	-	170
J E Bedford	117	1	12	130
M Marsden	88	1	9	98
Total	374	3	21	398
2020				
K J D Elliott (Note 1)	165	1	-	166
J E Bedford	109	1	10	120
M Marsden	86	1	9	96
Total	360	3	19	382

Note 1: Included in the 2021 salary of K J D Elliott is £19k which represents cash payments in lieu of pension and car benefit (2021: £19k).

S A Symington
Chair of the People & Culture Committee
10 February 2022

Corporate Governance Report

for the year ended 31 December 2021

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. Increasingly this includes the effective management of the financial risks associated with climate change.

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.

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

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

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

Audit and Compliance Committee

The Committee, chaired by Mike Heenan, 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 the other member of the Committee is Karen Wint.

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 Stuart Purdy (Board Chair), Karen Wint, and Karl Ellliot (Chief Executive). Further details can be found in the Directors' Remuneration Report, above.

Risk Committee

The Risk Committee, chaired by Karen Wint, 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 Mike Heenan and Sue Symington.

Board and Committee membership attendance record

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

	Board	Audit Compliance	People & Culture	Risk
S E Purdy	7 (7)		5 (5)	
K R Wint	7 (7)	4 (4)	5 (5)	1 (1)
R A Pattinson*	6 (6)	3 (3)		4 (4)
M R Heenan	6 (7)	4 (5)		4 (5)
S A Symington	6 (7)		5 (5)	4 (5)
E E Morley^	6 (6)	3 (3)		4 (4)
K J D Elliott	6 (7)			
J E Bedford	6 (7)			
M Marsden	7 (7)			

* R A Pattinson retired from the Board on 30 September 2021

^ E E Morley resigned from the Board on 30 September 2021

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 Management Information 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, supported by an appropriately experienced contractor.

Dialogue with Shareholders

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)

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. For the financial year ending 31 December 2021 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.

Board Comment:

The Society Board is structured as follows:

The Chair

The Chair 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 the current Chair 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.

Corporate Governance Report

continued

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 Chair and an alternative route for communication from members and staff. Their main responsibilities are to carry out the appraisal of the Chair and to chair meetings when the Chair 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 Chair's performance is reviewed without the Chair's attendance.

The Composition of the Board

At 31 December 2021 the Board consisted of three Executive Directors and four 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, although some flexibility is allowed where there is demonstrably continued independence of thought and action, and it is considered to be in the best interests of the Society.

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 2021 a search for an additional non-executive took place with the assistance of Elevation Recruitment. This Agency has no other connection with the Society. This recruitment process is led by the Chair of the People & Culture Committee, and led to the appointment of Oliver Walter Laird to the Board in early 2022

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 Chair each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 18, and Board members' significant other commitments are set out in the Annual Business Statement, below.

Development

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 Chair 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 Chair 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 Chair 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 thereafter. All new Non-Executive Directors appointed to the Board will not normally 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, Risk and Internal Control

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 auditors. 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 2021.

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 currently comprising two 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 22. 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

Code Principle:

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.

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

Stuart Purdy
Chair

10 February 2022

Annual Report of the Audit & Compliance Committee

for the year ended 31 December 2021

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.

Under normal circumstances, the Committee comprises of three independent non-executive directors. As at 31 December 2021, the Committee Chair is Mike Heenan and the other Committee member is Karen Wint. It is intended that Oliver Laird will be appointed as the Committee's third member once his appointment to the Board has been finalised. 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 has extensive experience of the Society's operations and legacy exposures.

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 and Accounts;
- Reviewing the draft management representation letters requested by the external auditors; 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 a Compliance Report presented by the Risk Director and, where necessary, challenging that report;
- Considering and recommending to the Board for approval a number of policies as per a schedule approved by the Board; and
- 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

- Conducting the tender process and 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 auditors' management letter and management responses thereto; and
- Considering the remuneration and performance of the external auditors.

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 2021 have 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 continue to reflect Covid-19, 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 auditors. 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 recognizing 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.

In 2019 the Audit Chair conducted the tender process and made the recommendation to the Board to appoint PwC as the Society's external auditors. Both the Society and PwC 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 auditors including the non-audit services that the external auditors 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 PwC in 2021.

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

During 2021, the Committee met with PwC regularly without management presence.

Internal Audit

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

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

The Committee reviewed, challenged and approved the proposed Internal Audit plan and budget for 2021. Internal Audit completed 4 engagements during the year and made 16 findings. These findings have been or are being addressed by management with realistic resolution dates.

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 2021. 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.

Mike Heenan
Chair of the Audit and Compliance Committee
10 February 2022

Statement of Directors' Responsibilities

Directors' Responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts.

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

The Building Societies Act 1986 (the Act) requires the directors to prepare annual accounts for each financial year. Under that law the directors have prepared the annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under the Act, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period.In preparing these Annual Accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable United Kingdom Accounting Standards, comprising FRS102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

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

Directors' Responsibilities for Accounting Records and Internal Control

The directors are responsible for ensuring that the Society:

- Keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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 FCA and PRA under the Financial Services and Markets Act 2000.

The directors are responsible for such internal controls as they determine are necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and they 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 United Kingdom governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

On behalf of the Board,

Stuart Purdy
Chair

10 February 2022

Independent auditors' report to the members of Beverley Building Society

Report on the audit of the annual accounts

Opinion

In our opinion:

- Beverley Building Society's annual accounts (the "annual accounts") give a true and fair view of the state of the society's affairs as at 31 December 2021 and of the society's income and expenditure and cash flows for the year then ended;
- the annual accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the annual accounts have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Income Statement and Statement of Other Comprehensive Income, the Statement of Cash Flows, and the Statement of Changes in Members' Interest for the year then ended; and the notes to the annual accounts, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the society.

We have provided no non-audit services to the society in the period from 1 January 2021 to 31 December 2021.

Our audit approach

Overview

Materiality	• £120,000 (2020: £115,000) - Society annual accounts • Based on 1% of total reserves attributable to members.
Scoping	• We conducted our audit using a combined audit team from Leeds and Manchester; and • We perform audit procedures over all material account balances and financial information of the Society.
Key audit matters	• Impairment of loans and advances to customers.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the annual accounts section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the society and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as the Building Societies Act 1986, UK tax legislation and the Prudential Regulation Authority's regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed included:

- Review of correspondence with and to the regulators;
- Testing of significant accounting estimates (See key audit matter below);
- Testing of journal entries which contained unusual account combinations and other specific risk based criteria back to corroborating evidence;
- Discussions with management in relation to known or suspected incidents of non-compliance with laws and regulation and fraud; and
- Review of internal audit reports in so far as they related to the annual accounts.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Covid-19, which was a key audit matter last year, is no longer included because we deem our consideration of this area in the current year to be adequately captured by our other key audit matter and not represent an area of increased audit attention in its own right. The freehold head office/branch valuation, which was a key audit matter last year, is no longer included because we consider the current year's valuation not being subject to the same level of uncertainty as existed in the prior year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	*How our audit addressed the key audit matter*
Impairment provision for loans and advances to customers The Society holds an impairment provision of £755k (2020: £771k) to account for incurred impairment losses on the mortgage books. This is split between a collective provision of £141k (2020: £140k) to account for losses where an impairment indicator has not yet been identified and a specific provision of £614k (2020: £631k) to cover losses on loans where impairment indicators have been observed.	We discussed the basis of the allowance for impairment with management and the Audit Committee, including the rationale for the accounts identified within the specific provision. We challenged the conceptual soundness of the methodology and used our experience within the industry to consider impairment indicators seen within the wider industry, including the impact of Covid-19, and their applicability to the Society's portfolio. We also considered The collective provision is derived from the Society's

Key audit matter	*How our audit addressed the key audit matter*
historical arrears experience, modelled credit risk characteristics and expected cash flows. The specific provision is assessed by reference to loans that are aged past due three or more months in arrears, that have been repossessed by the Society or experienced other, non arrears impairment indicators. The highest degree of estimation uncertainty is considered to relate to the incomplete capturing of specific provision indicators, the probability of default for specific impairment cases and the valuation of properties in possession. The assumptions used in the modelling are subject to a high degree of judgement resulting from limited experience of loan losses being previously incurred and the risk of there being unobserved impairments within the collective mortgages. The directors' disclosures are given in note 10. Management's associated accounting policies are given on page 36. Management's judgements in the application of the accounting policy and critical estimates is disclosed on page 38. The Audit Committee's consideration of the matter is described on pages 22 to 24.	the potential impacts of climate change on the portfolio and the potential for impairment as a result. We tested the completeness of the individually assessed provision by selecting a sample of loans under forbearance, arrears or other non-arrears indicators and ensuring their inclusion within the provision. With regards to the probability of default assumptions within the specific provision models we understood, evaluated and challenged the appropriateness of these assumptions by considering industry data, sensitivity to changes and the actual loss experience of the Society. We have reviewed the reasonableness of the valuations of properties in possession by reviewing third party valuations (where available), market data and recent sales. We have evaluated the adequacy of the disclosure of estimation uncertainty relating to impairment of loans and advances to customers. Based on the procedures we performed and the evidence obtained we concluded that the calculation of the impairment provision is materially complete and accurate, and the overall level of provision held is reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the structure of the society, the accounting processes and controls, and the industry in which it operates.

All the Society's activities take place in the United Kingdom. The principal activity of the Society is the provision of savings products to individuals to fund secured lending on residential property to support home ownership. 96% of the Society's mortgage book is secured on UK residential property with the remainder secured on UK commercial properties. The Society is a stand-alone entity and the accounting records for the Society are maintained at its head office in Beverley.

Audit procedures were performed over all material account balances and financial information of the Society by a combined audit team from Leeds and Manchester. The audit procedures performed provided us with sufficient audit evidence as a basis for our opinion on the annual accounts as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the annual accounts as a whole.

Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	£120,000 (2020: £115,000).
How we determined it	1% of total reserves attributable to members
Rationale for benchmark applied	The Society's principal activity is to provide residential mortgage loans financed by retail savings products. The strategy is not one purely of profit maximisation but to provide a secure place for customer savings in a mutual environment. The soundness of the Society is based on its regulatory capital, which is closely aligned to accounting reserves. As such we consider a benchmark based on reserves to be appropriate.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £90,000 (2020: £86,000).

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6,000 (2020: £6,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the society's ability to continue to adopt the going concern basis of accounting included:

- We critically assessed the directors' conclusions on their going concern assessment, including consideration of the impact of Covid-19 on the annual accounts.
- We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts. We considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress.
- We challenged the reasonableness of the scenarios used by the directors in their going concern assessment and checked the appropriateness of the assumptions used within their forecasting.
- We evaluated management's disclosures in the Annual Report and checked the consistency of the disclosures with our knowledge of the Society based on our audit.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the society's ability to continue as a going concern for a period of at least twelve months from the date on which the annual accounts are authorised for issue.

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Building Societies Act 1986 – Opinion on Annual Business Statement and Directors' Report

In our opinion, based on our work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 December 2021 is consistent with the accounting records and the annual accounts; and

In light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

Responsibilities for the annual accounts and the audit

Responsibilities of the directors for the annual accounts

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the annual accounts, the directors are responsible for 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 the directors either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the annual accounts

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Building Societies Act 1986 exception reporting

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 society 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 no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 28 April 2020 to audit the annual accounts for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2020 to 31 December 2021.

James Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
10 February 2022

Income Statement

for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Interest receivable and similar income	2	3,852	3,961
Interest payable and similar charges	3	(696)	(1,232)
Net interest income		3,156	2,729
Other operating income		51	56
Net operating income		3,207	2,785
Administrative expenses	4	(2,276)	(1,937)
Depreciation and amortisation	12,13	(88)	(101)
Operating charges		(27)	(27)
		816	720
Impairment provision for loans and advances	10	(56)	(262)
FSCS Levy	19	(4)	4
Profit on ordinary activities before tax		756	462
Tax on profit on ordinary activities	7	(146)	(97)
Profit for the financial year	20	610	365

Statement of Other Comprehensive Income

for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Profit for the financial year		610	365
Other comprehensive income			
Revaluation of freehold land and buildings	20	(83)	(159)
Total comprehensive income for the year		527	206

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 other comprehensive income/(expense) 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 increased by £340 and profit before tax decreased by £340 (2020: profit before tax increased by £2,577).

Statement of Financial Position

for the year ended 31 December 2021

Assets	Notes	£000	2021 £000	£000	2020 £000
Liquid assets					
Cash in hand and balances with the Bank of England	8	51,811		40,802	
Loans and advances to credit institutions	8	8,276		8,589	
Total liquid assets			60,087		49,391
Loans and advances to customers	9	145,680		149,501	
Prepayments and accrued income	14	74		70	
Investments	11	89		89	
Tangible fixed assets	12	853		859	
Intangible fixed assets	13	47		100	
Total assets			206,830		200,010

Liabilities	Notes	£000	2021 £000	£000	2020 £000
Shares	15	179,560		170,333	
Amounts owed to other customers	16	14,904		17,915	
Total shares and borrowings			194,464		188,248
Other liabilities	17	157		88	
Accruals and deferred income	18	195		176	
Provisions for liabilities	19	11		22	
Total liabilities			194,827		188,534
Reserves					
Revaluation reserve	20	329		412	
General reserve	20	11,674		11,064	
Total reserves attributable to members			12,003		11,476
Total liabilities and reserves			206,830		200,010

The Notes to the Accounts, below, form part of these accounts.
Approved by the Board of Directors on 10 February 2022 and signed on its behalf by:

S E Purdy **Chair**

K Elliott **Chief Executive**

J E Bedford **Deputy Chief Executive**

Statement of Changes in Members' Interests

for the year ended 31 December 2021

2021	General Reserve £000	Revaluation Reserve £000	Total £000
Balance as at 1 January	11,064	412	11,476
Total comprehensive income for the year			
Profit for the year	610	-	610
Other Comprehensive Income/Expense	-	(83)	(83)
Balance as at 31 December	11,674	329	12,003

2020	General Reserve £000	Revaluation Reserve £000	Total £000
Balance as at 1 January	10,699	571	11,270
Total comprehensive income for the year			
Profit for the year	365	-	365
Other Comprehensive Income/Expense	-	(159)	(159)
Balance as at 31 December	11,064	412	11,476

Statement of Cash Flows

for the year ended 31 December 2021

	2021 £000	2020 £000
Cash flows from operating activities		
Profit on ordinary activities before taxation	756	462
Depreciation and Amortization	88	101
Increase in provision for impairment	(16)	238
Bad debt provision expense	-	32
Total	828	833
Changes in operating assets and liabilities		
Decrease/(Increase) in prepayments and accrued income	(4)	176
Net increase in shares	9,244	6,039
Net increase/(decrease) in amounts owed to credit institutions and other customers	(3,011)	1,637
Net (Decrease) in accruals and deferred income	(15)	(11)
Taxation paid	(89)	(34)
Net (increase)/ decrease in loans and advances to customers	3,854	2,032
Net cash inflow/(outflow) from operating activities	9,979	9,839
Cash flows		
Purchase of tangible and intangible assets	(111)	(94)
Net cash inflow/(outflow) from investing activities	(111)	(94)
Net increase/(decrease) in cash and cash equivalents	10,696	10,578
Cash and cash equivalents at the beginning of the year	49,391	38,813
Cash and cash equivalents at the end of the year	60,087	49,391
Net Movement	10,696	10,578

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

Notes to the Accounts

for the year ended 31 December 2021

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. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

1.5 Financial Instruments

The Society's financial instruments consist of financial assets, principally liquid assets and loans and advances to customers (mortgages) and financial liabilities, principally shares and borrowings (customer deposits).

Recognition

The Society initially recognises loans and advances and deposits on the date on which they are originated.

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. Additionally, the Society will consider the requirement of a specific provision for loans that re not in arrears but have other impairment triggers. 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, an individual impairment assessment will be performed. 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.

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 Tangible fixed assets

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

Freehold buildings are stated at valuation, and 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 Intangible assets

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

1.9 Leases

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

1.10 Pension costs

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

1.11 Segmental reporting

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

1.12 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks, and the balance of the Society's reserve account held with the Bank of England.

1.13 Provision for liabilities

A provision is recognised in the balance sheet when the Society has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.14 Going Concern

As noted in the Director Report, as part of the Society's forward planning process, the Directors have considered forecasts showing the Society's capital, liquidity and financial position for the next 15 months under normal operating conditions. They have also considered the potential effect on the Society's business, financial position, capital and liquidity under stressed operating conditions. Furthermore, the Directors have considered the potential impact of Climate Change Risk based on the output from the latest ICAAP, and the Climate Change Risk analysis performed by Landmark. The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, the Accounts continue to be prepared on the going concern basis.

Notes to the Accounts

for the year ended 31 December 2021

1.15 Significant accounting estimates and judgements

Application of certain Society accounting policies requires management to make judgements, assumptions and estimates concerning future events which affect the reported amounts of assets and liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are evaluated regularly and are based on the Society's own historical experience and other factors including market-wide benchmark data. Revisions to accounting estimates are recognised in the period in which these estimates are revised, and in any future periods affected.

Provisioning 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 s ale of properties in possession.

- **Probability of default**

  In terms of the sensitivity, if the probability of default increased by 10% on both performing and provided mortgages, the estimated impact on the impairment provision would be an increase of £23,000 (2020: £32,000), with a corresponding charge to the Income Statement. A 10% increase would mean a 30% probability of default, for example, would be uplifted to 33%.

- **Security value**

  In terms of the sensitivity, a 5% increase in the securities value on both performing and provided mortgages, would result in a decrease in the impairment provision of £83,000 (2020: £109,000). Conversely a 5% decrease would result in an increase of £86,000 (2020: £112,000)

- **Properties in possession - held into the longer term**

  As at 31 December 2021, there are no (2020: 2) commercial properties held which are not expected to be sold in the short term. The Society now intends to sell these properties in the near future and this has resulted in an increased impairment provision in the year. As at 31 December 2020, there was an impairment differential between the immediate sale and the cashflow forecast assessment of £143,000. Due to the change in intention noted above, this difference is £nil as at 31 December 2021.

Valuation of Freehold Premise

As noted in the accounting policy, the freehold buildings are stated at valuation. A revaluation is carried out at least every two years by an independent valuer. Given the continued Covid environment and the well documented impact on commercial property valuations (especially those with a retail designation), the Society obtained a further valuation in the final months of 2021 from an independent valuer with significant knowledge of the local retail market, in order to ensure the valuation was up to date and reflective of the current environment.

If the building valuation was to reduce by a further 10%, the estimated impact is that fixed assets and the revaluation reserve would be reduced by a further circa £80,000. The reduction in the revaluation reserve would cause capital and other comprehensive income to also fall by £80,000.

2. Interest receivable and similar income

	2021 £000	2020 £000
On loans fully secured on residential property	3,696	3,749
On other loans	108	124
On other liquid assets	48	88
Total	3,852	3,961

Included within interest receivable on loans fully secured on residential property is £157,000 (2020:£197,000) in respect of interest income on loans that are specifically provided for (see note 10).

Included within interest receivable on other loans fully secured on land is £7,000 (2020: £11,000) in respect of income on loans and advances that are specifically provided for (see note 10).

3. Interest payable and similar charges

	2021 £000	2020 £000
On shares held by individuals	664	1,190
On deposits and other borrowings	32	42
Total	696	1,232

4. Administrative expenses

	2021 £000	2020 £000
Staff costs (note 5)	1,253	1,065
Other administrative expenses	1,023	872
Total	2,276	1,937
Included in other administrative expenses are:		
Remuneration of auditors		
Audit of these financial statements (1)	88	94
Taxation compliance services	-	-
All other services	-	-

The remuneration of the auditors reflects amounts payable to PwC LLP (2020:PwC LLP) for audit of these financial statements.

(1): These figures are presented exclusive of VAT.

Notes to the Accounts

continued

5. Staff numbers and costs

	2021 Number	2020 Number
The average number of persons employed by the Society (including the executive directors) during the year was as follows:		
Full time	21	17
Part time	9	9
Total	30	26

	2021 £000	2020 £000
The aggregate cost of these persons was as follows:		
Wages and salaries	1,056	906
Social security costs	111	100
Other pension costs	86	59
Total	1,253	1,065

The Society operates a group personal pension scheme (a defined contribution scheme) of which 28 employees are members.

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

6. Directors

Remuneration

Total remuneration of the Society's Directors for the year was £505,000 (2020: £486,000).

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 2021 there were 0 (2020: 0) outstanding mortgage loans granted in the ordinary course of business to a Director and their connected persons, amounting in aggregate to £0 (2020: £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 2021 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

	2021 £000	2020 £000
The tax charge for the year comprises:		
Corporation tax on profits for the period	157	87
Adjustment in respect of prior periods	-	-
Total current tax	157	87
Deferred taxation (note 20)		
Adjustment in respect of prior periods	-	3
Origination and reversal of timing differences	(14)	5
Effect of tax rate change	3	2
Total deferred tax	(11)	10
Total corporation tax	146	97
Reconciliation of tax on profit on ordinary activities		
Profit on ordinary activities before tax	756	462
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	144	88
Expenses not deductible	1	4
Income not taxable	(1)	-
Adjustment in respect of prior periods	(1)	3
Effect of tax rate change	3	2
Tax Charge for the Period	146	97

Notes to the Accounts

continued

8. Loans and advances to credit institutions

	2021 £000	2020 £000
Loans and advances to credit institutions have maturities as follows:		
On demand	8,276	8,589
In not more than three months	-	-
In more than three months but not more than one year	-	-
	8,276	8,589
Accrued interest	-	-
Total	8,276	8,589

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

Credit Quality	Description	2021 £000	%	2020 £000	%
AA	Bank of England Reserve	51,751	86.1%	40,703	82.4%
Unrated	Cash in hand	60	0.1%	99	0.2%
Bank of England and Cash		51,811	86.2%	40,802	82.6%
A+	Operational accounts with Barclays Bank plc	2,024	3.4%	1,877	3.8%
A+	Operational bank accounts with NatWest Bank plc	6,252	10.4%	6,712	13.6%
Loans and advances to credit institutions		8,276	13.8%	8,589	17.4%
Total Liquid Assets		60,087	100.0	49,391	100.0

9. Loans and advances to customers

	2021 £000	2020 £000
Loans fully secured on residential property	140,028	143,470
Loans fully secured on land	5,652	6,031
Total	145,680	149,501

Maturity analysis

	2021 £000	2020 £000
The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:		
Repayable on demand	1,674	1,968
In not more than three months	921	1,219
In more than three months but not more than one year	6,286	4,064
In more than one year but not more than five years	28,757	29,864
In more than five years	108,844	113,205
	146,482	150,320
Less: Provisions (note 10)	(755)	(771)
Less: Net EIR liability	(47)	(48)
Total	145,680	149,501

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.

	2021	2020
Average LTV	30.8%	33.8%

Notes to the Accounts

continued

9. Loans and advances to customers

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

	2021 £000	%	2020 £000	%
East Anglia	1,967	1.3	1,782	1.2
East Midlands	7,272	5.0	7,419	4.9
Greater London	5,845	4.0	5,530	3.7
North	2,332	1.6	2,523	1.7
North West	5,756	3.9	6,087	4.1
Outer Metropolitan Area	5,855	4.0	5,472	3.6
South East	8,134	5.6	7,723	5.1
South West	9,303	6.4	9,482	6.3
Wales	3,202	2.2	3,161	2.1
West Midlands	5,772	3.9	5,797	3.9
Yorkshire and Humberside	91,044	62.1	95,344	63.4
Total	146,482	100.0	150,320	100.0

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

	2021 £000	%	2020 £000	%
Not impaired				
Neither past due or impaired	142,772	97.5	144,094	95.8
Past due but not impaired	821	0.6	1,099	0.8
Impaired				
Not past due but impaired	880	0.6	3,049	2.0
Past due	473	0.3	353	0.2
Possessions	1,536	1.0	1,725	1.2
Total loans and advances to customers	146,482	100.0	150,320	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 given the low LTV of the mortgage.

Not past due but impaired – relates to specific mortgages which are up to date, however a specific impairment has been made against the asset due to case-specific impairment triggers.

10. Impairment provision for loans and advances

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 1 January 2021			
Collective provision	38	102	140
Specific provision	510	121	631
Total	548	223	771
Specific provision - utilised in year	-	(72)	(72)
Charge for the year			
Collective provision	(21)	22	1
Specific provision	38	17	55
Total	17	39	56
At 31 December 2021			
Collective provision	17	124	141
Specific provision	548	66	614
Total	565	190	755

As noted in more detail on page 10, impairment provisions have been assessed in the light of Covid -19.

Notes to the Accounts

continued

10. Impairment provision for loans and advances

Comparative position at 31 December 2020	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 1 January 2020			
Collective provision	62	69	131
Specific provision	154	248	402
Total	216	317	533
Specific provision- utilised in year	(24)	-	(24)
Charge for the year			
Collective provision	(24)	33	9
Specific provision	216	37	253
Reclassification	164	(164)	-
Total	356	(94)	262
At 31 December 2020			
Collective provision	38	102	140
Specific provision	510	121	631
Total	548	223	771

Reclassification: In 2020, a provision at a value of £164,000 was reclassified from other loans fully secured on land to loans fully secured on residential property, given management believes this better reflects the categorisation of the underlying mortgage.

11. Investments

	2021 £000	2020 £000
Cost and net book value		
Shares in participating interests	89	89
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	2021 11.83% 2020 11.83%

Mutual Vision is an unlisted company originally formed by a consortium of Building Societies to acquire the trade of their existing computer software supplier. The company's purpose is to provide critical platform infrastructure to its shareholders and mutual customers.

At 31 December 2019, Mutual Vision Technologies Ltd held a loan from the Society at a value of £82,000. The loan bore interest at a Bank of England base rate plus 1%, subject to a minimum interest rate of 1.5% per annum.

On 1 January 2020, as part of the new shareholder agreement, all Mutual Vision loan capital provided by its shareholders were converted into 1p ordinary shares at a value of 24.757p, totalling £82,000. This conversion did not lead to a change in the level of the Society's investment in Mutual Vision Technologies Ltd, but given it had invested proportionally less in the form of loan capital than other shareholders, its percentage holding in the company reduced from 13.20% to 11.83%.

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

Notes to the Accounts

continued

12. Tangible fixed assets

	Freehold buildings £000	Office furniture and computer equipment £000	Total £000
Cost			
At 1 January 2021	800	345	1,145
Additions	101	10	111
Disposals	-	-	-
Revaluation	(101)	-	(101)
At 31 December 2021	800	355	1,155
Depreciation			
At 1 January 2021	3	283	286
Charge for the year	16	19	35
On disposals	-	-	-
Revaluation	(19)	-	(19)
At 31 December 2021	-	302	302
Net Book Value			
At 31 December 2021	800	53	853
At 1 January 2021	797	62	859

	2021 £000	2020 £000
Particulars relating to revalued tangible fixed assets are given below		
Freehold buildings at open market value	800	800
Historical cost of re-valued assets	918	817

The freehold buildings at 57/58 Market Place, Beverley were re-valued in November 2021 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 (£640,000 at current valuation occupied by the Society).

13. Intangible fixed assets

	Purchased Software £000
Cost	
At 1 January 2021	917
Additions	-
Disposals	-
At 31 December 2021	917
Amortisation	
At 1 January 2021	817
Charge for the year	53
Disposals	-
At 31 December 2021	870
Net book amount	
At 31 December 2021	47
At 1 January 2021	100

14. Prepayments and accrued income

	2021 £000	2020 £000
Due within one year		
Prepayments and accrued income	74	70
Accounts receivable	-	32
Provision for doubtful debt	-	(32)
Total	74	70

During 2020, the Society rented out part of its head office property to a commercial third party that went into administration during the year ended 31 December 2020. As a result, a doubtful debt provision of £32,000 had been put in place which equated to the amount of rent payable still outstanding as at 31 December 2020. During the year ended 31 December 2021, the Society made a net recovery of £4,000 on the outstanding debt, writing off the remaining £28,000 as no further recovery is expected to be made.

Notes to the Accounts

continued

15. Shares

	2021 £000	2020 £000
Shares held by individuals	179,530	170,301
Shares held by others	30	32
Total	179,560	170,333

Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	179	286
On demand	173,771	166,638
In not more than three months	13	88
In more than three months but not more than one year	2,533	35
In more than one year but not more than five years	2,357	2,608
In more than five years	707	678
Total	179,560	170,333

16. Amounts owed to other customers

	2021 £000	2020 £000
Amounts owed to other customers relates to savings accounts held by business entities, are repayable from the balance sheet date in the ordinary course of business as follows:		
On demand	14,904	17,652
In not more than three months	-	263
Total	14,904	17,915

17. Other liabilities

	2021 £000	2020 £000
Amounts falling due within one year		
Corporation tax	157	88
Total	157	88

18. Accruals and deferred income

	2021 £000	2020 £000
Amounts falling due within one year		
Accruals and deferred income	195	176
Total	195	176

19. Provisions for liabilities

	Deferred tax £000	FSCS Levy £000	Total £000
At 1 January 2021	22	-	22
Adjustment in respect of prior years	-	-	-
(Paid)/Received in the year	-	-	-
Charge/(credit) to the income statement for the year	(11)	4	(7)
At 31 December 2021	11	4	15

Deferred taxation comprises:

The deferred taxation liabilities are set out below:	2021 Amount recognised £000	2020 Amount recognised £000
Fixed asset timing differences	13	24
Short term timing differences – trading	(2)	(2)
Total	11	22

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. The FSCS released its latest outlook for the 2021/2022 Levy Year in November 2021, on the basis of which the Society has accrued £4k for the year ended 31 December 2021 (2020: £nil).

20.Reserves

	General Reserve £000	Revaluation Reserve £000
At 31 December 2020	11,064	412
Profit for the year	610	-
Revaluation of office premises	-	(83)
At 31 December 2021	11,674	329

Notes to the Accounts

continued

21. Financial Instruments

Contracts that give rise to financial assets or liabilities are known as financial instruments. The Society's sole business is to operate in the retail market for financial instruments, through the provision of mortgage and savings products.

The Society does not run a trading book.

Financial Instrument Classification

The table below shows the financial assets and liabilities of the Society, assigned to their categories under FRS102:

At 31 December 2021	Financial assets that are debt instruments measured at amortized cost £000	Financial liabilities carried at amortized cost £000
Cash in hand and balances with the Bank of England	51,811	-
Loans and advances to credit institutions	8,276	-
Loans and advances to customers	145,680	-
Total Financial Assets	205,767	-
Shares	-	179,560
Amounts owed to other customers	-	14,904
Other liabilities	-	157
Accruals, deferred tax and deferred income	-	195
Total Financial Liabilities	-	194,816

At 31 December 2020	Financial assets that are debt instruments measured at amortized cost £000	Financial liabilities carried at amortized cost £000
Cash in hand and balances with the Bank of England	40,802	-
Loans and advances to credit institutions	8,589	-
Loans and advances to customers	149,501	-
Total Financial Assets	198,892	-
Shares	-	170,333
Amounts owed to other customers	-	17,915
Other liabilities	-	88
Accruals, deferred tax and deferred income	-	198
Total Financial Liabilities	-	188,534

At 31 December 2021, the Society has off balance exposures in the form of mortgage commitments totalling £4.8m (2020: £9.5m)

Financial Risk Management

As highlighted by the Financial Risk Management report on page 14, the Society is by virtue of its operations exposes to a variety of financial risks, including liquidity risk, credit risk, and interest rate risk.

Liquidity Risk

The risk that the Society is unable to meet its financial obligations as they fall due. The Society has strict policies to manage liquidity risk, as further detailed within the Financial Risk Management report, on page 14. The Society's liquid funds are either deposited with the Bank of England or in call accounts with the Society's clearing banks, which all allow for same day access to all funds.

For an analysis of the credit quality of treasury counterparties, see note 8.

Credit Risk

Credit risk is the risk of losses arising from a borrower or counterparty failing to meet its obligations as they fall due. The Society has a strong and-well established framework of controls in place which mitigates this risk. The effectiveness of systems and controls for the management of credit risk is monitored by the risk committee. Further information on this can been found within the Financial Risk Management report, on page 14.

The Society's maximum credit risk exposure Is shown in the table below:	2021 £000	2020 £000
Cash in hand and balances with the Bank of England	51,811	40,802
Loans and advances to credit institutions	8,276	8,589
Loans and advances to customers	145,680	149,501
Off balance sheet exposures – Mortgage commitments	4,843	9,536
Total	210,610	208,428

A key indicator of credit risk associated with the Society's mortgage book is the amount of the loans outstanding as a proportion of the underlying security's value, known as the Loan-to-Value percentage (LTV). A lower LTV percentage means greater borrowers' equity in a property, reducing or even eliminating expected losses in the event of default and, where this in the best interest of the Society's members, subsequent repossession. The value of the underlying security is based on a professional valuation at origination of the loan, adjusted for the subsequent movements in the House Price Index (HPI).

The Society over the last decade has gradually reduced the weighted average LTV of its loan book, which now stands at below 31%. The loan book can be broken down into the following LTV bands:

	2021		2020	
LTV Ratio	£000	%	£000	&
Less than or equal to 50%	90,371	61.7	78,863	52.4
Over 50% but less than or equal to 70%	43,059	29.4	45,214	30.1
Over 70% but less than or equal to 85%	8,975	6.1	17,691	11.8
Over 85% but less than or equal to 95%	2,198	1.5	4,914	3.3
Over 95%	1,879	1.3	3,638	2.4
Total	146,482	100.00	150,320	100.0

Analyses of the geographical spread and payment status of the loans within the mortgage book are provided in note 9.

Details on customers in forbearance can be found within the Financial Risk Management report, on page 20.

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.

Notes to the Accounts

continued

The interest rate sensitivity of the Society as at 31 December 2021 was:

	Up to 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
Assets						
Liquid Assets	60,087	-	-	-	-	60,087
Loans and Advances to Customers	142,025	149	1,054	2,452	-	145,680
Prepayments and Accrued Income	-	-	-	-	74	74
Investments	-	-	-	-	89	89
Tangible Fixed assets	-	-	-	-	853	853
Intangible Fixed assets	-	-	-	-	47	47
Total Assets	202,112	149	1,054	2,452	1,063	206,830
Liabilities						
Shares	174,657	-	2,493	2,231	179	179,560
Amounts owed to other customers	14,904	-	-	-	-	14,904
Other Liabilities	-	-	-	-	157	157
Accruals and deferred income	-	-	-	-	195	195
Provisions for liabilities	-	-	-	-	11	11
Revaluation Reserve	-	-	-	-	329	329
General Reserve	-	-	-	-	11,674	11,674
Total Liabilities and Equity	189,561	-	2,493	2,231	12,545	206,830
Net mismatches	12,551	149	(1,439)	221	(11,482)	-
Interest rate sensitivity gap	12,551	149	(1,439)	221	(11,482)	-
Cumulative Sensitivity gap	12,551	12,700	11,261	11,482	-	-
Sensitivity to General Reserves as a result of:						
A 2% increase in the interest rate	(31)	(1)	21	(6)	0	(17)
A 2% decrease in the interest rate	31	1	(22)	7	0	17

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 2020 was:

	Up to 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
Assets						
Liquid Assets	49,391	-	-	-	-	49,391
Loans and Advances to Customers	148,125	-	-	1,376	-	149,501
Prepayments and Accrued Income	-	-	-	-	70	70
Investments	-	-	-	-	89	89
Tangible Fixed assets	-	-	-	-	859	859
Intangible Fixed assets	-	-	-	-	100	100
Total Assets	197,516	-	-	1,376	1,118	200,010
Liabilities						
Shares	167,510	-	-	2,537	286	170,333
Amounts owed to other customers	17,915	-	-	-	-	17,915
Other Liabilities	-	-	-	-	88	88
Accruals and deferred income	-	-	-	-	176	176
Provisions for liabilities	-	-	-	-	13	13
Revaluation Reserve	-	-	-	-	412	412
General Reserve	-	-	-	-	11,073	11,073
Total Liabilities and Equity	185,425	-	-	2,537	12,048	200,010
Net mismatches	12,091	-	-	(1,161)	(10,930)	-
Interest rate sensitivity gap	12,091	-	-	(1,161)	(10,930)	-
Cumulative Sensitivity gap	12,091	12,091	12,091	10,930	-	-
Sensitivity to General Reserves as a result of:						
A 2% increase in the interest rate	(30)	-	-	35	-	5
A 2% decrease in the interest rate	30	-	-	(35)	-	(5)

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.

Notes to the Accounts

continued

Maturity Analysis

The maturity analysis of the financial liabilities of the Society at 31 December 2021 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	174,657	-	2,530	2,265	-	179,452
Deposits and other borrowings	14,904	-	-	-	-	14,904
Other Liabilities	157	-	-	-	-	157
Accruals and deferred income	195	-	-	-	-	195
Total financial liabilities	189,913	-	2,530	2,265	-	194,708

The maturity analysis of the financial liabilities of the Society at 31 December 2020 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	167,796	-	-	2,570	-	170,366
Deposits and other borrowings	17,915	-	-	-	-	17,915
Other Liabilities	88	-	-	-	-	88
Accruals and deferred income	176	-	-	-	-	176
Total financial liabilities	185,975	-	-	2,570	-	188,545

Note: The above analysis is based on undiscounted contractual cashflows and therefore does not reconcile to the balance sheet.

Capital

Capital is a key measure of the Society's financial strength and is, as shown below, primarily. comprised of accumulated profit reserves. Capital supports business growth and protects the business against its principal risks.

The Society's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA). The Society undertakes a formal Internal Capital Adequacy Assessment Process (ICAAP) to articulate and demonstrate how these requirements are met.

In addition, the ICAAP documents the framework for the Society's governance and oversight of its risk and capital management policies and is used to assist with the management of capital and risk exposures.

The Society's actual and forecasted capital positions are reviewed against a risk appetite that requires capital to be maintained at a specific minimum level above regulatory capital requirements. There were no reported breaches of capital requirements during the year.

There have been no material changes to the Society's management of capital in the year.

Composition of Capital	Note	2021 £000	2020 £000
General Reserve	20	11,674	11,064
Intangible assets	13	(47)	(100)
Revaluation reserve	20	329	412
Tier 1 capital		11,956	11,376
Collective provisions	10	141	140
Tier 2 capital		141	140
Total Regulatory Capital		12,097	11,516

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)	Profit Before Tax (£m)	Corporation Tax Paid	No. of Employees
The Beverley Building Society	Building Society – UK Registered Entity	UK financial institution owned by its members as a mutual organisation. The principal purpose of the Society is that of loans that are secured primarily on residential property, funded largely by its members. The Society has no active subsidiaries and is wholly based in the UK. The Society has transactions only in GBP.	Beverley, East Yorkshire England	£3.8m based on interest receivable	£0.76m	£0.09m paid in settlement of corporation tax on 2021 profits	25 Full Time Equivalents

The country-by-country information has been prepared on the following basis:

- Total turnover represents Interest receivable and similar income for the Society as disclosed in the Income Statement.
- Profit before tax represents Profit on ordinary activities before tax as disclosed in the Income Statement.
- Corporation Tax paid in year represents actual corporation tax payments made during the year as disclosed in the Society Statement of Cash Flows.
- Number of employees on an FTE basis is representative of the average number of persons employed by the Society as disclosed in Note 5 to the Accounts.

Independent auditors' report to the directors of Beverley Building Society

Report on the audit of the country-by-country information

Opinion

In our opinion, Beverley Building Society's country-by-country information for the year ended 31 December 2021 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2021 in the Country-by-Country Reporting.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the country-by-country reporting which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the society's ability to continue to adopt the going concern basis of accounting included:

- We critically assessed the directors' conclusions on their going concern assessment, including consideration of the impact of Covid-19 on the annual accounts.
- We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts. We considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress.
- We challenged the reasonableness of the scenarios used by the directors in their going concern assessment and checked the appropriateness of the assumptions used within their forecasting.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the society's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Responsibilities for the country-by -country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for 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 the directors either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the society and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed included:

- Review of correspondence with and to the regulators;
- Testing significant accounting estimates;
- Testing of journal entries which contained unusual account combinations and other specific risk based criteria back to corroborating evidence;
- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud; and
- Review of internal audit reports in so far as they related to the country-by-country information.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
10 February 2022

Annual Business Statement

for the year ended 31 December 2021

1. Statutory percentages

	2021 %	Statutory Limit %
Lending limit	4.10	25.00
Funding limit	7.66	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

	2021 %	2020 %
As a percentage of shares and borrowings		
Gross capital	6.17	6.10
Free capital	5.78	5.66
Liquid assets	30.90	26.24
Profit for the year as a percentage of mean total assets	0.30	0.19
Management expenses as a percentage of mean total assets	1.16	1.04

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 2020 and 2021 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 BA(Hons), FCII, Chartered Insurer (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 British Friendly Society 24 Charles Street Limited Medical Protection Society Limited MPI (London) Limited
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 Foundation Coltkell Limited Staffordshire & Birmingham Agricultural Society
S A Symington C Dir, FCIPD (04.03.1965)	2013	Non-Executive Director	Chair Designate, Humber Coast and Vale Integrated Care System Lodge Cottages Limited
K R Wint (02.05.1965)	2021	Non-executive director and charity Trustee	Holbeck Together
K J D Elliott BA(Hons), Mdip, MCIM (25.05.1972)	2017	Chief Executive Officer	
J E Bedford FCA (13.02.1970)	2014	Deputy Chief Executive Officer	
M Marsden BSc (Hons), MBA (28.01.1967)	2014	Risk Director	

Documents may be served on the above named directors at:

Ref. Beverley Building Society c/o PwC LLP, 29 Wellington Street, Leeds, LS1 4DL

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 2014, 12 August 2014 and 21 April 2017, respectively. No other Directors have contracts in place.