Beverley

Building Society

Pillar 3 Disclosure Document

Index

Beverley Building Society

1.Introduction

The legislative framework, the Capital Requirements Directive (CRD), commonly referred to as Basel 2, governing how much capital all banks and building societies must hold to protect their members, depositors and shareholders, was introduced by the European Union from the beginning of 2007. In the UK this is implemented by our regulator, the Financial Services Authority (FSA).

Beverley Building Society's aim is to ensure that we protect our members' savings by having sufficient capital even during a significant economic downturn.

The new framework is not just about capital requirements, it also requires disclosure of key pieces of information, such as risk exposures and risk assessment processes.

Below are the 3 main "Pillars" which make up the Capital Requirements Directive.

Pillar 1 Minimum capital requirements
Pillar 2 Internal capital adequacy assessment process (ICAAP)
Pillar 3 Disclosure

Pillar 1 assessment is based on a formulaic risk based capital calculation focussing particularly on credit and operational risks to determine the Capital Resources Requirement.

The Board of Beverley Building Society has undertaken an assessment of all of the risks facing the Society and has established the capital to be held under Pillar 2. As part of this the Society has carried out stress tests to consider the levels of capital required to cope with a severe economic downturn.

This policy document deals with the requirements laid down for Pillar 3 (disclosure) and the information provided here is in accordance with the rules laid out in the FSA handbook BIPRU Chapter 11.

All figures within this document are correct as at 30 June 2009 unless stated otherwise.

2. Risk management policies and objectives

Beverley Building Society is primarily a producer and retailer of financial products, mainly in the form of mortgages and savings. These products give rise to a financial asset or liability and are termed financial instruments.

Beverley
Building Society

The Society looks to manage all the risks that arise from its operations, these are detailed below.

We manage these risks using forecasting and stress test models to help guide our business strategies; produce key risk information and indicators to measure and monitor performance; and use management and board committees to monitor and control specific risks.

Credit Risk

Credit risk is the risk that losses may arise as a result of failure by a borrower or counterparty to meet its obligation to repay. The Board is responsible for reviewing the Lending policy of the Society and monitoring the arrears profile, they are also responsible for maintaining the Society's Treasury Counterparty list and the allowable exposures for each.

Market Risk

Market risk is the risk arising due to adverse market movements. The Society has no trading book and consequently this is not applicable.

Liquidity Risk

Liquidity risk is the risk that the Society will be unable to meet its financial obligations as they fall due. The Society's liquidity policy addresses both the level and quality of liquid assets.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Society's operations comprise two main areas, namely providing a range of mortgage products, and offering a range of variable rate investment products. The Society does not provide financial advice and the risk of mis-selling by the Society is not applicable.

The Society considers that its robust systems, policies and internal control framework are major factors in this achievement and this continues to be the case.

Beverley
Building Society

Concentration Risk

The types of concentration that can arise are concentration in one product type, geographical concentration, market concentration and over exposure to single borrowers, investors, or counterparties.

The Society main concentration risk relates to the level of its lending in and around East Yorkshire with over 85% of its mortgage book being based in the area. This concentration is considered to be of a lower risk because the Society has a better knowledge of properties located close to its Head Office, which is to be expected from a local building society, and the geographical area itself is not dependent on any one key industry sector. There is no concentration risk in the type of property held as security.

The Society's Board review the level of concentration risk at least twice a year to ensure that this is managed carefully and so that any risks to the Society are reduced as far as possible.

Residual Risk

We include a capital allocation for those risks that are unforeseen; we maintain a level of capital which is in excess of the minimum amount required by the FSA.

Business risk

This is the risk that the Society is exposed to due to macroeconomic factors, i.e. economic downturn, loss of business to competitors, pricing pressures, changes in costs. These factors are considered as part of our corporate planning process.

Interest rate risk

Interest rate risk arises from the impact changes in interest rates have on the Society's cash flows. This is particularly relevant where a society has fixed rate assets or liabilities. The Society provides no fixed rate savings accounts at the present time and has less than 1% of its mortgage book at fixed rates. The Board review mortgage and savings products and these exposures could therefore change although given current levels any such changes would still represent a small part of the Society's business. The only other exposure to fixed rates is from its liquid asset investments in CDs and fixed term deposits.

Pension obligation risk

The Society has only a defined contribution pension scheme which is open to all employees and so it has no exposure to pension obligation risk.

Beverley
Building Society

3. Main Board and Committee Structure

Board of Directors

Audit & Compliance Committee	Treasury Committee	Lending Committee

Audit and Compliance Committee

The Audit and Compliance Committee consists entirely of Non-Executive directors and meets four times per year.

The Audit Committee reviews the effectiveness of internal controls, the compliance function and the Society's risk management function. It considers and recommends the appointment of the internal and external auditors and monitors their effectiveness and independence.

Treasury Committee

The Treasury Committee consists of three Non-Executive directors and two Executive Directors.

The Committee meets monthly throughout the year or more often when circumstances require. The Treasury Committee reviews transactions and ensures all such transactions are within the Society's approved liquidity and funding policy limits. It is also responsible for reviewing the Society's policies and counterparty list and ensuring regulatory limits are adhered to.

Lending Committee

The Lending Committee consists of three Non-Executive Directors, one Executive Director and two members of the management team.

The Committee meets as and when required, depending on demand and market conditions, to review mortgage applications where applicable and to ensure all regulatory reporting requirements as regards lending are met.

4. Capital Resources

The Capital Resources of the Society are calculated under Pillar 1 of the Capital Requirements Directive.

Total Society assets at the above date are £169m. Total Capital Resources are comprised as follows:

	£000s
Tier 1 - General Reserves (excluding interim profits)	£7, 245
Tier 2 – Revaluation Reserve	£726
Tier 2 – Qualifying General Provisions	£113
Tier 2 – Subordinated Debt	£3,090
Total Capital Resources	£11,174

Beverley Building Society

5. Capital Resources integrated into Business Strategy

Beverley Building Society aims to maintain sufficient capital resources to allow it to grow the asset base in a controlled manner. In order to maintain this capital the Society needs to generate and retain profits that will add to the general reserves, the main source of capital.

Strategy and Planning

The Society's Corporate Plan process establishes risk appetites for business lines being developed by the Society and for each of the risk categories. The Society ensures it has sufficient financial and non-financial resource to meet the Corporate Plan objectives.

Capital Adequacy Assessment Process

In addition to the Corporate Plan we have an Internal Capital Adequacy Assessment Process (ICAAP), which focuses on ensuring capital resources of the Society are sufficient to support its plan both in normal and stressed conditions.

This process involves reviewing all business areas with estimates for capital allocation across the Corporate Plan period. The Board then agree (with input from the results of the Society stress models) the economic scenarios to be used in calculating capital requirements.

Finally the Board approves the capital assessment taking into account any areas where they may feel the models and internal assessments do not adequately capture the full risk exposure and holding extra capital where appropriate.

Lending & Business Decisions

The Society translates its overall risk appetite for credit risk into individual lending limits controlling the exposures to be taken on by the Society. The performance against these limits is monitored monthly and reviewed by the Board.

In addition the Society credit risk is stress tested and the results reflected in business decisions.

Pricing

The pricing model provides guidance as to what rate needs to be charged to meet return targets.

Beverley Building Society

6. Risk Weighted Exposure Amounts & Operational Risk Capital

The assets of the Society are allocated risk based exposure amounts in line with the "Standardised Approach" under the Capital Requirements Directive. In addition an evaluation of capital required to cover Operational Risk is calculated under the "Basic Indicator Approach" and determined by reference to the net income of the Society averaged over the previous 3 years.

CAPITAL RESOURCES REQUIREMENT

	Exposure £000s	Risk Weighted Exposure £000s	Capital Required £000s
Liquidity			
Cash	37	0	0
Government Guaranteed Instruments	5,125	0	0
Credit Institutions	39,097	12,254	980
Loans and advances to customers			
Performing residential loans	109,573	39,744	3,180
Non residential performing loans	12,896	12,896	1,031
Past due items	782	814	65
Other Exposures			
Fixed and other assets	1,681	1,681	134
TOTAL CREDIT RISK EXPOSURES	169,190	67,389	5,390
OPERATION RISK CAPITAL REQUIREMENT			312

Counterparty Credit Risk

The Society's approved counterparty list which forms part of the Society's Liquidity policy aims to ensure that the Society can obtain the best possible returns from its liquid assets whilst operating within prudent limits in respect of counterparties.

Building Society

7. Provisions

Provisions for losses are based upon an appraisal of loans and other assets balances and their carrying value on the Society's Balance Sheet.

Specific provisions are made in respect of all assets where it is considered that the carrying value of those assets has been impaired. The provision on each asset represents the amount required to reduce the outstanding balance of the asset to its expected realisable value.

General provisions are made where it is considered that there is potential impairment in the value of assets that is not already covered by specific provisions. The Society makes a provision of 0.1% of its mortgage book as a general provision to provide for any losses in addition to any specific provisions. The Board will review the level of general mortgage loss provisions on a regular basis to take account of conditions in the property market.

These provisions have been deducted from the appropriate asset values shown in the balance sheet.

Both the balance sheet and details of provisions can be found in the 2008 Annual Report and Accounts.

8. Breakdown of Liquid Assets under the Standardised Approach

	Maturity of Treasury Investment			
	< 3 Mths £000s	**3 Mths to 1 Yr £000s**	**>1 Yr £000s**	**Total £000s**
Fitch Ratings Service				
F1+	10,797	14,000	5,250	30,047
F1	2,000	2,500		4,500
F2		3,000		3,000
Unrated Building Societies	1,500	2,500		4,000
Unrated Banks		500		500
British Government Securities			2,101	2,101
Total	**16,588**	**24,500**	**5,250**	**46,338**

9. Conclusion

This disclosure document is intended to provide background information on the Society's approach to risk management as related to maintaining and preserving the capital position of the Society. It also provides asset information and capital calculations under Pillar 1.

In the event that a user of this document has comments or requires further information they are requested to contact the Society.