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# Annual Report and Accounts

for the year ended 31 December 2010

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# Annual Report and Accounts

for the year ended 31 December 2010

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# Society Performance

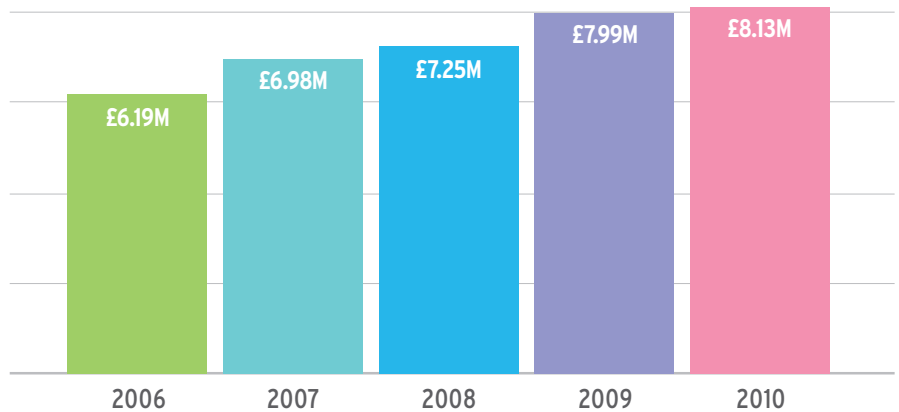
over the past 5 years

## Key Performance Indicators (KPIs)

The Board uses a number of KPIs to measure and monitor progress and performance. Whilst the last two years have tested the financial services sector to the extreme, the Society has sought to ensure that its business operates in a controlled manner and that the interests and security of borrowers and savers are safeguarded. Some of the Society's KPIs are illustrated to show the progress the Society has made with the support and help of both members and staff.

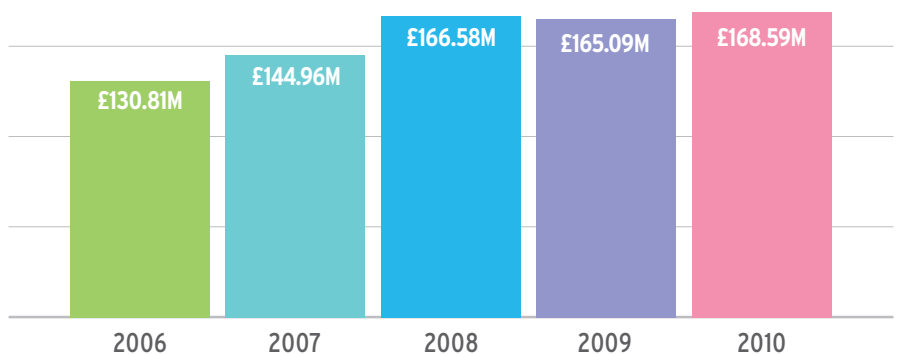
## General Reserves

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



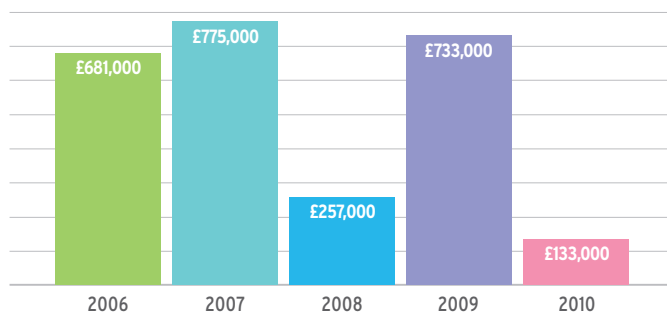
## Total Assets

After successive years of growth the Society has consolidated its position with regard to its core businesses of mortgages and savings.



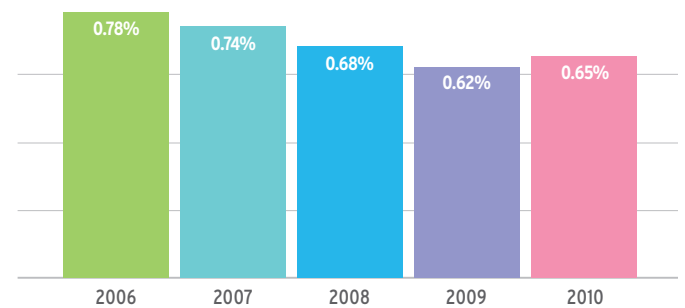
## Net Profits

A reasonable level of profits is required in line with growth to maintain the Society's capital ratios and performance remains positive. For explanation of the fall in profits refer to the Chairman's Statement.



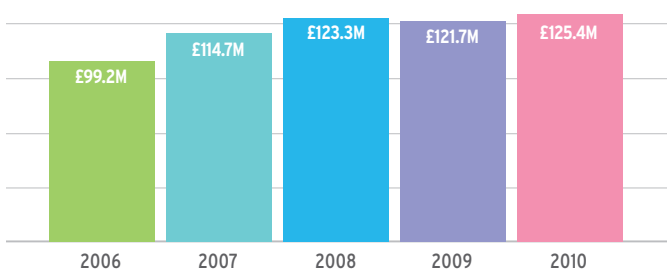
## Management Expense Ratio

Close control over costs has continued over the last five years and this enables the Society to offer competitive products for the benefit of all its members.



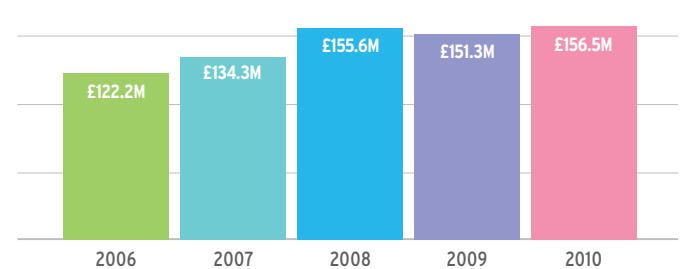
## Total Mortgage Balances

The uncertainties in the housing market and the desire to maintain high levels of liquidity meant that the Society reduced its levels of activity in mortgage lending in 2010. Despite this, overall balances have increased.



## Total Savers Balances

The Society's savers balances have increased in a highly competitive market. This has been in part due to the continued success of the Business Account.



# Chairman's statement

for the year ended 31 December 2010

**Stuart Young**

24 January 2011



I begin my review of 2010 by reporting that your Society has performed well despite yet another year of difficult and challenging conditions.

The Society's balance sheet has grown at a modest but sustainable (2.12%) level with liquidity remaining high and costs controlled. Although the economy has officially come out of recession it remains fragile which has resulted in the bank base rate remaining at a historically low level throughout 2010. Whilst this is good news for borrowers it is difficult to offer savers the level of returns they would wish for. In the light of the Government spending review announcements it is hard to foresee when confidence will return, particularly in the housing market.

Despite the unsettled environment traditional building societies like the Beverley have fared well by focusing on their own localities, providing prime residential mortgage lending and straight-forward yet competitive savings products.

The Board once again considered that the most important issue for you our members was to provide a safe and secure home for your savings. As a result we have maintained liquidity at high levels throughout the year but to do this we have again restricted the level of gross mortgage lending. Although house prices started to rise in the early part of 2010 this did not continue in to the second half of the year and for the year as a whole house prices have fallen in most areas of the country. The forecast for 2011 is for further falls to occur. The Society's gross lending for 2010 was £13.1m (2009 £13.3m) and with low redemption levels the Society's total mortgage book grew by 3.03%.

Although the quality of the mortgage book remains relatively strong with an average loan to value ratio below 50%, during the year the Society did suffer a significant loss on a commercial loan. An industrial property was taken into possession and subsequently sold resulting in a loss of £675,000. We hope to recover a substantial part of this loss as a result of ongoing legal action against the original valuers of the property. If our legal action is successful any recovery will be credited to the 2011 profits. In terms of the level of mortgage loss provisions the Board are satisfied that the current level of provisions provides a sturdy buffer to counter the threat of any further downturn in the economy which may affect the existing mortgage book.

Throughout the year, the savings market has remained volatile and this will remain the case for some time to come. At the height of the financial crisis the Government introduced a Special Liquidity Scheme by which financial institutions could borrow money from the Government to boost their cash resources. This scheme is to be withdrawn in 2011 and those institutions, mainly the banks that took advantage of it have already taken steps to replace

2.12%

Society's balance sheet growth



these funds through attracting retail saver money. This has put further pressure on savers rates. Despite this, the Society's savers balances have increased to £156.5m (2009 £151.3m), which was predominately due to the continued success of the Society's business account.

**£156.5M**  
Society's savers balances



As a locally based building society, the Beverley places great importance in supporting the local economy and local community initiatives. The Society always seeks to purchase goods and services locally wherever possible. Each year, the Beverley supports a wide range of local causes and

I am pleased to report that this year the Society has supported 16 local charities/events.

The Society's liquidity ratio remains healthy ending the year at 27.06% (2009 27.72%). From the beginning of October 2010 the Financial Services Authority introduced new rules to strengthen the quality of the liquidity resources of banks and building societies by requiring such institutions to place more funds into Government stock or other high quality investments. Whilst the aim of the new regime is to be supported the lower return on such investments has put further pressure on the Society's net interest margin.

The financial results of the Society are comparable to those of its peers and show its overall strength. Less tangible is the contribution made by the staff in achieving this and I am especially proud of the way in which the Society's staff continue to provide an exceptionally friendly and personal service to our customers and have risen to the challenges posed by the economic environment. 2010 has been a difficult year for most businesses, not just building societies. It has been a year for caution and consolidation and I am grateful for the way in which the staff have handled this.

The Society's net interest margin has fallen as a result of the lower investment returns referred to above and the continued competitive pressures on savers rates. It is therefore essential that cost control and the efficient use of resources remain a priority. I am pleased to report that the Society's management expense ratio (how much it costs to run the society) continues to be one of the lowest in the sector finishing the year at 65p/£100 of assets (2009 62p/£100 of assets).

I would like to thank our Finance Director, Tony Wilmot, for stepping in as Acting Chief Executive for four months, following the resignation of Phil Gray at the end of August. We have begun the recruitment process for a new Chief Executive and have appointed an interim Chief Executive, Mike Heenan, who will run the Society from January 2011 until a new appointment is made. Mike retired as Chief Executive of the Stafford Railway Building Society at the end of December 2010 and brings many years of relevant experience to the Society.

In terms of net profit, despite the significant mortgage loss and the squeeze on net interest margin referred to earlier the Society has net profits of £133,000. Being able to absorb such a mortgage loss shows the underlying strength of the Society's business and expectations are that adequate levels of profit will be achieved going forward to underpin future growth.

**16**  
Number of local charities/  
events supported by the Society



It is the Board's intention that we will remain an independent, mutually owned building society offering members a fair and competitive range of

The Society continues to make provisions for the interest costs associated with the Financial Services Compensation Scheme and this year this has resulted in a further £11,000 being provided for. This now provides for the Society's known costs until the end of 2012 although there is still no clear indication of how long the Society, and all other building societies, will be paying the FSCS charges and also what the ultimate capital charges may be. This remains a significant cost which has had to be met by sensibly run institutions to bail out riskier businesses but I do believe that this is an important scheme to maintain customer confidence.

products which are sustainable in the short and long term. The Society has always endeavoured to provide excellent long term value in its savings and mortgage products and we will continue to do this to ensure that not only the value remains, but also the security.



# Board of Directors

for the year ended 31 December 2010

From left to right:



## Penny Peacock

Non Executive Director, Vice Chairman.

Joined the Board in 1999.

Member of the Lending Committee. Local authority councillor with all round business experience.

## Stuart Young

Non Executive Director, Chairman.

Joined the Board in 1992.  
Member of the Lending Committee.  
Qualified member of the Chartered Institute of Insurers, provides experience in General Insurance and related financial services matters.

## Brian Young

Non Executive Director.

Joined the Board at the end of 2009. Member of the Audit, Compliance and Risk and Treasury Committees from May 2010. Qualified Cost and Management Accountant.

## Julie Good

Non Executive Director.

Joined the Board in 2002.  
Member of the Audit, Compliance and Risk and Treasury Committees. Provides experience in business strategy, marketing and communication matters.

## Tony Wilmot

Finance Director and Acting Chief Executive.

Appointed to the Board in 2000.  
Member of the Treasury Committee.  
Qualified Chartered Accountant.

## Phillip Render

Non Executive Director.

Joined the Board in 1986.  
Chairman of the Lending Committee.  
Qualified Chartered Surveyor, provides experience on property related matters.

## Richard Miles

Non Executive Director.

Joined the Board in 2006. Chairman of the Treasury and Audit, Compliance and Risk Committees. Qualified Chartered Accountant.



# Directors' Report

for the year ended 31 December 2010

On behalf of the Board of Directors

**S L Young**

Chairman

24 January 2011

The Directors have pleasure in presenting their Annual Report and Accounts and Annual Business Statement for the year ended 31 December 2010.

## Business objectives and activities

The Society's business objectives and principal activities are to provide a secure home for personal savings and to encourage owner-occupation by the provision of mortgage finance. The Society intends to remain an independent local society with a healthy capital position offering a high standard of personalised service to members together with competitive rates of interest.

## Capital

At 31 December 2010 gross capital amounted to £11,460,000 (2009 £11,777,000) or 7.32% (2009 7.73%) of shares and borrowings. Free capital amounted to £10,681,000 (2009 £10,858,000) or 6.82% (2009 7.13%) of shares and borrowings. Both gross and free capital include £2,750,000 (2009 £3,090,000) of subordinated liabilities and £579,000 (2009 £698,000) revaluation reserve. The Directors ensure that a satisfactory level of capital is maintained to protect the Society against adverse market movements or changes in economic conditions.

## Results for the year

The profit for the year on ordinary activities, before tax, amounted to £178,000 (2009 £1,015,000). The net profit for the year, after taxation, amounted to £133,000 (2009 £733,000) and has been added to the General Reserve which now amounts to £8,131,000 (2009 £7,989,000).

## Total assets

The total assets of the Society at 31 December 2010 were £168,593,000 (2009 £165,090,000) an increase of £3,503,000 (2009 decrease of £1,487,000) or 2.12% (2009 decrease of 0.89%).

## Liquid assets

Liquid assets in the form of cash and securities at 31 December 2010 were £42,353,000 (2009 £42,208,000) representing 27.06% (2009 27.72%) of shares and borrowings.

## Loans and advances to customers

The Society advanced during the year £13,113,000 (2009 £13,281,000).

At 31 December 2010 there were no cases where repayments were more than 12 months in arrears. The Society will continue to take all necessary steps to help borrowers in genuine difficulties whilst at the same time try to minimise losses and ensure that the lending policy has appropriate regard to economic conditions and the customers' ability to repay.

## Shares and deposits

Share net withdrawals in the year were £3,974,000 (2009 net withdrawals £15,222,000) and share balances at 31 December 2010 totalled £128,864,000 (2009 £132,838,000).

Net receipts of deposits and other borrowings in the year were £8,235,000 (2009 net receipts £11,881,000) and balances at 31 December 2010 totalled £27,670,000 (2009 £19,435,000).

## Post balance sheet events

The directors consider that there have been no events since the end of the financial year which have had a significant effect on the position of the Society.

## 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 his contractual obligations. During 2010, amounts due to relevant creditors of the Society were paid on average within 14 days (2009 14 days) of receipt of invoice.

## Charitable Donations

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

## Staff

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

It is Society policy to give all applications for employment from disabled people full consideration in relation to the vacancy concerned and to their particular aptitude and abilities. Furthermore, in the event of existing members of staff becoming disabled, every effort would be made to retain them in suitable work if they are unable to continue in their present role.

## Health and Safety

The Directors have overall responsibility for ensuring 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

Phil Gray resigned on 26 August 2010.

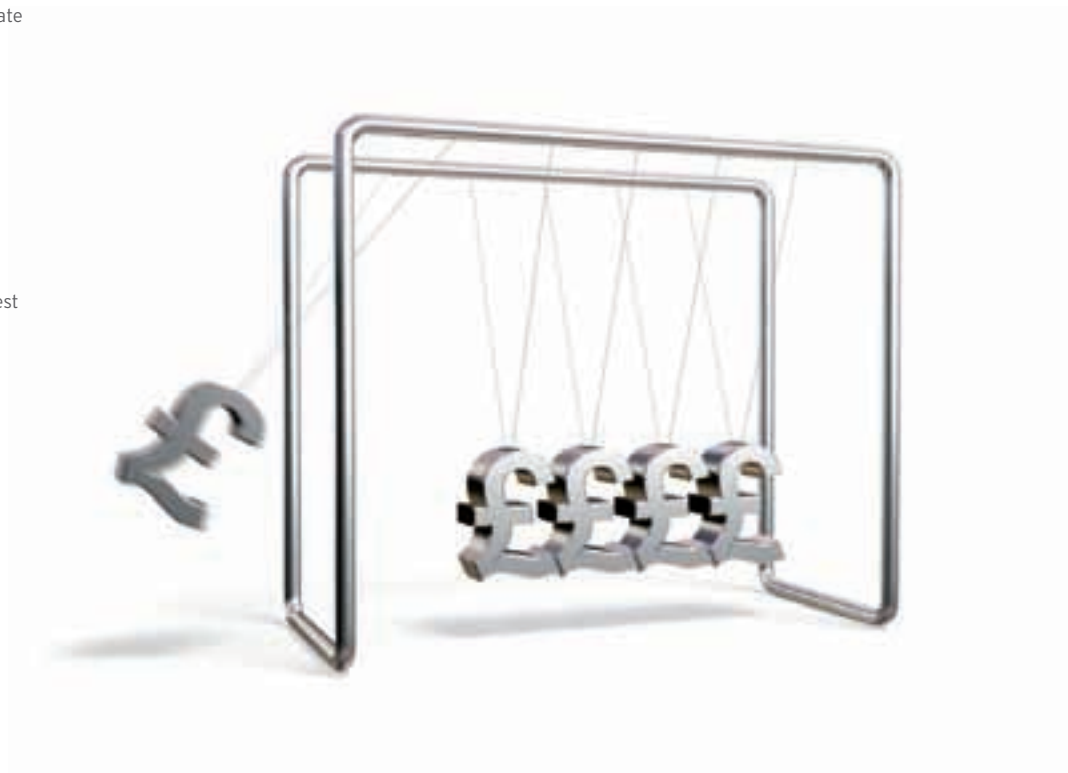
In accordance with Rule 26 (1), no Directors are required to retire by rotation as a result of the above resignation.

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

## Auditors

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, and 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.

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



# Financial Risk Management Report

for the year ended 31 December 2010

## Financial risk management objectives and policies

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

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

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

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

## Statement of exposure to interest rate, credit, liquidity and cash flow risk

### Interest rate risk

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset, or if earlier, the instruments maturity. This risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society as at 31 December 2010 is detailed in note 23 to the accounts on page 29.

### Credit risk

All loan applications are assessed with reference to the Society's lending policy and where appropriate reviewed by the Lending Committee.

Appropriate credit lines, in keeping with the Society's low risk appetite, have been established by the Board for individual counterparties and sectors.

### Liquidity and cash flow risk

Liquidity risk is the risk of failing to meet demands and commitments to provide funds to customers and other third parties. The Society's policy is to maintain sufficient liquid funds at all times to ensure that liabilities can be met as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities thereby maintaining public confidence in the solvency of the Society. The majority of the Society's liquid funds are invested in tradable instruments which can readily be converted to cash should the need arise. In addition it is the Society's policy to maintain committed borrowing facilities in order to provide additional flexibility in the management of the Society's liquidity. At the year end the Society had undrawn committed facilities of £500,000 (2009 £500,000).

# Directors' Remuneration Report

for the year ended 31 December 2010

## Mrs P J Peacock

Chairman of the Remuneration Committee  
24 January 2011

The purpose of this report is to inform members of the Society about our policy on remuneration of Executive and Non-Executive Directors and the Society will include an advisory vote on the Directors' Remuneration Report at our AGM in April 2011.

## The Remuneration Committee

The Remuneration Committee is responsible for the remuneration policy for all directors and senior management of the Society. It meets at least once a year and reviews supporting evidence from within the building society industry on comparative packages.

## Non-Executive Directors' remuneration

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

## Executive Directors' remuneration

The Board's policy is to set remuneration levels which will attract and retain high calibre Executive Directors. 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/Final Salary pension scheme.

### Other benefits

These include private medical insurance, permanent health insurance, a concessionary mortgage rate and, where applicable, a company car.

### Bonus scheme

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

Executive Directors have contractual notice periods of six months and so any termination payment would not exceed six months salary and accrued benefits. The performance of the Chief Executive, Finance Director and the Marketing and Development Manager is reviewed on an annual basis by the Remuneration Committee.

## Directors' remuneration

Directors' emoluments	2010	2009
	£000	£000
For services as a Director	76	72
For executive services	131	158
<b>Totals</b>	<b>207</b>	<b>230</b>

## Emoluments of the Society's Directors are listed below

For services as a Director		
S L Young (Chairman)	19	18
P J Peacock (Vice Chairman)	11	11
P S Render (Chairman of the Lending Committee)	11	10
K Usher (Chairman of the Remuneration and the Audit, Compliance and Risk Committees until retiring in April 2010)	5	14
J D Good	9	9
R M Miles (Chairman of the Treasury Committee and from April 2010 Chairman of the Audit, Compliance and Risk Committee)	12	9
B Young (Appointed 1 December 2009)	9	1
<b>Totals</b>	<b>76</b>	<b>72</b>

	Salary	Benefits	Pension	Total
	£000	£000	£000	£000
<b>For executive services</b>				
<b>2010</b>				
P Gray (resigned 26 August 2010)	56	6	6	68
M A Wilmot	55	2	6	63
<b>Totals</b>	<b>111</b>	<b>8</b>	<b>12</b>	<b>131</b>
<b>2009</b>				
P Gray	81	5	8	94
M A Wilmot	57	1	6	64
<b>Totals</b>	<b>138</b>	<b>6</b>	<b>14</b>	<b>158</b>

# Corporate Governance Report

for the year ended 31 December 2010

**S L Young**  
Chairman  
24 January 2011

## Corporate Governance

**The Board provides leadership and direction with the strategic aim of promoting success within an effective and controlled framework.**

**The Society complies with the Combined Code on Corporate Governance issued by the Financial Reporting Council except for not appointing a Senior Independent Director.**

**The Board are committed to good practice in Corporate Governance.**

## Chairman and Chief Executive

The offices of Chairman and Chief Executive are distinct and held by different people.

## Board Composition and Independence

The Board currently consists of one Executive Director and six Non-Executive Directors who provide the appropriate mix of skills and professional expertise required. Phil Gray resigned as Chief Executive on 26 August 2010. Tony Wilmot, the Finance Director, undertook the role of Acting Chief Executive from September to December 2010. The Board have appointed Mike Heenan as Interim Chief Executive with effect from January 2011 and have started the recruitment process for a new Chief Executive.

The Board consider that all its Non-Executive Directors are independent and free of any relationship which could prejudice their use of independent judgement. Within this the Board have considered the individual performance of any director whose service exceeds nine years and unequivocally agreed that they be considered independent. The Board take the view that the concept of a separate Senior Independent Director is not appropriate given the size of the Society and therefore the Chairman is regarded as the Senior Independent Director.

## Appointment to the Board

The Society's rules require all directors to submit themselves for election by the members at the first opportunity after their appointment and for re-election every three years. All new Non-Executive Directors appointed to the Board will not serve for more than 12 years. Mr P S Render and Mr S L Young have both served as Directors for more than 12 years. The Board consider that these Directors continue to bring experience and relevant business knowledge to the Board together with their commitment to enhance the benefits of mutuality for members. At such time as any Non-Executive Director appointed to the Board prior to 22 November 2005 is due for re-election their eligibility to serve a further term will be considered by the Board.

All Directors are Approved Persons as defined by the Society's regulator, the Financial Services Authority (FSA) and must continue to maintain the 'fit and proper' requirements of the FSA and comply with the FSA Principles for Approved Persons and its Code of Practice.

## Information and Professional Development

All Directors are provided with clear, timely and accurate information for the effective conduct of business, including an established list of items for review and regular financial updates. All Directors are encouraged to attend industry events, seminars and training courses to maintain an up to date knowledge of the industry and regulatory framework within which the Society operates. All Directors are entitled to seek independent professional advice at the Society's expense.

## Performance Evaluation

All Directors are subject to annual performance and evaluation review. The Chairman and Vice Chairman carry out the appraisals of the Executive Directors with performance being measured against a range of business and personal objectives agreed at the previous appraisal meetings. The Chairman carries out an appraisal of the Non-Executive Directors, basing his assessment on each Director's contribution to the Board's performance. The Chairman's performance is assessed by the Vice Chairman in terms of the way in which the Chairman leads the Board and the effectiveness of the Board in formulating the Society's strategies.

## The Board has four sub-committees:-

### Audit, Compliance and Risk Committee

The Committee, chaired by Richard Miles, 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 quarterly and other members of the Committee are Julie Good and Brian Young.

### Remuneration Committee

The Remuneration Committee, chaired by Penny Peacock, meets at least once a year and independently reviews the remuneration, benefits and contracts of Non-Executive Directors, Chief Executive, Finance Director and the Marketing and Development Manager. The other members of the Committee are Stuart Young, Phillip Render, Julie Good, Richard Miles and Brian Young. Further details can be found in the Directors' Remuneration Report on page 11.

### Lending Committee

The Lending Committee, chaired by Phillip Render, meets on a monthly basis to review mortgage applications where applicable and to ensure all regulatory reporting requirements as regards lending are met. It is also responsible for the ongoing monitoring of the Society's mortgage book and reviews the Society's Lending Policy Statement, Arrears Management Policy and Mortgage Loss Provisioning Policy. The other members of the Committee are Stuart Young, Penny Peacock, Graham Carter (Marketing and Development Manager) and Jan Scrowston (Mortgage Manager). Phil Gray served on the Committee until his resignation in August 2010 after which time Tony Wilmot was appointed to the Committee.

### Treasury Committee

The Treasury Committee, chaired by Richard Miles meets on a regular basis to review transactions and ensure 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. Other members of the committee are Brian Young, Julie Good, Tony Wilmot (Finance Director) and Graham Carter (Marketing and Development Manager). Phil Gray served on the Committee until his resignation in August 2010.

## 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 and Risk	Lending	Treasury	Remuneration
<b>Non-Executive Directors</b>					
S L Young	11(12)		8(8)		1(1)
P J Peacock	12(12)		8(8)		1(1)
K Usher	4(4)	2(2)		3(4)	
P S Render	11(12)		8(8)		1(1)
J D Good	10(12)	6(7)		9(11)	1(1)
R M Miles	12(12)	7(7)		11(11)	1(1)
B Young	12(12)	5(5)		7(7)	1(1)
<b>Executive Directors</b>					
P Gray (resigned 26 August 2010)	7(7)	4(4)	1(2)	7(7)	
M A Wilmot	12(12)	7(7)	5(6)	11(11)	

## Internal Control

The Board have delegated the responsibility for managing the system of internal control to senior management. The internal control systems can provide only reasonable and not absolute assurance against material misstatement or loss. The Society's internal audit function is outsourced to KPMG LLP who provide independent assurance to the Board regarding the effectiveness of internal controls through the Audit, Compliance and Risk Committee.

## Relations with Members

As a mutual organisation the Society has members rather than shareholders. The Society seeks the views of members wherever possible. In addition to the Society's AGM, members can contact the Chief Executive if they wish to discuss any aspect of the Society's business.

## Constructive Use of the Annual General Meeting

Each year the Society sends details of the Annual General Meeting (AGM) 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.

# Statement Of Directors' Responsibilities

for preparing the Annual Accounts  
for the year ended 31 December 2010

The following statement, which should be read in conjunction with the statement of respective responsibilities of Directors and Auditors included in the external auditors report on page 15, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 (The Act) to prepare, for each financial year, Annual Accounts which give a true and fair view:

- of the state of affairs of the Society as at the end of the financial year;
- of the income and expenditure of the Society for the financial year and
- of the cash flow of the Society for the financial year.

In preparing those accounts, the Directors are required to:

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

In addition to the 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 and its subsidiary undertakings:

- keep accounting records in accordance with the Building Societies Act 1986 and
- take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority and the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Going concern

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing accounts.

# Independent Auditors' Report

to the members of  
Beverley Building Society

## Gary Shaw

(Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

24 January 2011

We have audited the annual accounts of Beverley Building Society for the year ended 31 December 2010 which comprise the Society Income and Expenditure Account, the Society Balance Sheet, the Society Cash Flow Statement, the Society Statement of Total Recognised Gains and Losses and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, 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 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.

## Scope of the audit of the annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the annual accounts.

## Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2010 and of the Society's income and expenditure and cash flows for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986

## Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and 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 financial year for which the annual accounts are prepared is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

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

# Income and Expenditure Account

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Interest receivable and similar income	2	4,777	5,077
Interest payable and similar charges	3	(2,812)	(2,881)
<b>Net interest receivable</b>		<b>1,965</b>	<b>2,196</b>
Fees and commissions receivable		9	10
Fees and commissions payable		1	(6)
Other operating income		132	142
		<b>2,107</b>	<b>2,342</b>
Administrative expenses	4	(987)	(955)
Depreciation	13	(106)	(98)
Other operating charges		(32)	(30)
		<b>982</b>	<b>1,259</b>
Provisions for bad and doubtful debts	10	(888)	(361)
Provision for loss on financial fixed asset - release of provision	8	95	107
Provisions for contingent liabilities and commitments			
FSCS Levy	22	(11)	(13)
Branch closure		-	23
<b>Profit on ordinary activities before tax</b>		<b>178</b>	<b>1,015</b>
Tax on profit on ordinary activities	7	(45)	(282)
<b>Profit for the financial year transferred to general reserve</b>	20	<b>133</b>	<b>733</b>

## Statement of total recognised gains and losses

	Notes	2010 £000	2009 £000
Profit for the financial year		133	733
Unrealised loss on revaluation of freehold land and buildings	20	(110)	(18)
<b>Total gains and losses recognised since the last annual accounts</b>		<b>23</b>	<b>715</b>

The notes on pages 19 to 30 form part of these accounts.

Profit for the financial year arises from continuing operations.

### Note of historic profits and losses

If the accounts had been prepared on an historic cost basis depreciation for the year would have been reduced by £9,407 and profit before tax increased by £9,407.

# Balance Sheet

for the year ended 31 December 2010

Assets	Notes	2010		2009
		£000	£000	£000
<b>Liquid assets</b>				
Cash in hand		44		44
Loans and advances to credit institutions	8	29,800		30,036
Debt securities issued by public bodies	9	12,509		12,128
			<b>42,353</b>	42,208
<b>Loans and advances to customers</b>				
Loans fully secured on residential property	11	113,311		108,055
Other loans	11	11,349		13,129
			<b>124,660</b>	121,184
Investments	12		85	77
Tangible fixed assets	13		1,284	1,405
Prepayments and accrued income	14		211	216
<b>Total assets</b>			<b>168,593</b>	165,090
<b>Liabilities</b>				
		£000	£000	£000
Shares	15	128,864		132,838
Amounts owed to credit institutions	16	-		1,003
Amounts owed to other customers	17	27,670		18,432
			<b>156,534</b>	152,273
Other liabilities	18		483	877
Provisions for contingent liabilities and commitments	22		116	163
Subordinated liabilities	19		2,750	3,090
<b>Reserves</b>				
Revaluation reserve	20		579	698
General reserve	20		8,131	7,989
<b>Total liabilities</b>			<b>168,593</b>	165,090

The notes on pages 19 to 30 form part of these accounts.

Approved by the Board of Directors on 24 January 2011 and signed on its behalf by:

**S L Young** Chairman

**P J Peacock** Vice Chairman

**M A Wilmot** Acting Chief Executive

# Cash Flow Statement

for the year ended 31 December 2010

	2010 £000	2009 £000
Net cash inflow/(outflow) from operating activities (see below)	48	(359)
Taxation	(281)	(69)
<b>Returns on investment and servicing of finance</b>		
Interest paid on subordinated liabilities	(89)	(114)
<b>Capital expenditure and financial investments</b>		
Purchase of tangible fixed assets	(101)	(62)
Proceeds from disposal of tangible fixed assets	5	-
Purchase of investment in participating interest	(8)	-
<b>Financing</b>		
Repayment of subordinated liabilities	(340)	(375)
Proceeds from issue of subordinated liabilities	-	1,750
<b>(Decrease)/increase in cash</b>	<b>(766)</b>	<b>771</b>

## Notes to cash flow statement

### Reconciliation of operating profit to net cash flow from operating activities

Operating Profit	178	1,015
(Increase)/decrease in prepayments and accrued income	(103)	226
Increase in provision for bad and doubtful debts	213	361
Decrease in provision for losses on financial fixed assets	(250)	(107)
Depreciation and amortisation	440	153
Interest payable on subordinated liabilities	89	114
Loss on disposal of tangible fixed assets	2	3
Profit on disposal of debt securities	(256)	(20)
<b>Net cash inflow from trading activities</b>	<b>313</b>	<b>1,745</b>
Loans and advances made to customers	(13,113)	(13,281)
Loans and advances repaid by customers	9,424	14,989
Net decrease in shares	(3,974)	(15,222)
Net increase in amounts owed to credit institutions and other customers	8,235	11,881
Purchase of debt securities	(64,719)	(14,193)
Proceeds from disposal of debt securities	64,344	2,112
Net (decrease)/increase in loans and advances to credit institutions	(388)	12,153
Net decrease in other liabilities	(27)	(395)
Decrease in provisions for contingent liabilities and commitments	(47)	(148)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>48</b>	<b>(359)</b>

## Reconciliation of cash balances

	2009 £000	Cashflow £000	2010 £000
Cash in hand	44	-	44
Loans and advances to credit institutions - repayable on demand	1,363	(766)	597
<b>Totals</b>	<b>1,407</b>	<b>(766)</b>	<b>641</b>

# Notes to the Accounts

for the year ended 31 December 2010

## 1. Accounting Policies

### Basis of accounting

The financial statements have been prepared under the historical cost convention, except for freehold buildings which are stated at valuation, and have been prepared in accordance with applicable UK Accounting Standards and the Building Societies (Accounts and Related Provisions) Regulations 1998.

Group accounts have not been prepared on the basis that the subsidiary undertakings are dormant and not material for the purpose of giving a true and fair view of the Society as permitted by Regulation 4(3) of the Building Societies (Accounts and Related Provisions) Regulations 1998.

### Corporation tax

Corporation tax is charged in the Annual Accounts on the excess of income over expenditure as adjusted for taxation purposes.

### Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences which have arisen and not reversed at the balance sheet date. Deferred tax assets that arise as a result of timing differences are recognised when their future recovery is assessed as being more likely than not. Provision is made at the rate of tax which is expected to be applied when the liability or asset is expected to crystallise. Deferred tax assets and liabilities are not subject to discounting.

### Fixed assets

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

Freehold buildings are stated at valuation, and in accordance with Financial Reporting Standard No.15 "Tangible Fixed Assets" ('FRS 15') a full revaluation will be carried out at least every two years by an independent valuer. Revaluation surpluses are transferred to a revaluation reserve and transferred to the income and expenditure account 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 and expenditure account.

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
Building alterations	10% on cost
Office furniture	10% on cost
Computer equipment	30% on cost
Motor Vehicles	25% on cost

### Liquid assets

Debt securities intended for use on a continuing basis in the Society's activities are classified as financial fixed assets and are stated at cost as adjusted for amortisation of premiums. Premiums arising on the purchase of financial fixed assets are amortised over the period to maturity date of the security. Any amounts so amortised are charged to the income and expenditure account for the relevant financial years.

Other liquid assets are stated at the lower of cost and net realisable value.

### Provisions for bad and doubtful debts

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

Individual assessments are made of all loans and on properties which are in possession or in arrears at the year end date. Specific provision is made against those loans and advances that are considered to be impaired. In arriving at the specific provision so calculated, 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 and estimated sale expenses.

The general provision is based on an assessment of assets not covered by the specific provision but where the Society's experience and the general economic climate would indicate that losses will ultimately be realised. In arriving at the provision regard is given to the differing risks attached to the various elements of the mortgage book.

Interest in respect of all loans and advances is credited to the income and expenditure account as it becomes receivable.

**Operating lease rentals**

Operating lease charges are recognised in the income and expenditure account in the year in which they are incurred.

**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 and expenditure account for the year is shown in note 5 to the accounts.

**Incentives**

The cost of mortgage incentives is charged as incurred to other operating charges. Interest discounts are allocated to reduce interest receivable over the period of the relevant discounted rate.

**Interest receivable and payable**

Interest is recognised in the income and expenditure account on an accruals basis.

**Other operating income**

Other operating income comprises rent receivable, mortgage early repayment charges, mortgage application fees and other sundry income all of which are recognised on an accruals basis in the period during which they are earned.

**Fees and commissions receivable and payable**

Fees and commissions receivable and payable are recognised on an accruals basis in the period during which they are earned or incurred.

**Segmental reporting**

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

## 2. Interest receivable and similar income

	2010	2009
	£000	£000
On loans fully secured on residential property	3,476	3,616
On other loans	270	326
On debt securities	488	94
On other liquid assets	678	1,093
On loan to participating interest	1	1
<b>Net (expenditure) / income on financial instruments</b>		
Profit on sale of liquid assets	333	7
Premium Amortisation	(469)	(60)
<b>Totals</b>	<b>4,777</b>	<b>5,077</b>

## 3. Interest payable and similar charges

	2010	2009
	£000	£000
On shares held by individuals	2,336	2,589
On deposits and other borrowings	387	178
On subordinated liabilities	89	114
<b>Totals</b>	<b>2,812</b>	<b>2,881</b>

## 4. Administrative expenses

	2010	2009
	£000	£000
Staff costs (note 5)	438	472
Other administrative expenses	549	483
<b>Totals</b>	<b>987</b>	<b>955</b>

**Included in other administrative expenses are:**

Remuneration of auditors		
For statutory audit work	27	25
Other services - taxation	4	3
Operating lease rentals	-	5

## 5. Staff numbers and costs

	2010	2009
	Number	Number
The average number of persons employed by the Society (including the executive directors) during the year was as follows:		
Full time	6	6
Part time	11	11
<b>Totals</b>	<b>17</b>	<b>17</b>

	2010	2009
	£000	£000
The aggregate cost of these persons was as follows:		
Wages and salaries	359	389
Social security costs	37	43
Other pension costs	42	40
<b>Totals</b>	<b>438</b>	<b>472</b>

The Society operates a group personal pension scheme (a defined contribution scheme) of which 15 employees are members.

## 6. Directors

### Remuneration

Total remuneration of the Society's directors for the year was £207,106 (2009 £229,803).

Full details are given in the Directors' Remuneration Report on page 11.

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

### Directors' loans and transactions

At 31 December 2010 there were 3 (2009 4) outstanding mortgage loans granted in the ordinary course of business to 3 Directors (2009 4 Directors) and their connected persons amounting in aggregate to £105,890 (2009 £200,491).

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 2010 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

	2010	2009
	£000	£000
<i>The tax charge for the year comprises:</i>		
Corporation tax at 21% (2009 28.00%) on profit for the year on ordinary activities	37	383
Over provision in previous years corporation tax charge	(137)	(6)
	<b>(100)</b>	377
<i>Deferred taxation (note 21)</i>		
Origination and reversal of timing differences	145	(95)
<b>Totals</b>	<b>45</b>	<b>282</b>
<i>Reconciliation of tax on profit on ordinary activities</i>		
Profit on ordinary activities before tax	178	1,015
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 28% (2009 28.00%)	50	284
Expenses not deductible for tax purposes	8	9
Accelerated capital allowances and other timing differences	(9)	98
Marginal relief	(12)	(8)
Over provision in previous year	(137)	(6)
<b>Totals</b>	<b>(100)</b>	<b>377</b>

## 8. Loans and advances to credit institutions

	2010	2009
	£000	£000
<i>Loans and advances to credit institutions have maturities as follows:</i>		
On demand	597	1,363
In not more than three months	5,502	9,355
In more than three months but not more than one year	11,000	15,750
In more than one year but not more than five years	12,514	3,523
	<b>29,613</b>	<b>29,991</b>
Accrued interest	187	295
	<b>29,800</b>	<b>30,286</b>
Less: Provisions	-	(250)
<b>Totals</b>	<b>29,800</b>	<b>30,036</b>

The provision at the previous year end related entirely to the Society's investment in the Iceland owned bank Kaupthing Singer & Friedlander PLC. During the year this investment was sold for a price of 70p/£1 of investment. This resulted in a release of the provision of £95,000.

## 9. Debt securities issued by public bodies

	2010 £000	2009 £000
Debt securities issued by public bodies have maturities as follows:		
In more than one year but not more than five years	12,343	12,045
Accrued interest	166	83
<b>Totals</b>	<b>12,509</b>	<b>12,128</b>
Analysis of debt securities		
<b>Transferable securities</b>		
Listed on a recognised investment exchange	12,343	12,045
<b>Market value of listed securities</b>	<b>12,227</b>	<b>12,027</b>
Transferable securities held as financial fixed assets:		
Maturity value	11,000	11,500
Unamortised premium	1,343	545
	<b>12,343</b>	<b>12,045</b>
Accrued interest	166	83
<b>Totals</b>	<b>12,509</b>	<b>12,128</b>

The Directors of the Society consider that the primary purpose of holding securities is prudential. The securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities and are classified as "financial fixed assets". Movements during the year of transferable securities held as financial fixed assets are analysed as follows:

	£000
<b>At 31 December 2009</b>	<b>12,045</b>
Additions during the year	64,719
Disposals during the year	(64,088)
Amortisation of premiums - Charge for the year	(333)
<b>At 31 December 2010</b>	<b>12,343</b>

## 10. Provisions for bad and doubtful debts

	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	£000	£000
<b>At 31 December 2009</b>			
General provision	434	53	487
Specific provision	7	-	7
<b>Totals</b>	<b>441</b>	<b>53</b>	<b>494</b>
<b>Income and expenditure account</b>			
<b>Provisions for bad and doubtful debts</b>			
General provision	(43)	61	18
Specific provision	195	-	195
<b>Totals</b>	<b>152</b>	<b>61</b>	<b>213</b>
<b>At 31 December 2010</b>			
General provision	391	114	505
Specific provision	202	-	202
<b>Totals</b>	<b>593</b>	<b>114</b>	<b>707</b>
<b>The charge shown in the income and expenditure account is made up as follows:</b>			
Movement in loss provision (above)			213
Amount written off during the year			675
<b>Total</b>			<b>888</b>

## 11. Loans and advances to customers

	2010	2009
	£000	£000
Loans fully secured on residential property	113,311	108,055
Other loans fully secured on land	11,349	13,129
<b>Totals</b>	<b>124,660</b>	<b>121,184</b>
<b>Maturity analysis</b>		
<b>The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:</b>		
Repayable on demand	160	153
In not more than three months	1,100	579
In more than three months but not more than one year	2,661	4,265
In more than one year but not more than five years	19,690	15,614
In more than five years	101,756	101,067
	<b>125,367</b>	<b>121,678</b>
Less: Provisions (note 10)	(707)	(494)
<b>Totals</b>	<b>124,660</b>	<b>121,184</b>

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, repayment is due immediately.

## 12. Investments

	2010	2009
	£000	£000
<b>Cost and net book value</b>		
Shares in subsidiaries	-	-
Shares in participating interest	3	3
Loans to participating interest	82	74
<b>Totals</b>	<b>85</b>	<b>77</b>

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

	Principal activity	Class of shares held	Interest of Society
Beverley Financial Services Ltd	Dormant	Ordinary	100%
Beverley Property Services Ltd	Dormant	Ordinary	100%
Mutual Vision Technologies Ltd	Computer Software Developer	Ordinary	10.98%

## 13. Tangible fixed assets

	Freehold buildings	Office and computer equipment	Motor vehicles	Total
	£000	£000	£000	£000
<b>Cost or valuation</b>				
<b>At 31 December 2009</b>	1,331	721	43	<b>2,095</b>
Additions	-	75	26	<b>101</b>
Disposals	-	(69)	(22)	<b>(91)</b>
Revaluation	(135)	-	-	<b>(135)</b>
<b>At 31 December 2010</b>	<b>1,196</b>	<b>727</b>	<b>47</b>	<b>1,970</b>
<b>Depreciation</b>				
<b>At 31 December 2009</b>	46	621	23	<b>690</b>
Charge for the year	26	64	16	<b>106</b>
On disposals	-	(68)	(16)	<b>(84)</b>
Revaluation	(26)	-	-	<b>(26)</b>
<b>At 31 December 2010</b>	<b>46</b>	<b>617</b>	<b>23</b>	<b>686</b>
<b>Net book amount</b>				
<b>At 31 December 2010</b>	<b>1,150</b>	<b>110</b>	<b>24</b>	<b>1,284</b>
<b>At 31 December 2009</b>	<b>1,285</b>	<b>100</b>	<b>20</b>	<b>1,405</b>

### 13. Tangible fixed assets (continued)

	2010	2009
	£000	£000
<i>Particulars relating to revalued tangible fixed assets are given below</i>		
Freehold buildings at 2010 open market value	<b>1,150</b>	1,285
Historical cost of revalued assets	<b>817</b>	817

The freehold buildings at 57/58 Market Place, Beverley were valued on 13 December 2010 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 currently occupied by the Society but subject to an existing tenancy. In the opinion of the directors there is no material difference between the current market value and the valuation above.

Freehold land and buildings relate to property substantially occupied by the Society for its own activities.

### 14. Prepayments and accrued income

	2010	2009
	£000	£000
<i>Due within one year</i>		
Prepayments and accrued income	<b>200</b>	205
Stationery stocks	<b>11</b>	11
<b>Totals</b>	<b>211</b>	216

### 15. Shares

	2010	2009
	£000	£000
Shares held by individuals	<b>128,383</b>	132,472
Shares held by others	<b>481</b>	366
<b>Totals</b>	<b>128,864</b>	132,838
<b>Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:</b>		
Accrued interest	<b>731</b>	590
On demand	<b>128,133</b>	132,248
<b>Totals</b>	<b>128,864</b>	132,838

### 16. Amounts owed to credit institutions

	2010	2009
	£000	£000
<b>Amounts owed to credit institutions are repayable from the balance sheet date as follows:</b>		
Accrued interest	-	3
In not more than three months	-	1,000
<b>Totals</b>	-	1,003

## 17. Amounts owed to other customers

	2010	2009
	£000	£000
<b>Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:</b>		
Accrued interest	-	-
On demand	27,670	18,432
<b>Totals</b>	<b>27,670</b>	<b>18,432</b>

## 18. Other liabilities

	2010	2009
	£000	£000
<i>Amounts falling due within one year</i>		
Income tax	216	241
Corporation tax	37	418
Other creditors	230	218
<b>Totals</b>	<b>483</b>	<b>877</b>

## 19. Subordinated liabilities

	2010	2009
	£000	£000
Loans repayable 2015	-	340
Loans repayable 2017	1,000	1,000
Loans repayable 2019	1,750	1,750
<b>Totals</b>	<b>2,750</b>	<b>3,090</b>

The interest rate applicable on all loans is set quarterly and is based on 2.5% above three month LIBOR. The Society has early repayment options with the prior consent of the Financial Services Authority. The options are to repay the loans five years prior to the dates shown. The note holder's rights are subordinate to those of the depositors and other creditors and also to those of the shareholders in respect of share principal and accrued interest.

## 20. Reserves

	General Reserve	Revaluation Reserve
	£000	£000
<b>At 31 December 2009</b>	<b>7,989</b>	698
Profit for the year	133	-
Revaluation	-	(110)
Transfer between reserves	9	(9)
<b>At 31 December 2010</b>	<b>8,131</b>	579

## 21. Deferred taxation

	2010 £000	2009 £000
<i>Deferred tax liability/(asset)</i>		
<b>At 31 December 2009</b>	<b>(131)</b>	(36)
Charge/(credit) for the year	9	(98)
Prior year adjustment	136	3
<b>At 31 December 2010</b>	<b>14</b>	(131)
	<i>Amount recognised</i> £000	<i>Amount recognised</i> £000
<b>The deferred taxation liabilities/(assets) are set out below:</b>		
Corporation tax deferred by accelerated capital allowances	14	(131)
Other timing differences	-	-
<b>Totals</b>	<b>14</b>	(131)

The above deferred tax liability is included within other liabilities (note 18).

## 22. Provision for contingent liabilities and commitments

	FSCS Levy £000
<b>At 31 December 2009</b>	<b>163</b>
Paid in the year	(58)
Charge for the year	11
<b>At 31 December 2010</b>	<b>116</b>

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

The Financial Services Compensation Scheme makes annual levies on all regulated UK deposit takers in relation to its running expenses (the management expenses levy) and any compensation claims made against it (the compensation levy). The levies for each deposit taker are based on its share of the total protected deposits.

The management expenses levy includes the cost of interest on sums borrowed by the FSCS from the Bank of England, and eventually HM Treasury, in order to fund the exceptional compensation payments arising from deposit taker failures during 2008 and 2009. Levies have been notified in relation to the interest costs of amounts borrowed by the FSCS in respect of Bradford & Bingley plc (September 2008), the UK retail deposit taker arms of the Icelandic banks (Heritable, Kaupthing Edge and Icesave - October 2008), London Scottish Bank plc (December 2008) and the Dunfermline Building Society (March 2009).

As a result of information received from the Financial Services Authority, the Society has recognised in this year's accounts a provision totalling £116,000 (2009 £163,000) comprising the management expenses levy covering the period to March 2012. This provision has been calculated with reference to the level of the Society's protected deposits at 31 December 2009 and 2010. The Society has already made payments to the FSCS of £57,262 and £58,100 in respect of the scheme years to 31 March 2009 and 2010 respectively.

The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective Bank of England loans.

### b. Other Commitments

#### Capital commitments

Capital commitments at 31 December 2010, for which no provision has been made in the accounts, were as follows:

	2010 £000	2009 £000
<b>Contracted</b>	<b>36</b>	48

## 23. Interest rate risk

The Society is exposed to movements in interest rates, and manages this exposure on a continuous basis, within the limits set by the Board, using a combination of on and off balance sheet instruments. The interest rate sensitivity of the Society at 31 December 2010 was:

<b>Assets</b>	<b>Not more than 3 months £000</b>	<b>More than 3 months but not more than 6 months £000</b>	<b>More than 6 months but not more than 1 year £000</b>	<b>More than 1 year but not more than 5 years £000</b>	<b>Non interest bearing £000</b>	<b>Total £000</b>
Liquid assets	13,617	5,000	6,000	17,338	398	<b>42,353</b>
Loans fully secured on residential property and other loans	121,835	-	470	3,062	(707)	<b>124,660</b>
Tangible fixed assets	-	-	-	-	1,284	<b>1,284</b>
Other assets	-	-	-	-	296	<b>296</b>
<b>Total assets</b>	<b>135,452</b>	<b>5,000</b>	<b>6,470</b>	<b>20,400</b>	<b>1,321</b>	<b>168,593</b>
<b>Liabilities</b>						
Shares	128,133	-	-	-	731	<b>128,864</b>
Deposits and other borrowings	27,670	-	-	-	-	<b>27,670</b>
Other liabilities and provisions	-	-	-	-	599	<b>599</b>
Subordinated liabilities	2,750	-	-	-	-	<b>2,750</b>
Reserves	-	-	-	-	8,710	<b>8,710</b>
<b>Total liabilities</b>	<b>158,553</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,090</b>	<b>168,593</b>
<b>Interest rate gap</b>						
<b>At 31 December 2010</b>	<b>(23,101)</b>	<b>5,000</b>	<b>6,470</b>	<b>20,400</b>	<b>(8,769)</b>	<b>-</b>

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, 11 and 15.

## 23. Interest rate risk (continued)

Comparative position as at 31 December 2009

Assets	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	Non interest bearing	Total
	£000	£000	£000	£000	£000	£000
Liquid assets	12,718	7,000	6,500	15,568	422	42,208
Loans fully secured on residential property and other loans	119,898	-	-	1,780	(494)	121,184
Tangible fixed assets	-	-	-	-	1,405	1,405
Other assets	-	-	-	-	293	293
<b>Total assets</b>	<b>132,616</b>	<b>7,000</b>	<b>6,500</b>	<b>17,348</b>	<b>1,626</b>	<b>165,090</b>

## Liabilities

Shares	132,248	-	-	-	590	132,838
Deposits and other borrowings	19,432	-	-	-	3	19,435
Other liabilities	-	-	-	-	1,040	1,040
Subordinated liabilities	3,090	-	-	-	-	3,090
Reserves	-	-	-	-	8,687	8,687
<b>Total liabilities</b>	<b>154,770</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,320</b>	<b>165,090</b>

## Interest rate gap

<b>At 31 December 2009</b>	(22,154)	7,000	6,500	17,348	(8,694)	-
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Liquid assets comprise cash in hand, loans and advances to credit institutions and debt securities.

Other liabilities comprise corporation tax, income tax and other creditors.

## 24. Financial instruments

### Fair value of financial instruments

Set out below is a comparison of book and fair values of some of the Society's financial instruments (including accrued interest) by category at 31 December 2010. Market values have been used to determine fair values.

The table excludes certain financial assets and liabilities which are not listed or publicly traded or for which a liquid and active market does not exist. It therefore excludes such items as mortgages, share accounts and deposits with other credit institutions.

	2010 Book Value	2010 Fair Value	2009 Book Value	2009 Fair Value
	£000	£000	£000	£000
<b>On balance sheet items</b>				
Loans and advances to credit institutions	29,800	29,800	30,036	30,036
Debt Securities	12,509	12,227	12,128	12,027
Amounts owed to other customers	(27,670)	(27,670)	(19,435)	(19,435)
Subordinated liabilities	(2,750)	(2,750)	(3,090)	(3,090)
<b>Totals</b>	<b>11,889</b>	<b>11,607</b>	<b>19,639</b>	<b>19,538</b>

# Annual Business Statement

for the year ended 31 December 2010

## 1. Statutory percentages

	2010	Statutory Limit
	%	%
Lending limit	9.33	25.00
Funding limit	17.98	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

	2010	2009
	%	%
<b>As a percentage of shares and borrowings</b>		
Gross capital	7.32	7.73
Free capital	6.82	7.13
Liquid assets	27.06	27.72
<b>Profit for the year as a percentage of mean total assets</b>	<b>0.08</b>	0.44
Profit for the year before provisions and taxation as a percentage of mean total assets	0.59	0.76
<b>Management expenses as a percentage of mean total assets</b>	<b>0.65</b>	0.62

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

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

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

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

Mean total assets are the average of the 2009 and 2010 total assets.

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

Management expenses represent the aggregate of administrative expenses and depreciation.

### 3. Information relating to directors

As at 31 December 2010

Name and date of birth	Date of appointment	Business occupation	Other directorships
<b>S L Young</b> ACII <b>Chairman</b> (22.12.1950)	1992	Insurance Broker	Beverley Financial Services Ltd Beverley Property Services Ltd The Direct Investment Bureau Ltd
<b>P J Peacock</b> <b>Vice Chairman</b> (07.08.1958)	1999	Local Councillor	None
<b>M A Wilmot</b> ACA <b>Finance Director</b> (27.01.1956)	2000	Finance Director	None
<b>R M Miles</b> FCA (29.04.1952)	2006	Chartered Accountant	Jackson Robson Licence Ltd Jackson Robson (Financial Services) Ltd Neptune Sonar Limited Solutions for Business (UK) Ltd Beverley Financial Services Ltd Beverley Property Services Ltd
<b>P S Render</b> FRICS (15.01.1944)	1986	Chartered Surveyor	None
<b>J D Good</b> (06.04.1954)	2002	Marketing Consultant	John Good and Sons Ltd
<b>B Young</b> FCMA (27.03.1952)	2009	Cost and Management Accountant	None

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

The Executive Director M A Wilmot has a service contract with the Society, termination of which may be effected by either party giving not less than six months written notice.

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## NOTES



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