PENRITH BUILDING SOCIETY

Annual Report and Accounts

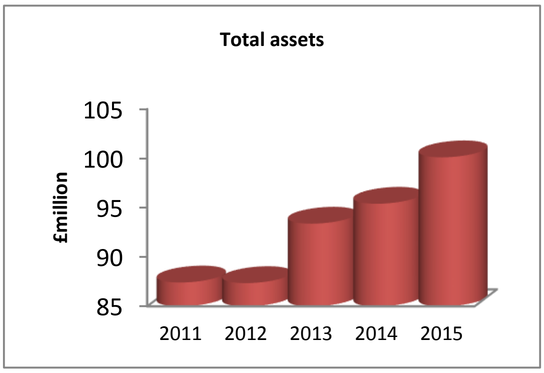
31st December 2015

SOCIETY PERFORMANCE OVER THE PAST 5 YEARS
FOR THE YEAR ENDED 31ST DECEMBER 2015

The Society uses a number of key performance indicators to measure and monitor performance. A summary of these measures over the last five years has been provided below. The data for 2014 and 2015 has been restated following the adoption of Financial Reporting Standard 102, which is explained further in note 28 on pages 32 to 34.

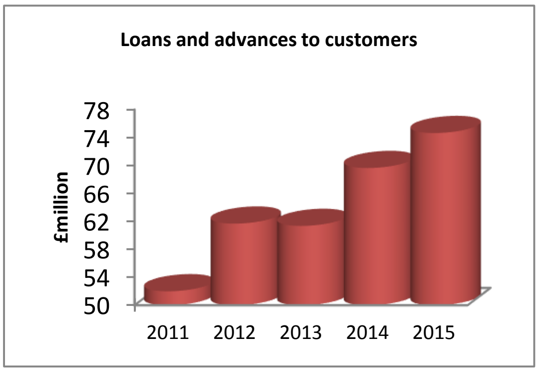
Total Assets

The Society has seen growth in its total assets in the past five years to a level of £100.08 million in 2015. (2014: £95.37 million).



The focus continues to be on attracting good quality residential mortgage assets to replace liquid assets (being cash and treasury investments) to improve the margin. Liquid assets have been reduced to £24.38 million in 2015 (2014: £24.83 million), representing 24.36% (2014: 26.04%) of total assets and 27.31% (2014: 29.30%) of total shares and amounts owed to other customers.

Liquidity requirements are reviewed on an ongoing basis. Also, to meet regulatory requirements an assessment of the Society's liquidity position, policies and procedures (Individual Liquidity Systems Assessment) is carried out by management and approved by the Board annually.



Loans and advances to customers

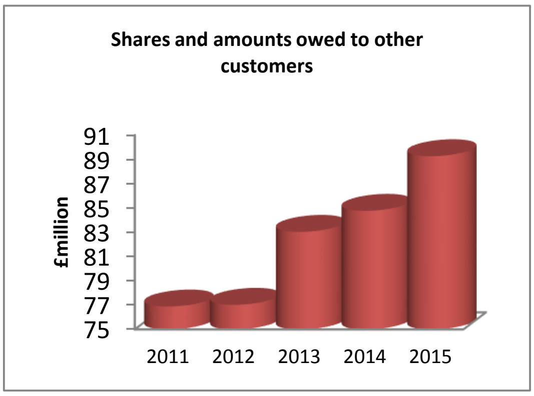
New mortgage lending in 2015 totalled £18.12 million, following on from a record lending year in 2014 of £23.13 million. There were 171 advances, including 24 further advances. The strategy to improve net interest income through mortgage lending growth has seen net growth on the mortgage book since 2011 exceed 44%. This is a significant increase in mortgage assets, which now stand at £74.62 million (2014: £69.62 million). This has been achieved at a time of continuing changes in the way regulated mortgages are sold across the financial services industry. These changes are continuing in 2016 with the introduction of the European Mortgage Credit Directive.

At 31st December 2015 there was one mortgage (2014: three) where the repayment of principal and interest was twelve or more months in arrears. The total amount of arrears on this case was £9,801 (2014: £20,332) on a balance totalling £176,376 (2014: £231,512). The case has a low loan to value ratio, hence no individual provision is held against the loan. This has confirmed a continuing trend of declining arrears cases over the last five years in the current low interest rate environment. The Society had four properties in possession (2014: four) at the end of 2015.

The Society will continue to take all necessary action to minimise loss and to ensure that the provisions of the lending policy are monitored so that due account may be taken of prevailing economic conditions.

Shares and amounts owed to other customers

Shares and amounts owed to other customers have grown by 5.32% to a total of £89.27 million at the year end (2014: £84.76 million). As with mortgages, this has been a strategic decision to grow in the core areas of the business over recent years and since 2011 this growth has been over 15%.



The Society continues to make changes to its product range to ensure that the products on offer are meeting customer needs. Rate changes were also made to some accounts in accordance with business requirements. Regular Saver products and the periodic Bonds continue to bring in both new monies and customers to the Society. Further new product launches to refresh our range are planned for 2016, in our ISA range in particular, for the benefit of both existing and new customers.

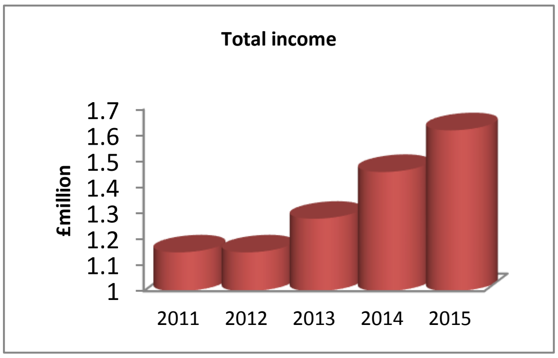
SOCIETY PERFORMANCE OVER THE PAST 5 YEARS continued

FOR THE YEAR ENDED 31ST DECEMBER 2015

Profit for the year

The Society made a profit for the year after taxation of £165,404 and so continues to strengthen its financial position (2014: £118,929).

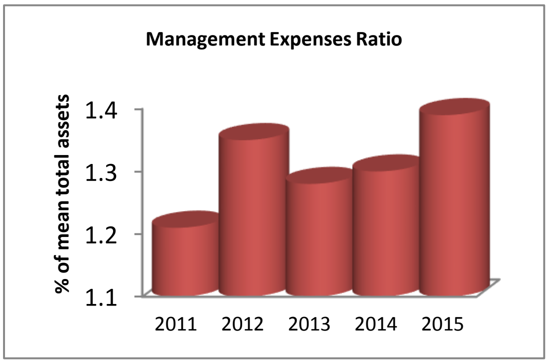
The continued positive mortgage activity has contributed to the improvement in total income to £1.62 million (2014: £1.46 million). The Society has continued to keep fees for mortgage products at a low level and in many cases will pay fees on behalf of customers. In addition, introducer fees are paid to brokers through which the Society sources mortgage business. However, the operating profit before provisions has still grown to £248,896 (2014: £228,877).



The overall level of both individual and collective provisions has increased slightly to £303,200 (2014: £296,474). The performance of the mortgage back book continues to be good in the low interest rate environment, with arrears being managed through arrangements with the affected borrowers being put in place. We continue to set aside funds to cover our share of the Financial Services Compensation Scheme levy, as a result of the failure of other financial services institutions in recent years. The charge in 2015 decreased to £54,898 (2014: £66,731).

Management Expenses

Management expenses including depreciation were £1.38 million (2014: £1.23 million), an increase of 11.60%. The cost income ratio has also increased slightly to 84.68% by the end of 2015 (2014: 84.34%). Management expenses expressed as a ratio of mean total assets is 1.41% (2014: 1.30%).

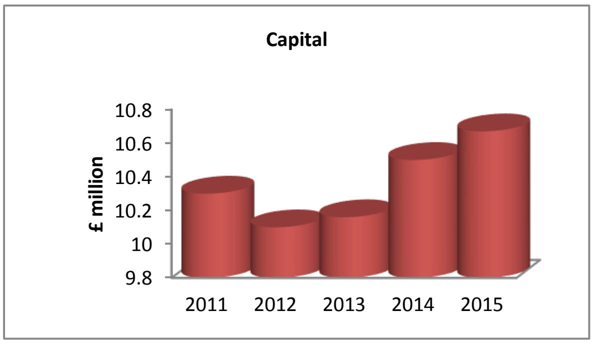


The rise in the cost base is attributed to further investment in people and the Society's office in King Street. This has seen a full refurbishment of the branch area as a response to customer feedback in terms of the preferred way to interact with our staff. New recruits in this team have helped to shape our customer interactions. The Society continues to invest in technology and ongoing projects started in 2015 will allow mortgage applications to be made on-line with on-line savings access to take place by the end of 2016.

Capital

At 31st December 2015, the Society's capital has increased to £10.66 million (2014: £10.50 million). A satisfactory level of capital must be maintained to ensure the Society is protected against any adverse changes in economic conditions in general or in circumstances particular to the Society.

The free capital ratio (the aggregate of general reserve and collective impairment for losses on loans and advances less tangible and intangible assets) arising from this was 11.72% of total shares and amounts owed to other customers (2014: 12.22%).



Gross capital amounted to 11.94% of total shares and amounts owed to other customers (2014: 12.38%). Our free and gross capital ratios continue to be amongst the highest in the sector.

Risk assessment is carried out on an ongoing basis. To meet regulatory requirements, an Internal Capital Adequacy Assessment Process is carried out and approved by the Board annually.

Details of the Society's Basel II disclosures for Pillar 3 are available on the website, www.penrithbuildingsociety.co.uk

DIRECTORS' REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2015

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31st December 2015.

Business Review

The principal business activity of the Society is the provision of long-term residential mortgages to borrowers, financed by personal savings from members, in keeping with traditional building society principles and values.

2015 has been a milestone year for the Society as we passed £100 million of assets held to set a new record level and we are also able to report increased profits year on year. We are thus able to invest in our business, our people and our technology and also to ensure that we set aside sufficient annual profits to build a healthy capital base for the future. Added to this is another rise in our membership base and the creation during 2015 of an attractive branch office environment. This has been another year of steady progress for your Society.

As has been the case since 2009, our core mortgage markets have been challenging. Furthermore, the low interest rate environment has continued to be difficult for savers. It is therefore very positive that the Society continues to make progress in both markets despite the continuing challenges. The Government's Funding for Lending Scheme has meant that the supply of cheap money to many institutions has continued to reduce mortgage pricing over the year. This can of course have an impact on the Society's savers rates, but we are pleased to report that we have kept any interest rate movements to a minimum. We understand the importance of balancing the needs of both savers and borrowers.

As can be seen from the key financial highlights below, the Society has performed well:

- Record assets of £100.08 million
- Gross mortgage advances at £18.12 million – our second highest ever after a record year in 2014 of £23.13 million
- Profit before tax increased 34.94% over 2014 and stands at £200,724 (2014: £148,754)
- Mortgage assets have increased by 7.19% to a new record level of £74.62 million (2014: £69.62 million)
- Increased reserves to £10.66 million or 11.94% of shares and amounts owed to other customers (2014: £10.50 million and 12.38% respectively)
- Net interest receivable of £1.55 million has increased from £1.44 million in 2014 on the back of improved margins

During 2015, we completed a major branch office refurbishment. This has been well received by our customers. Easier access and fast till positions have been created where business can be transacted quickly with our trained customer representatives. Private interview positions have been provided where more complex financial services needs can be discussed, again with that personal touch our customers value.

Mortgages

Gross lending in 2015, while lower than the year before, was nevertheless satisfactory considering the fierce competition in the market and borrowers' propensity to look for fixed mortgage rates covering longer periods than we are able to offer. However, increasing the size of our mortgage book by £5 million, as a result of lower redemptions and more borrowers wishing to continue their relationships with us, represents real progress. The increase in mortgage assets has not been at the expense of reducing our credit risk approach.

Savers

This competitive mortgage rate environment combined with the record low level of Bank of England base rates, which has now lasted for seven years, has created significant downward pressure on rates paid to savers. The Society cannot remain immune from such conditions, but at all times the Board has sought to ensure that the rates offered to investors are competitive.

Investment

The Society continues to invest in better services for members and also in attracting and recruiting talented people to the organisation. Both are critical to the ongoing success of the Society and to meet changes to customer behaviours and expectations. In 2015 we completed a major technology-related enhancement through our partner organisation, Mutual Vision Technologies Limited, that will bring increased efficiencies in the way that we handle transactions. We now plan to invest further in technology allowing greater access to our services, improved efficiency and the ability to continue to meet the increasing flow of regulation.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2015

Business Review, continued

Our People

We know how much you value the level of personal service that a local society provides over and above that which can be found elsewhere in all areas of business life. What has been considered old fashioned in recent years is now seen as the right and proper way of doing things as many other sectors and industries struggle with issues of trust and integrity. We are proud of our staff who have all dedicated themselves to the provision of simple, great value products, coupled with the highest levels of service. The staff work hard to serve members' needs and we are delighted with your positive feedback provided either directly to us or via our customer surveys, which have shown some great results.

Outlook for 2016

It is difficult to forecast market conditions that will prevail during the next three years, but it is important to understand that most commentators are uncertain about the timing of the first rise in base rates. It seems that, if it happens at all, it will be later in 2016, or even 2017. In the meantime, housing market transaction volumes appear more subdued than a year ago and this will probably continue in 2016. Recent economic data suggests the UK economy is still set to grow in 2016 but that inflation will remain very low. We continue to see strong downward pressure on interest rates as competition in the mortgage market increases even further. The Society cannot ignore the market it operates in and so the Board will continue to keep a close eye on its interest rate structure in both the savings and mortgage market.

The Society only exists because of its members and we remain determined to strive to improve access to our services further. We will continue to offer competitive products to first time and other homebuyers. We will maintain margins to keep the confidence of our Regulators and of you, the members, in our financial strength. We plan to increase further the ability of our branch team to deal with your more complex financial services needs. Our staff receive on-going training so that we can help you to make informed decisions to fulfil your current and future requirements.

We are grateful for the dedication of management and staff who continue to provide members with an excellent personal service. The Society remains committed to being customer led and member owned, providing financial security and long-term value and choice for current and future generations of members.

Principal Risks and Uncertainties

The Society maintains a policy of low exposure to risk so as to maintain public confidence and to allow the achievement of its corporate objectives. There is a formal structure for risk management in place which includes full control procedures as well as the establishment of risk limits, mandates and reporting lines. All risk management policies are reviewed regularly by the Board.

The main risks to which the Society is exposed are detailed below:

Credit Risk

This is the risk of a customer or counterparty not meeting obligations when they fall due. All applications for mortgages are assessed individually under the Board approved Responsible Lending Policy and existing mortgages are monitored regularly for potential default. With regard to investments, the Board has set appropriate credit limits covering exposure to individual counterparties, sectors and countries and processes are in place to ensure that such limits are not breached.

Interest Rate Risk

This is the risk of exposure to movements in interest rates. The Society has a small tranche of fixed rate mortgage and savings products and this risk arises from the exposure to fixed rate investments including Certificates of Deposit, Gilts and Treasury Bills. This risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society at 31st December 2015 is detailed in note 28 to the accounts.

Liquidity Risk

This is the risk of the Society being unable to meet its financial obligations as they fall due. The Board approved Liquidity Policy requires that sufficient liquid resources be held to ensure that all fluctuations in funding are covered, public confidence is maintained and the Society is able to meet any calls on funds when they fall due.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2015

Principal Risks and Uncertainties, continued

Concentration Risk

This is the risk of loss due to a large individual or connected exposure that could be affected by common factors and the risk to the Society of its geographical concentration in Cumbria. The Board sets maximum limits for exposures to individual borrowers and treasury counterparties. It also monitors lending both within the county and externally and has set targets to increase the national coverage to mitigate the local concentration risk.

Conduct Risk

This is the risk of the Society not being fair to its customers in all dealings with them. The Board monitors the Society's response to this risk through the Conduct Risk Committee, which considers within its role new product development, the existing product base, customer feedback and complaints and overall trends in customer management information.

Operational Risk

This is the risk of loss through inadequate or failed systems, human error or other external factors. All areas of the Society's business have appropriate Board approved systems of control and policies and adherence to these is monitored by senior management and the Audit, Risk and Compliance Committee.

Reputational Risk

This is the risk of events arising which damage our reputation or lead to loss of public confidence. The Society has controls in place which are monitored by the Board with an aim to safeguard members' funds at all times and periodically reviews risks and contingency funding strategies through disaster recovery tests.

Financial Risk

The Society is a retailer of financial instruments in the form of mortgage and savings products and also uses wholesale financial instruments to invest in liquid assets and, if necessary, to raise funds from wholesale money markets in support of its retail savings operations. These instruments also allow the management of risks arising from these business markets.

Country by Country Reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1st January 2014 and place certain reporting obligations on financial institutions that are within the scope of the Capital Reporting Directive IV (CRD IV). The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements as at 31st December 2015 are included in note 3 on page 21.

Land and Buildings

The Directors consider that the overall market value of the Society's Principal Office is in excess of the book value.

Donations

During the year charitable donations totalling £7,637 (2014: £6,832) were made. No contributions were made for political purposes.

Post Balance Sheet Events

There are no post balance sheet events to report.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2015

Directors

The following persons were Directors of the Society during the year:

Non-Executive Directors	
R J Cairns	Chairman
D Driver	(Retired 29th April 2015)
J Lincoln	
W Lindsay	(Appointed 1st June 2015)
N Ruane	(Appointed 1st June 2015)
G Silburn	Vice Chairman
A G Waterfield	Senior Independent Director
Executive Directors	
A S Fazal	Chief Executive
E L James	Finance Director

Mr Lindsay and Mrs Ruane, having been appointed to the Board in 2015, are eligible for election in accordance with Rule 25(5) and offer themselves for election. Mr Silburn will retire from the Board at the AGM on 20th April 2016. The Directors note their appreciation to Mr Silburn for his services to the Society over many years and his wise counsel during that time.

During the 12 months ended 31st December 2015, Mr Fazal has been a non-executive director of Mutual Vision Technologies Limited, which provides IT services to the Society. There were no other associated bodies in which the Society or its Directors had an interest.

Staff

The Directors are pleased to record their appreciation to management and staff for their hard work and loyal service rendered during the year.

The Board encourages the personal development and training of both management and staff in order to ensure that employees have sufficient expertise, qualifications and relevant skills to provide the standard of service required. Wherever appropriate, staff and management attend suitable training courses and seminars to support their personal development.

Going Concern

Forecasts of the Society's financial position for the period ending twelve months from the date of the signing of these accounts have been prepared. The effects of various stressed scenarios on the Society's financial position have also been calculated. These forecasts have satisfied the Directors 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.

The Society's board is heartened by and would like to express our sincere gratitude for the continuing strong support and loyalty shown by you, the members.

Approved and signed on behalf of the Board

A S Fazal (Director & Chief Executive)
10th March 2016

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2015

The Society's Board views good corporate governance as an essential part of the Board's responsibility to the Society's members. The Society has regard to the UK Corporate Governance Code issued by the Financial Reporting Council in developing its policies and procedures, including the revisions effective from 1 October 2014, as set out below:

Leadership

The Board

The Board provides leadership and direction in achieving the Society's objectives and activities and is responsible for the continued success of the Society for its members. It is responsible for setting strategy, formulating policies and providing guidance on the management of the Society. It regularly reviews financial performance and ensures that there are effective risk management controls and procedures in place.

Board Composition

The Board comprises two Executive Directors (the Chief Executive and Finance Director) and six Non-Executive Directors. The Executive Directors are responsible for the day to day management of the Society within the guidelines set by the Board. Non-Executive Directors are essential for the governance of the Society providing, amongst other things, challenge to the Executive Directors and senior management, setting objectives, monitoring performance and determining remuneration of the Executive Directors.

The Chairman, a Non-Executive Director, is elected annually by the Board. The main role of the Chairman is to lead the Board and ensure its effective operation in all aspects of its role.

Effectiveness

Board Independence

The Board considers that all of its Non-Executive Directors are independent. Mr Waterfield is Senior Independent Director and is available to members having any concerns which they consider would be inappropriate to discuss with the Executive Directors or senior management.

The Society's rules require all Directors to submit themselves for election by members within sixteen months of their appointment to the Board and for re-election every three years thereafter.

Board Appointments

Where the need for a new director is identified for any reason the Chief Executive prepares a description of the person required based on the skills, qualifications and experience needed to ensure an adequate balance of skills at Board level. The Nominations Committee, which includes the Chairman, oversees the recruitment of all Directors.

A formal recruitment process will be employed and may include the advertising of the position in appropriate media, canvassing the Society's membership or use of an external search agency. The most recent board appointments, Mr Lindsay and Mrs Ruane were as a result of contact within the building society sector during the search process and through local contacts in the Penrith area respectively.

The Chairman of the Board, where possible, is appointed from among the existing non-executive directors. Where there is no suitable candidate identified, an external search agency would be used.

The Board has regard to the Walker Report on Diversity.

It is necessary for Board appointments to be approved by the Society's Regulators under the Approved Persons Regime and this may include a personal interview with the Financial Conduct Authority or Prudential Regulation Authority or both.

CORPORATE GOVERNANCE REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2015

Performance Evaluation

A formal process exists to evaluate, on an annual basis, the performance and effectiveness of individual Directors and of the Board as a whole. In 2015, the appraisal of the Chairman was carried out by the Chief Executive and the Senior Independent Director. The other Non-Executive Directors' appraisals were carried out by the Chief Executive and Chairman. These appraisals are based on a number of factors including attendance at meetings and external events, contribution and performance at meetings and challenge to the Executive.

Appraisal of the Chief Executive is carried out by the Chairman and Senior Independent Director and the appraisal of the Finance Director is carried out by the Senior Independent Director and Chief Executive. Both these individuals are appraised on an annual basis.

The effectiveness of the Board as a whole and its committees is reviewed annually by the Board.

Fitness and Propriety

All Directors must meet the fitness and propriety requirements under the Approved Persons Regime and must complete a questionnaire confirming their continued compliance with this requirement.

All Directors are provided with clear, timely and accurate information to enable them to fulfil their duties and responsibilities. They have access to the advice of the Secretary. In addition, any Director may take independent professional advice at the Society's expense should this be considered necessary.

There are ever increasing burdens on Non-Executive Directors. They must devote considerable time to the Society. As well as attendance at Board Meetings, there must be a commitment to develop skills and knowledge from both internal and external sources to enable them to fulfil their duties and responsibilities. All new Directors are provided with induction training and all Directors are encouraged to attend training courses, seminars and other events to maintain up to date knowledge of the matters affecting the Society and the building society sector as a whole.

Accountability

The Executive Directors and senior management have created a Risk Management Framework to identify, quantify (if possible) and manage risks faced by the Society. The Board is responsible for the oversight and challenge of this process and reviews the risk strategy and policies on a continual basis as both internal and external factors impact on the day to day activities of the Society.

The Board has delegated the responsibility for managing internal control to the Executive Directors and senior management. The Internal Audit function has been outsourced and provides independent assurance to the Board through the Audit, Risk and Compliance Committee that these controls are adequate and effective.

Board and Committee Meetings

Main Board Meetings are generally held monthly. Additional meetings may be called as required.

Following the principles of good corporate governance, the Board has established certain committees to advise on various issues. The terms of reference for these committees may be obtained from the Secretary. The committees in question are outlined below and a table detailing meeting attendances is provided at the end of the section.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee (ARCC) consists of Mrs Lincoln, Messrs Silburn and Lindsay, the latter being appointed to the Committee on 1st June 2015. Mrs Lincoln is Chair of the Committee and is a retired Building Society Finance Director. Mr Driver stepped down from the Committee at 30th April 2015 when he retired from the Board. In addition, representatives of the outsourced and internal Compliance Functions, Internal and External Auditors and the Executive Directors attend most of these meetings.

The principal purposes of the Committee include ensuring that the Society complies with all regulatory and prudential requirements and reviewing the Society's internal controls and management systems against the Society's risk management environment. The Committee is also responsible for the review of the effectiveness of the compliance monitoring and internal audit functions, approval of their respective annual review plans and the monitoring of the External Auditor's independence, objectivity and effectiveness.

CORPORATE GOVERNANCE REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2015

Board and Committee Meetings, continued

Conduct Risk Committee

The Conduct Risk Committee (CRC) consists of Messrs Silburn, Lindsay, Fazal and Miss James. Mr Silburn is Chair of the Committee. Mr Lindsay was appointed to the committee on 1st June 2015 following the retirement of Mr Driver. Four members of the Society's staff also attend the meetings. The Committee has oversight of the Society's policies and procedures in all areas having an impact on the Society's members and makes recommendations thereon to the Board and management.

Remuneration Committee

The Remuneration Committee is comprised of the Society's Non-Executive Directors. The Chairman of the Remuneration Committee was Mr Cairns until 18th June 2015 when Mrs Ruane was appointed in this role. The Committee is responsible for setting the Society's remuneration policy for Executive Directors and Non-Executive Directors Fees. The Committee also sets all other benefits and matters relevant to Executive Directors including contracts of employment with the Society. The Directors' Remuneration Report for 2015 is on page 10.

Nominations Committee

The Nominations Committee is comprised of Messrs Cairns, Waterfield and Fazal. Mr Waterfield is Chair of the Committee. The Committee is responsible for making recommendations on appointments to the Board, ensuring that the Board has sufficient directors with appropriate skill sets, who are fit and proper and independent. The Committee has an annual responsibility to review the Society's Succession Plan and to ensure this remains appropriate to the on-going needs of the Society.

The following table details attendance of the Directors at the Board and Committee meetings held during 2015:

	Board	CRC	ARCC	Remuneration	Nominations
Number of meetings in 2015	**11**	**4**	**4**	**1**	**3**
R J Cairns (Chairman)	11(11)	-	-	1(1)	3(3)
G Silburn	11(11)	4(4)	4(4)	1(1)	-
A G Waterfield	10(11)	-	-	1(1)	3(3)
J Lincoln	11(11)	-	4(4)	1(1)	-
W Lindsay	7(7)	3(3)	3(3)	1(1)	
N Ruane	7(7)	-	-	1(1)	-
D Driver	3(3)	1(1)	1(1)	-	-
A S Fazal	11(11)	4(4)	-	-	3(3)
E L James	11(11)	4(4)	-	-	-

(Brackets denote the number of meetings an individual was eligible to attend)

Assets and Liabilities Committee

The Society has a separate Assets and Liabilities Committee (ALCO). This is a management committee chaired by the Chief Executive which reports monthly to the Board. The Committee monitors liquidity and treasury risk and reviews product development for both savings and mortgages against the market. It also reviews forward looking economic data and how the Society's cash flow forecasts and budget projections respond and adapt to market conditions.

Relationship with Members

The Society's on-going relationship with its members is an important area of focus. In 2015 opportunities to engage directly with members, included the Annual General Meeting, Super Saturday events in-branch, launch of the refurbished branch office, the Christmas gathering and the Penrith Show. These will continue in 2016, with the first being the Annual General Meeting of the Society on 20th April 2016.

Approved and signed on behalf of the Board

R J Cairns (Chairman)
10th March 2016

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2015

The Society's remuneration policy is to reward directors through salary and fees according to their skills, expertise, experience and overall contribution, taking into account salary and fee levels in comparable organisations.

The Board will include an advisory resolution on the Directors' Remuneration Report at the forthcoming Annual General Meeting.

Executive Directors

The Society's policy is to set remuneration at levels sufficient to attract and retain executives of sufficient calibre and expertise.

Executive Directors' remuneration comprises basic salary and pension benefits. The Society does not have bonus or share option schemes. Their salaries are considered by the Remuneration Committee which meets at least once a year. Salary levels are set having regard to job content and responsibilities, the performance of the individual and salaries in similar organisations.

The Society does not have a defined benefit final salary pension scheme. The Society makes contributions to the private pension arrangements of the Executive Directors.

The Chief Executive's and Finance Director's contracts of employment require a 12 month and 6 month notice period respectively.

Non-Executive Directors

The remuneration of all Non-Executive Directors is fee based and is reviewed annually by the Board. They do not participate in any performance pay scheme, pension arrangements or other benefits and do not have service contracts.

The Chairman of the Board, Chairman of the Audit, Risk and Compliance Committee, the Chairman of the Conduct Risk Committee and Chairman of the Nominations Committee receive higher fees than other Non-Executive Directors in recognition of the additional workload and responsibilities incumbent on those positions.

Details of Remuneration are set out in note 8 to the accounts.

Approved and signed on behalf of the Remuneration Committee

R J Cairns (Board Chairman)
10th March 2016

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE ANNUAL BUSINESS STATEMENT, THE DIRECTORS' REPORT AND THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2015

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

The Building Societies Act 1986 ("the Act") requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

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

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

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

Directors' responsibilities for accounting records and internal controls

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;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENRITH BUILDING SOCIETY

We have audited the annual accounts of Penrith Building Society for the year ended 31st December 2015 set out on pages 13 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11 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.

Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Society as at 31st December 2015 and of the income and expenditure of the Society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year 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.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
10th March 2016

INCOME STATEMENT (INCLUDING STATEMENT OF COMPREHENSIVE INCOME)
FOR THE YEAR ENDED 31ST DECEMBER 2015

	Notes	2015 £	2014 £
Interest receivable and similar income	4	2,687,872	2,613,395
Interest payable and similar charges	5	(1,134,482)	(1,175,156)
Net interest receivable		1,553,390	1,438,239
Fees and commissions receivable		12,976	14,137
Other operating income		58,001	9,049
Total income		1,624,367	1,461,425
Administration expenses	7	(1,316,728)	(1,182,841)
Depreciation and amortisation	18/20	(58,743)	(49,707)
Operating profit before provisions		248,896	228,877
Impairment gains/ (losses) on loans and advances	15	6,726	(13,392)
Provisions for FSCS scheme levy	25	(54,898)	(66,731)
Profit on ordinary activities before tax		200,724	148,754
Tax on profit on ordinary activities	10	(35,320)	(29,825)
Profit for the financial year		165,404	118,929

Profit for the financial year arises from continuing operations and is attributable to members.

The notes on pages 16 to 34 form part of these accounts.

STATEMENT OF FINANCIAL POSITION
AT 31ST DECEMBER 2015

	Notes	2015 £	2014 £
Assets			
Liquid assets:			
Cash in hand	11/12	34,226	39,914
Treasury bills	13	7,742,601	6,494,686
Loans and advances to credit institutions	12	9,004,662	9,103,672
Debt securities	13	7,600,965	9,196,635
		24,382,454	24,834,907
Loans and advances to customers			
Loans fully secured on residential property		73,417,327	68,317,385
Loans fully secured on land		1,202,604	1,299,802
	14	74,619,931	69,617,187
Investments			
Other investments	16	173,015	173,015
Tangible fixed assets	18	156,968	106,056
Investment properties	19	421,000	377,500
Intangible fixed assets	20	96,082	91,380
Other debtors	17	226,651	173,728
Total Assets		100,076,101	95,373,773
Liabilities			
Shares	21	87,792,071	83,216,313
Amounts owed to other customers	22	1,474,355	1,539,655
Deferred tax liability	23	48,444	13,124
Other liabilities	24	59,967	66,578
Accruals and deferred income		8,274	6,983
Provisions for liabilities	25	31,562	35,096
		89,414,673	84,877,749
Reserves			
Total reserves attributed to members of the Society		10,661,428	10,496,024
Total reserves and liabilities		100,076,101	95,373,773

Approved by the Board of Directors on 10th March 2016 and signed on its behalf by:

R J Cairns (Chairman) **J Lincoln (Director)** **A S Fazal (Director & Chief Executive)**

The notes on page 16 to 34 form part of these accounts.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2015

	2015	2014
	£	£
Net cash outflow from operating activities (see reconciliation below)	(1,222,481)	(3,168,047)
Taxation	(3,536)	(16,626)
Cash flows from investing activities:		
Purchase of debt securities and fixed term deposits	(23,824,742)	(18,424,096)
Proceeds from sale and maturity of debt securities and fixed term deposits	24,070,291	19,444,658
Purchase of tangible and intangible fixed assets	(114,357)	(66,173)
Decrease in cash and cash equivalents	**(1,094,825)**	**(2,230,284)**
Cash and cash equivalents at beginning of year	6,627,863	8,858,147
Cash and cash equivalents at end of year	**5,533,038**	**6,627,863**
Represented by:		
Cash in hand	34,226	39,914
Loans and advances to credit institutions with less than three months' maturity	5,498,812	6,587,949

Reconciliation of operating profit to net cash flow from operating activities

	2015	2014
Operating profit	200,724	148,754
(Increase)/decrease in prepayments and accrued income	(15,323)	83,017
Increase/(decrease) in accruals and deferred income	1,291	(13,023)
Decrease in impairment on loans and advances	18,040	13,392
Depreciation and amortisation	122,721	115,322
Increase in provisions for liabilities	31,786	15,873
Net cash inflow from trading activities	359,239	363,335
Increase in loans and advances to customers	(5,020,784)	(8,335,406)
Increase in shares	4,575,758	1,503,523
(Decrease)/increase in amounts owed to other customers	(65,300)	218,876
(Increase)/decrease in loans and advances to credit institutions	(990,127)	3,084,491
(Increase)/decrease in other assets	(46,374)	3,148
Decrease in other liabilities	(34,893)	(6,014)
Net cash outflow from operating activities	(1,222,481)	(3,168,047)

STATEMENT OF CHANGE IN MEMBERS' INTERESTS
FOR THE YEAR ENDED 31ST DECEMBER 2015

General reserves

	2015	2014
	£	£
Balance as at 1st January	10,496,024	10,377,095
Total comprehensive income for the year	165,404	118,929
Balance as at 31st December	10,661,428	10,496,024

NOTES TO THE ACCOUNTS

1. Principal accounting policies

1.1. Basis of preparation

The Society has prepared the annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 ('the accounts regulations') and Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) as issued in September 2015.

In preparing the annual accounts under FRS 102, the use of certain critical account estimates and judgments has been required. The areas involving a higher degree of judgement or areas where assumptions and estimates are significant to the annual accounts, are set out in note 2. The changes made to the previously reported figures in these accounts, in moving to adopt FRS 102, have been summarised in note 28.

The presentation currency of the annual accounts is sterling and all amounts have been rounded to the nearest pound.

The annual accounts have been prepared under the historical cost convention.

The annual accounts have been prepared on a going concern basis. This is discussed in the Directors' Report on page 6, under the heading 'Going Concern'.

1.2 Interest income and expense

Interest income and interest expense for all interest bearing financial instruments are recognised in 'interest receivable and similar income' or 'interest payable and similar charges' using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability.

Fees receivable and payable on mortgage assets are generally recognised when all contractual obligations have been fulfilled and are spread over the expected life of the mortgage, as part of the effective interest rate model outlined in 1.5 below.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by an allowance for impairment.

1.3 Commissions

Commission receivable from the sale of third party products is recognised on fulfilment of contractual obligations, that is when policies go on risk or on completion of a mortgage.

1.4 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity at the date of the statement of financial position, including cash and loans and advances to credit institutions.

1.5 Financial assets

The Society initially recognises loans and advances, deposits and debt securities on the date on which they originated. All other financial instruments are recognised on the trade date, being the date on which the Society becomes a party to the contractual provision of the instrument.

a) Loan commitments

The Society's loans and advances to customers are classified as loan commitments. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Society measures its loans and advances at amortised cost less impairment provisions. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The initial value may, if applicable, include certain fees such as application, product, legal, valuation or indemnity guarantee premiums, which are recognised over the scheme life of mortgage assets, as noted in 1.2 above.

NOTES TO THE ACCOUNTS continued

1. Principal accounting policies, continued

1.5 Financial assets, continued

Mortgage discounts are recognised over the scheme life of mortgage assets and for certain schemes, will form part of the effective interest rate model.

Throughout the year and at each year end, the mortgage life assumptions for each scheme are reviewed for appropriateness. Any changes to the expected life assumptions of the mortgage assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets.

b) Debt instruments

Debt instruments are non-derivative assets with fixed or determinable payments and fixed maturity that the Society has the positive intent and ability to hold to maturity, and which are not designated as at fair value through the income statement.

Debt investments are carried at amortised cost using the effective interest rate method (see above), less any impairment losses.

The Society derecognises a financial asset when its contractual rights to a cash flow are discharged or cancelled, or expire or substantially all the risk and rewards of ownership have been transferred.

1.6 Financial liabilities measured at amortised cost

The Society classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

1.7 Impairment of financial assets

a) Assets carried at amortised cost

A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Throughout the year and at each year end individual assessments are made of all loans and advances against properties which are in possession or in arrears by three months or more and/or are subject to forbearance activities. Individual impairment provisions are made against those loans and advances where there is objective evidence of impairment.

Objective evidence of impairment may include:

- Significant financial difficulty of the borrower/issuer;
- Deterioration in payment status;
- Renegotiation of the terms of an asset due to financial difficulty of the borrower or issuer, including granting a concession/forbearance to the borrower or issuer;
- Becoming probable that the borrower or issuer will enter bankruptcy or other financial reorganisation; and
- Any other information discovered during regular review suggesting that a loss is likely in the short to medium term.

The Society considers evidence of impairment for assets carried at amortised cost at both an individual asset and a collective level. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified by grouping together loans and advances and held to maturity investments with similar risk characteristics.

In assessing collective impairment, the Society uses external market data to build a risk weighted modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

NOTES TO THE ACCOUNTS continued

1. Principal accounting policies, continued

1.7 Impairment of financial assets, continued

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

In considering expected future cash flows, account is taken of any discount which may be needed against the value of the property at the statement of financial position date thought necessary to achieve a sale, amounts recoverable under mortgage indemnity policies and anticipated realisation costs.

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, the Board may elect to apply an overlay to the impairment provision.

The amount of impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of provisions.

b) Forbearance strategies and renegotiated loans

A range of forbearance options are available to support customers who are experiencing financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on their feet.

The main options offered by the Society include:

- Reduced monthly payment;
- An arrangement to clear outstanding arrears; and
- Extension of mortgage term.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities , bank/credit card statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our Borrowers Experiencing Repayment Difficulties Policy and associated procedures. At the appropriate time, the forbearance option that has been implemented is cancelled and the customer's normal contractual payment is restored.

1.8 Tangible assets - property, plant and equipment

Additions and improvements to office premises and equipment, including costs directly attributable to the acquisition of the asset, are capitalised at cost. In the statement of financial position, the value of property, plant and equipment represents the original cost, less cumulative depreciation.

The costs, less estimated residual values of assets, are depreciated on a straight-line basis over their estimated useful economic lives as follows:

- Freehold buildings - over 100 years
- Office and IT equipment, fixtures and fittings - over 5 years
- No depreciation is provided on freehold land.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

1.9 Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Investment properties are recognised initially at cost.

Subsequent to initial recognition, investment properties are held at fair value. Any gains or losses arising from changes in the fair value are recognised in the income statement in the period that they arise and no depreciation is provided in respect of investment properties applying the fair value model.

Rental income from investment properties is accounted for on an accruals basis.

NOTES TO THE ACCOUNTS continued

1. Principal accounting policies, continued

1.10 Intangible assets - computer software

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Society which will generate future economic benefits and where costs can be reliability measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Intangible assets are stated at cost less cumulative amortisation and impairment losses.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is 5 years. The amortisation period used is reviewed annually.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater that its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

1.11 Investments in other assets

The carrying value of investments in non-financial assets other than investment properties are reviewed each year end to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in the income statement, if the carrying amount of an asset exceeds its estimated recoverable amount. An impairment loss is reversed if, and only if, the reasons for the impairment have ceased to apply. Impairment losses recognised in prior years are assessed at each year end for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

1.12 Employee benefits

The Society operates a defined contribution pension scheme. The assets of which are held separately from those of the Society. For this scheme, the cost is charged to the income statement as contributions become due.

1.13 Leases

Leases in which the Society assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases, being those held by the Society, are classified as operating leases.

Rental payments (including costs for services and insurance) made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives are recognised in the income statement over the term of the lease as an integral part of the total lease expense.

1.14 Provisions and contingent liabilities

The Society has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Society has an obligation in accordance with International Financial Reporting Interpretation Committee, Interpretation 21: Levies. The amount provided is based on information received from the FSCS, forecast future interest rates and the Society's historic share of industry protected deposits.

Contingent liabilities are potential obligations from past events which shall be confirmed by future events. Contingent liabilities are not recognised in the statement of financial position.

NOTES TO THE ACCOUNTS continued

1. Principal accounting policies, continued

1.15 Taxation

Tax on the profit 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 other comprehensive income, in which case it is recognised in 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 substantially enacted at the date of the statement of financial position, and any adjustments 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. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense. Deferred tax balances are not discounted.

Both current and deferred taxes are determined using the rates enacted or substantively enacted at the statement of financial position date.

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

2. Accounting estimates and judgements

The Society makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

a) Impairment losses on loans and advances to customers

The Society reviews its mortgage book at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows.

Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

b) Expected mortgage life

In determining the expected life of mortgage assets, the Society uses historical and forecast redemption data as well as management judgement.

At regular intervals throughout the year, the expected life of mortgage assets is reassessed for reasonableness. Any variation in the expected life of mortgage assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

c) Financial Services Compensation Scheme (FSCS)

The Society has provision for a levy of £31,562 covering the period 1st April 2015 to 31st March 2016. The amount has been determined by reference to the expected path of future interest rates applicable at the date of the statement of financial position. Changes in interest rates over the period of the levy will impact the final amount of the payment.

NOTES TO THE ACCOUNTS continued

3. Country by country reporting

The Society is UK registered, with the head office and branch in one location in Penrith, Cumbria.

The chief operating decision maker has been identified as the Board. The Board reviews the Society's internal reporting in order to assess performance and allocate resources.

The table below sets out the country by country disclosures required by the Capital Requirements Directive IV:

Year ended 31st December 2015:

Name	Type of entity	Nature of activity	Location	Turnover (£)	Number of Employees	Profit before tax (£)	Tax paid in the year (£)
Penrith Building Society	Credit Institution	Financial Services	United Kingdom	1,624,367	21	200,724	Nil

Year ended 31st December 2014

Name	Type of entity	Nature of activity	Location	Turnover (£)	Number of Employees	Profit before tax (£)	Tax paid in the year (£)
Penrith Building Society	Credit Institution	Financial Services	United Kingdom	1,461,425	21	148,754	Nil

4. Interest receivable and similar income

	2015 £	2014 £
On loans fully secured on residential property	2,490,151	2,331,924
On other loans	53,566	55,412
On debt securities	97,827	138,975
On liquid assets	46,328	87,084
	2,687,872	2,613,395

Interest on debt securities includes £97,827 (2014: £138,975) arising from fixed income investment securities.

Included within interest income is £2,203 (2014: £2,203) in respect of interest income accrued on impairing loans two or more months in arrears.

5. Interest payable and similar charges

	2015 £	2014 £
On shares held by individuals	1,114,060	1,156,690
On other shares	2,077	2,073
On deposits and other borrowings	18,345	16,393
	1,134,482	1,175,156

6. Employees

The average number of persons employed (including Executive Directors) during the year was as follows:

	2015 No	2014 No
Full time	14	13
Part time	7	8
Total	21	21

NOTES TO THE ACCOUNTS continued

7. Administrative expenses

	2015	2014
Staff costs	£	£
Wages and salaries	504,681	503,963
Social security costs	86,157	81,628
Other pension costs	51,400	57,150
	642,238	642,741
Other administrative expenses	674,490	540,100
	1,316,728	1,182,841

Other administrative expenses includes:

Audit of these annual accounts (excluding VAT)	45,500	30,500

8. Directors' emoluments

		2015	2014
Fees for services as non-executive directors		£	£
R J Cairns (Appointed as chairman on 1st October 2014)		18,000	11,362
D Driver (Retired 29th April 2015)		4,833	12,022
J S Hollins-Gibson (Retired 30th September 2014)		-	11,601
J Lincoln (Appointed 1st October 2014)		13,833	2,498
W Lindsay (Appointed 1st June 2015)		7,292	-
N Ruane (Appointed 1st June 2015)		7,292	-
G Silburn		14,500	12,022
A G Waterfield		14,500	9,994
Total for non-executive directors		80,250	59,499
For services as executive directors			
A S Fazal	Salary	108,150	105,000
	Pension Contributions	10,815	10,500
		118,965	115,500
E L James	Salary	76,075	73,500
	Pension Contributions	7,608	7,350
		83,683	80,850
Total for executive directors		202,648	196,350
Total for directors emoluments		282,898	255,849

The fees for Mrs Ruane are paid to a third party, Burnetts Solicitors, where Mrs Ruane is a partner in the business.

9. Directors' loans and related party transactions

The aggregate amount of loans outstanding at 31st December 2015 to two (2014: one) director(s) and connected person(s) was £285,114 (2014: £197,364). These loans were made on normal commercial terms.

A register of loans to directors and connected persons is maintained under Section 68 of the Building Societies Act 1986 at the head office of the Society. This is available for inspection during normal office hours over the period of 15 days prior to the Society's Annual General Meeting and at the Annual General Meeting.

The Society received a dividend and fees of £5,417 (2014: £5,360) from Mutual Vision Technologies Limited, who provide the software on which the Society's operating platform is based. Mr Fazal is a director of this company but receives no fees or other income for this role.

NOTES TO THE ACCOUNTS continued

10. Taxation

	2015	2014
Current tax	**£**	**£**
Current tax on income for the period	-	-
Total current tax	-	-
Deferred tax (see note 23)		
Origination and reversal of timing differences	40,720	29,825
Impact of change of rate on deferred tax balances	(5,400)	-
Total deferred tax	35,320	29,825
Total tax expense	35,320	29,825
Reconciliation of effective tax rate:		
Profit for the year	200,724	148,754
Total effective tax at 20%	40,145	29,751
Effects of:		
Non-deductible expenses	948	829
Change of rate on deferred tax balances	(5,400)	-
Movement in deferred tax	(373)	(755)
Total tax expense included in income statement	35,320	29,825

The main rate of UK corporation tax is 20%. This will be reduced to 19% from 1st April 2017 and to 18% from 1st April 2020. These rate reductions were substantively enacted at 26th October 2015 and their effects are therefore recognised in the annual accounts.

11. Cash and cash equivalents

	2015	2014
	£	**£**
Cash in hand	34,226	39,914
Loans and advances to credit institutions (see note 12)	5,498,812	6,587,979
	5,533,038	6,627,893

12. Loans and advances to credit institutions

	2015	2014
	£	**£**
Accrued interest	5,850	15,723
Repayable on demand	4,498,812	4,087,949
Other loans and advances by residual maturity payable:		
In not more than three months	1,000,000	2,500,000
In not more than one year	3,500,000	2,500,000
	9,004,662	9,103,672

NOTES TO THE ACCOUNTS continued

13. Debt securities

	2015	2014
	£	£
Gilts	2,069,246	2,133,224
Treasury bills	7,742,601	6,494,686
Certificates of deposit	5,531,719	7,063,411
	15,343,566	15,691,321
Debt securities have remaining maturities as follows:		
Accrued interest	58,570	96,798
In not more than one year	13,241,175	13,486,724
In more than one year	2,043,821	2,107,799
	15,343,566	15,691,321
Transferable debt securities (excluding accrued interest) comprise:		
Listed on a recognised investment exchange	2,043,821	2,107,799
Unlisted	5,509,060	7,002,318
	7,552,881	9,110,117
Market value of listed transferable debts	2,075,625	2,144,625

Movement in debt securities (excluding accrued interest) during the year can be summarised as follows:

	2015	2014
	£	£
At 1st January	15,594,523	16,680,700
Premium amortisation during the year	(63,978)	(65,615)
Disposals and maturities	(24,070,291)	(20,344,657)
Acquisitions	23,824,742	19,324,095
At 31st December	15,284,996	15,594,523

14. Loans and advances to customers

	2015	2014
	£	£
Loans fully secured on residential property	73,417,327	68,317,385
Loans fully secured on land	1,202,604	1,299,802
	74,619,931	69,617,187

The remaining maturity of loans and advances to customers from the date of the statement of financial position is as follows:

	2015	2014
	£	£
In not more than three months	983,341	967,459
In more than three months but not more than one year	2,568,811	2,473,080
In more than one year but no more than five years	15,393,450	13,517,713
In more than five years	55,977,529	52,955,409
	74,923,131	69,913,661
Impairment (see note 15)	(303,200)	(296,474)
	74,619,931	69,617,187

The maturity analysis above is based on contractual maturity not expected redemption timings.

NOTES TO THE ACCOUNTS continued

15. Allowance for impairment

	Loans fully secured on land	Loans fully secured on residential property	Total
At 1st January	£	£	£
Individual provision	115,059	123,701	238,760
Collective provision	5,000	52,714	57,714
	120,059	176,415	296,474
Income statement			
Individual provision	-	7,622	7,622
Collective provision	-	(896)	(896)
	-	6,726	6,726
At 31st December			
Individual provision	115,059	131,323	246,382
Collective provision	5,000	51,818	56,818
	120,059	183,141	303,200

The Society has five mortgage cases where forbearance has been exercised (2014: one). Only one of these cases has had an individual provision against it.

16. Other investments

Unlisted investments	Shares	Loans	Total
Cost	£	£	£
At beginning and end of year	6,914	166,101	173,015

The Society holds unlisted shares and an interest bearing loan in Mutual Vision Technologies Limited which provides IT services to the Society.

The above investment is held with the intention of use on a continuing basis in the Society's activities and hence is classified as a financial fixed asset.

17. Other debtors

	2015	2014
	£	£
Other assets	-	628
Prepayments and accrued income	226,651	173,100
	226,651	173,728

NOTES TO THE ACCOUNTS continued

18. Tangible fixed assets

	Freehold land and buildings	Office and IT equipment, fixtures and fittings	Total
Cost	**£**	**£**	**£**
At beginning of year	40,000	499,762	539,762
Additions	-	64,386	64,386
At end of year	40,000	564,148	604,148
Depreciation			
At beginning of year	14,800	418,906	433,706
Charge for the year	400	13,074	13,474
At end of year	15,200	431,980	447,180
Net book value			
At 31st December 2014	25,200	80,856	106,056
At 31st December 2015	24,800	132,168	156,968

The net book value of the freehold premises occupied by the Society for its own activities is £24,800 (2014: £25,200).

19. Investment properties

	Total
	£
Balance at 1st January 2015	377,500
Net gain from fair value adjustments	43,500
Balance at 31st December 2015	421,000

The investment properties have been fair valued at 31st December 2015. This valuation was completed by an external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued.

Any gain arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for on an accruals basis, as set out in the accounting policies in note 1.

20. Intangible fixed assets

	IT software and development costs
Cost	**£**
At beginning of year	213,578
Additions	49,971
At end of year	263,549
Depreciation	
At beginning of year	122,198
Charge for the year	45,269
At end of year	167,467
Net book value	
At 31st December 2014	91,380
At 31st December 2015	96,082

NOTES TO THE ACCOUNTS continued

21. Shares

	2015	2014
	£	£
Held by individuals	87,561,271	82,986,908
Other shares	230,800	229,405
	87,792,071	83,216,313

Shares are repayable with remaining maturities from the date of the statement of financial position as follows:

	2015	2014
	£	£
Accrued interest	346,741	339,981
Repayable on demand	85,869,114	81,314,914
In not more than three months	1,576,216	1,561,418
	87,792,071	83,216,313

22. Amounts owed to other customers

Amounts owed to other customers are repayable with the remaining maturity from the date of the statement of financial position as follows:

	2015	2014
	£	£
Repayable on demand	1,474,355	1,539,655

23. Deferred taxation

	2015	2014
	£	£
At beginning of year	13,124	(16,701)
Charge to statement of income for year	35,320	29,825
At end of year	48,444	13,124
The elements of deferred taxation are as follows:		
Differences between accumulated depreciation and amortisation and capital allowances	35,778	27,257
Other timing differences	16,655	22,176
Tax losses	(3,989)	(36,309)
	48,444	13,124

The net reversal of deferred tax assets and liabilities expected to occur in the next reporting period is an increased charge of £3,003, being the ongoing unwinding of the tax charges associated with the transition to FRS 102.

24. Other liabilities

	2015	2014
Other liabilities due within one year comprise:	£	£
Income tax	59,898	61,962
Other creditors	69	4,616
	59,967	66,578

NOTES TO THE ACCOUNTS continued

25. Provisions for liabilities

FSCS levy	**2015**	**2014**
	£	**£**
At beginning of year	35,096	32,347
Levy paid in year	(58,432)	(63,982)
Charge for the year	54,898	66,731
At end of year	31,562	35,096

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims 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 FSCS pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members, including the Society, over this period. In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1st April 2012.

During the year the Society recognised charges of £31,245 (2014: £32,585) payable under the management expenses levy and £27,187 (2014: £31,397) payable under the capital levy. At the year end the Society has recognised a provision of £31,562, being the anticipated amount that will be paid under the management expense levy during 2016. This amount is paid with reference to the Society's protected deposits as at 31st December 2014. Any capital levy that will be paid during 2016 is paid with reference to the Society's protected deposits as at 31st December 2015 and the wider market data at this date.

26. Contingent liabilities and commitments

There were no contracted capital commitments at the financial year end. At 31st December 2015 the Society has annual commitments under non-cancellable operating leases as follows:

	2015	**2014**
Office equipment leases which expire:	**£**	**£**
Within 1 year	1,602	-
within 2 – 5 years inclusive	16,729	13,580

27. Financial instruments

The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest in liquid assets and may raise funds from wholesale money markets in support of its retail savings operations. These instruments also allow it to manage the risks arising from these business markets. The Society has a formal structure for managing risk, including formal risk policies, risk limits, reporting structures, mandates and other control procedures. This structure is reviewed regularly by the Board.

Instruments commonly used for risk management purposes include derivative financial instruments, which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates. The Society does not use any derivative financial instruments, as the Society does not currently offer any capped rate mortgage or savings products that would give rise to a balance sheet exposure and all fixed rate mortgage products are internally matched by fixed rate deposits. The Society does not enter into any financial instruments for trading or speculative purposes.

NOTES TO THE ACCOUNTS continued

27. Financial instruments, continued

Categories of financial assets and liabilities

Financial assets and liabilities are measures on an on-going basis at amortised cost. Notes 1.6 and 1.7 describe how classes of financial instrument are measured, and how income and expenses are recognised. The table below analyses the Society's assets and liabilities by financial classification:

31st December 2015	**Measured amortised cost**		
	Loan commitments	**Debt instruments**	**Total**
Financial assets	**£**	**£**	**£**
Cash in hand	-	34,226	34,226
Loans and advances to credit institutions	-	9,004,662	9,004,662
Debt securities	-	15,343,566	15,343,566
Loans and advances to customers	74,619,931	-	74,619,931
Total financial assets	74,619,931	24,382,454	99,002,385
Non-financial assets			1,073,716
Total assets			100,076,101
Financial liabilities			
Shares	-	87,792,071	87,792,071
Amounts owed to other customers	-	1,474,355	1,474,355
Total financial liabilities	-	89,266,426	89,266,426
Non-financial liabilities			10,809,675
Total liabilities			100,076,101

31st December 2014	**Measured at amortised cost**		
	Loan commitments	**Debt instruments**	**Total**
Financial assets	**£**	**£**	**£**
Cash in hand	-	39,914	39,914
Loans and advances to credit institutions	-	9,103,672	9,103,672
Debt securities	-	15,691,321	15,691,321
Loans and advances to customers	69,617,187	-	69,617,187
Total financial assets	69,617,187	24,834,907	94,452,094
Non-financial assets			921,679
Total assets			95,373,773
Financial liabilities			
Shares	-	83,216,313	83,216,313
Amounts owed to other customers	-	1,539,655	1,539,655
Total financial liabilities	-	84,755,968	84,755,968
Non-financial liabilities			10,617,805
Total liabilities			95,373,773

Credit risk

Credit risk is the risk that a borrower or counterparty of the Society will cause a financial loss for the Society by failing to discharge an obligation.

27. Financial instruments, continued

Credit risk, continued

The Society has policies in place to manage credit risk arising from a borrower or counterparty, with clearly defined risk appetite statements and appropriate credit limits. The risk appetite statements are supported by a number of qualitative and quantitative measures that are monitored by the Board on a monthly basis. Further challenge and oversight is provided by the ARCC as part of its quarterly meetings.

The Society's maximum credit risk exposure is detailed in the table below:

	2015	2014
	£	£
Cash in hand	34,226	39,914
Loans and advances to credit institutions	9,004,662	9,103,672
Debt securities	15,343,566	15,691,321
Loans and advances to customers	74,619,931	69,617,187
Total statement of financial position exposure	99,002,385	94,452,094
Off balance sheet exposure – mortgage commitments	3,968,670	4,439,661
	102,971,055	98,891,755

The Society's borrowers are primarily based in Cumbria, with 66.31% (2014: 65.11%) of the mortgage book being in this area. Borrowers in Scotland represent 0.88% (2014: 0.23%) of the mortgage book and the remaining 32.81% (2014: 34.66%) is spread across the rest of England and Wales.

Credit quality analysis of loans and advances to customers

The table on the following page sets out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets:

	2015		2014	
In respect of loans and advances to customers:	**£**	**%**	**£**	**%**
Fully secured on residential property:				
Current	71,346,090	95.22	66,507,392	95.13
Past due up to 3 months	637,606	0.85	972,856	1.39
Past due 3 to 6 months	510,423	0.68	350,886	0.50
Past due 6 to 12 months	548,719	0.73	41,529	0.06
Past due over 12 months	176,387	0.24	231,512	0.33
Possessions	381,243	0.51	381,243	0.55
Total fully secured on residential property	73,600,468	98.23	68,485,418	97.96
Fully secured on land				
Current	1,009,267	1.35	1,149,914	1.64
Past due up to 3 months	125,912	0.17	90,845	0.13
Possessions	187,484	0.25	187,484	0.27
Total fully secured on land	1,322,663	1.77	1,428,243	2.04
Gross loans and advances to customers	74,923,131	100.00	69,913,661	100.00
Provision for impairment losses	(303,200)		(296,474)	
Total loans and advances to customers	74,619,931		69,617,187	

NOTES TO THE ACCOUNTS continued

27. Financial instruments, continued

Credit risk, continued

Credit quality analysis of counterparties

The following table provides details on the exposure the Society has to counterparties. Included in the table is an analysis of the financial institutions by their Fitch rating, where appropriate:

	2015	2014
	£	£
UK government securities	9,811,847	8,627,910
Financial institutions		
AAA to AA-	1,003,488	-
A+ to A-	11,017,807	13,657,798
BBB+ to BBB-	504,476	504,247
Unrated	2,010,610	2,005,038
Total exposure to counterparties	24,348,228	24,794,993

At 31st December 2015 all exposures to financial institutions were within the UK (2014: all exposures were within the UK with the exception of two to European Banks, total value £2,010,596).

Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Society monitors liquidity requirements on a daily basis in line with specific policies in this area, approved by the Board. The liquidity risk appetite is supported by qualitative and quantitative measures that are monitored by the Board on a monthly basis.

The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can cover all fluctuations in funding, retain public confidence in the solvency of the Society and to enable the Society to meet its financial obligations.

The following table analyses the remaining contractual maturity of the Society's financial assets and liabilities. In practice the contractual maturities are not always reflected in actual experience. For example loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

31st December 2015	On demand	Not more than 3 months	More than 3 months, but no more than 1 year	More than 1 year but not more than 5 years	More than five years	Total
Financial assets	£	£	£	£	£	£
Cash in hand	34,226	-	-	-	-	34,226
Loans and advances to credit institutions	4,504,662	1,000,000	3,500,000	-	-	9,004,662
Debt securities	-	7,249,287	6,050,458	2,043,821	-	15,343,566
Loans and advances to customers	-	983,341	2,568,811	15,393,450	55,674,329	74,619,931
Total financial assets	4,538,888	9,232,628	12,119,269	17,437,271	55,674,329	99,002,385
Financial liabilities						
Shares	86,215,855	1,576,216	-	-	-	87,792,071
Amounts owed to other customers	1,474,355	-	-	-	-	1,474,355
Total financial liabilities	87,690,210	1,576,216	-	-	-	89,266,426

NOTES TO THE ACCOUNTS continued

27. Financial instruments, continued

Liquidity risk, continued

31st December 2014	On demand	Not more than 3 months	More than 3 months, but no more than 1 year	More than 1 year but not more than 5 years	More than five years	Total
Financial assets	**£**	**£**	**£**	**£**	**£**	**£**
Cash in hand	39,914	-	-	-	-	39,914
Loans and advances to credit institutions	4,103,672	2,500,000	2,500,000	-	-	9,103,672
Debt securities	-	8,637,991	4,945,531	2,107,799	-	15,691,321
Loans and advances to customers	-	967,459	2,473,080	13,517,713	52,658,935	69,617,187
Total financial assets	4,143,586	12,105,450	9,918,611	15,625,512	52,658,935	94,452,094
Financial liabilities						
Shares	81,654,895	1,561,418	-	-	-	83,216,313
Amounts owed to other customers	1,539,655	-	-	-	-	1,539,655
Total financial liabilities	83,194,550	1,561,418	-	-	-	84,755,968

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and other price risk.

The Society is only affected by interest rate risk. It 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 to market rates or, if earlier, the dates on which the instruments mature. The Society manages this exposure continually by matching the maturity dates of assets and liabilities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivities of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a quarterly basis include a 2% parallel fall or rise in the bank base rate. If there was a 2% parallel upwards shift in interest rates the favourable impact on reserves would be £111,000 (2014: £117,000).

28. Explanation of transition to FRS 102 from previous UK GAAP

As stated in note 1, these are the Society's first annual accounts prepared in accordance with FRS 102. The last financial statements under UK GAAP were for the year ended 31st December 2014.

The accounting policies set out in note 1 have been applied in preparing the annual accounts for the year ended 31st December 2015 and the comparative information presented in these annual accounts for the year ended 31st December 2014.

The date of transition to FRS 102 was 1st January 2014. Set out is the reconciliation of profit for the financial year ended 31st December 2014 and the total general reserves as at 1st January 2014 and 31st December 2014 between UK GAAP as previously reported and FRS 102. An explanation of how the transition from UK GAAP to FRS 102 has affected the Society's financial position and financial performance is set out in the following table and notes that accompany the table.

NOTES TO THE ACCOUNTS continued

28. Explanation of transition to FRS 102 from previous UK GAAP, continued

Impact on opening general reserves at 1st January 2014:

	Note	£
General reserves at 1st January 2014 as previously stated:		**10,156,996**
Increase in interest receivable on loans and advances to customers	(a)/(c)	21,524
Increase in impairment losses on loans and advances to customers	(b)	(74,121)
Increase in carrying value of investment properties	(e)	232,625
Decrease in provisions held for the FSCS levy	(f)	66,118
		10,403,142
Tax impact of the above		(26,047)
Adjusted general reserves at 1st January 2014		**10,377,095**

Impact on the reserves at 31st December 2014:

	Note	£
Total reserves at 31st December 2014 as previously stated:		**10,231,014**
Increase in interest receivable on loans and advances to customers	(a)/(c)	59,567
Decrease in impairment losses on loans and advances to customers	(b)	(50,837)
Increase in carrying value of investment properties	(e)	232,625
Increase in provisions held for the FSCS levy	(f)	59,887
		10,532,256
Tax impact of the above		(36,232)
Adjusted general reserves at 31st December 2014		**10,496,024**

Impact on the statement of financial performance at 31st December 2014:

	Note	£
Profit for the year ended 31st December 2014 as previously stated		**74,018**
Increase in interest receivable on loans and advances to customers	(a)/(c)	38,043
Decrease in impairment losses on loans and advances to customers	(b)	23,284
Increase in provisions held for the FSCS levy	(f)	(6,231)
Tax impact of the above		(10,185)
Adjusted profit at 31st December 2014		**118,929**

Notes:

In the annual accounts the Society has changed its accounting policies in the following areas as a result of the adoption of FRS 102:

(a) Recognition of interest receivable

The Society recognised interest income on loans and advances to customers on an accruals basis, using the interest rate applicable to the loan at that time. In transitioning to FRS 102, the Society is required to recognise income on loans and advances to customers, using the effective interest rate methodology. This has the effect of increasing the interest income for periods prior to the year ended 31st December 2015 and increasing the loans and advances to customers within the statement of financial position by the same amount, as the timing of receipt of interest received on certain discounted loans is brought forward.

NOTES TO THE ACCOUNTS continued

28. Explanation of transition to FRS 102 from previous UK GAAP, continued

(a) Impairment losses on loans and advances to customers

The Society holds specific and general provisions against the mortgage book. The provisions held were based on incurred losses to the Society, based on historic loss experience. In transitioning to FRS 102, provisions against the mortgage book are based on circumstances in existence/events that have occurred before the relevant year end. As a result, the specific provision (renamed individual provision) has been increased and the general provision (renamed collective provision), has been decreased in the opening general reserve at 1st January 2014. In the year ended 31st December 2014, the impact has been a reduction in the net provision charge overall.

(b) Fees on loans and advances to customers

The Society recognises fees receivable and payable on loans and advances to customers on a cash basis. In transitioning to FRS 102, these fees form part of the effective interest rate assessment as described in (a). This has the effect of decreasing the fees and commission payable during the year ended 31st December 2014 and increasing the general reserves at 1st January 2014.

(c) Reclassification of fixed assets

The Society recognises both computer hardware and software costs within tangible fixed assets. In transitioning to FRS 102, the Society should separately recognise software costs as intangible fixed assets. The impact of this has been to separately disclose on the face of the statement of financial position a heading for intangible fixed assets and a note has been provided in the accounts. The change is a reclassification only and has no impact on previously recorded profits or reserves.

(d) Carrying value of investment properties

The Society has an interest in a portfolio of residential shared ownership properties, held within other assets at original cost within the statement of financial position. In transitioning to FRS 102, the Society is required to separately recognise these assets as investment properties and carry these at their market value. This has resulted in the opening general reserve at 1st January 2014 being increased. The impact of the change in market value to 31st December 2014 has not been recognised as it is immaterial overall.

(e) Provision for the FSCS Levy

In addition to the changes under FRS 102, the Society has separately chosen to apply IFRIC 21: Levies which amends the trigger point for recognition of the levy from 31st December to the start of the FSCS scheme on 1st April. This has the effect of reducing the historic provision held, which has been adjusted to the opening general reserves at 1st January 2014 and increasing the required level of additional provision to 31st December 2014 to reflect the increase in level of charge for the scheme year 2014/2015. The provision for liabilities within the statement of financial position to 31st December 2014 has been adjusted by the same amount.

(f) Cash flow statement

The Society's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under UK GAAP. In addition, the cash flow statement reconciles to cash and cash equivalents whereas under UK GAAP the cash flow statement reconciles to cash, the latter definition being more restrictive.

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2015

1. Statutory percentages

	2015	Statutory Limit
Lending Limit	2.83%	25.00%
Funding Limit	1.65%	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 and is calculated as (X-Y)/X where:

X = business assets, being the difference between the total assets of the Society plus provisions for bad and doubtful debts and the aggregate of liquid assets and tangible and intangible fixed assets as shown in the Society's accounts.

Y = the principal of, and interest accrued on, loans owed to the Society which are fully secured on residential property, plus provisions for bad and doubtful debts and interest in suspense.

The Funding Limit measures the proportion of shares and amounts owed to other customers not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and amounts owed to other customers, being the aggregate of:
- i) the principal value of, and interest accrued on, shares in the Society; and
- ii) the principal of, and interest accrued on, sums deposited with the Society.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2 Other percentages

	2015 %	2014 %
As percentage of shares and amounts owed to other customers:		
Gross capital	11.94	12.38
Free capital	11.72	12.22
Liquid assets	27.31	29.30
Profit for the financial year after taxation as a percentage of mean total assets	0.17	0.13
Management expenses as a percentage of mean total assets	1.41	1.30

The above percentages have been prepared from the Society's accounts and in particular:

"Shares and amounts owed to other customers" represent the total of shares and amounts owed to other customers.

"Gross capital" represents the General Reserves.

"Free capital" represents the aggregate of gross capital and collective impairment for losses on loans and advances less tangible and intangible fixed assets.

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

"Management expenses" represent the aggregate of administrative expenses and depreciation.

"Mean total assets" is the average of the total assets at 31st December 2014 and 31st December 2015.

ANNUAL BUSINESS STATEMENT, continued
FOR THE YEAR ENDED 31ST DECEMBER 2015

3 Information Relating to the Directors at 31st December 2015

Name (Date of Birth)	Date of Appointment	Business Occupation	Other Directorships
R J Cairns Chairman (01/06/1951)	01/05/2013	Retired Chief Executive	Barrow & District Credit Union Limited Corrie & Co Limited Number One Police Credit Union Limited
G Silburn Vice Chairman (20/11/1954)	01/11/2002	Pharmacist	Joseph Cowper Limited Penrith Health Centre (PD) Consortium Limited
A G Waterfield (29/12/1970)	01/07/2010	Director	Alan Waterfield Consulting Limited
J Lincoln (08/02/1957)	01/10/2014	Retired Finance Director	
N Ruane (05/03/1973)	01/06/2015	Lawyer	
W Lindsay (06/10/1953)	01/06/2015	Retired Banker	Lindsay Consultants Limited
A S Fazal Chief Executive (17/03/1958)	01/01/2013	Chief Executive	Mutual Vision Technologies Limited Eden Arts Limited
E L James Finance Director (06/05/1974)	01/01/2013	Finance Director	

Documents may be served on the above named Directors c/o KPMG LLP at the following address:
1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA

Service Contracts

None of the Non-Executive Directors has a service contract.

The Chief Executive and Finance Director have contracts which can be terminated by either party giving not less than 12 and 6 months prior written notice respectively. These specific contracts were entered into on 1st January 2013 and 1st September 2012 respectively.