PENRITH BUILDING SOCIETY

Annual Report and Accounts

31st December 2009

PENRITH BUILDING SOCIETY

DIRECTORS' REPORT

For the year ended 31st December 2009

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31st December 2009.

Review of 2009

The Society performed reasonably well in difficult market conditions.

There were significant inflows into the Society's savings accounts in the first half of the year. This was seen as a consequence of the competitive rates being offered at the time and also of the continuation of the process begun in the second half of 2008 where savers priority became the safety of their deposits rather than the rate of return. Competition for retail funds has however been intense as those lenders who had previously relied extensively on the wholesale markets found funds from that source still restricted. Other institutions introduced premium rated accounts, some with onerous conditions attached, and this undoubtedly had an effect on the Society in the second part of the year. The Directors do however consider that on a like for like basis the products offered by the Society remain competitive but are aware of the need constantly to monitor the rates payable and available products to continue to meet members needs.

After 2008's record figure of £15.66m lending in 2009 was a disappointing £5.91m. This reflected the subdued nature of the housing and mortgage markets throughout the year. Also statistics show that with interest rates being at record low levels borrowers are choosing to use the increase in disposable income to reduce outstanding debt. These two factors have combined so that this Society and many others have seen an overall reduction in mortgage balances in the year. The temptation to increase mortgage lending by relaxing lending criteria was resisted. The extension of lending by this practice often leads to future problems and the Directors consider it essential that the quality of the Society's mortgage book is maintained so that the potential for loss through mortgage default is minimised.

The Society's Lending Policy seeks to ensure that borrowers do not take on more than they can afford and one result of continuing to follow proven underwriting procedures is to be seen in the Society's arrears position. There were again no repossessions in the year and there were only 3 mortgages over 12 months in arrear. All of those mortgages have low loan to value ratios and there are arrangements in place to assist the borrowers in overcoming their financial problems. Overall the number of cases over 3 months in arrear remained stable over the year and there does not appear to be any underlying trend which will lead to an increase in the coming year. The majority of the Society's arrears cases relate to owner occupied residential properties and there are no arrears cases in the Society's commercial mortgage book.

It is appreciated that borrowers circumstances can and do change over the term of a mortgage and the Society will continue wherever possible to assist borrowers experiencing repayment difficulties.

The Society was able to finance its activities from the inflow of retail funds and mortgage repayments already referred to and had no need of recourse to the wholesale markets.

Bank base rate reduced to 0.5% in March and remained at that level for the remainder of the year. In response to this the Society reduced the rate payable on savers accounts and that charged on mortgages from April 2009. There have been no other changes to interest rates from that date. The Directors continue to try to balance the needs of borrowers and savers in as fair a way as possible whilst maintaining the financial stability of the Society.

As outlined in last year's report the Society is required to pay interest on loans made by the Government to the Financial Services Compensation Scheme (FSCS) in respect of bank defaults. This remains a source of irritation. However because of the low level of interest rates the actual amount which the Society is expected to have to contribute in the next two years has reduced. The Society has already paid an amount of £29,359 and the latest estimate is that further amounts totalling £73,767 will need to be paid in 2010 and 2011. The provision made last year to cover all of these payments was £130,400. The latest information from the FSCS indicates that the Society will be expected to contribute further sums to this scheme after 2011, either for the repayment of the capital element of the Government loans or continuing interest payments on those loans. There has been no data made available to estimate the amounts of those contributions and therefore provision to cover those sums cannot be made. Accordingly the accounts show a reduction in the provision of £27,274.

Total assets grew by 4.60% and whilst administrative expenses increased, the ratio of those expenses to mean total assets reduced to 1.14%

The Society transferred £336,981 to General Reserve, which now totals £10,211,366. At a time of increasing scrutiny of the capital positions of financial institutions by regulators and the markets and the problems some of those institutions are having in maintaining capital adequacy it is reassuring to note that the ratio of the Society's capital to savings, deposits and loan balances remains over 13% which is well above the industry average.

Business Objectives and Activities

The Society's Directors continue to believe that the members' best interests will be served by the Society remaining an independent mutual organisation and are therefore committed to ensuring the Society's continued existence. The objectives of the Society are to provide a friendly and efficient service to the local community whilst offering attractive rates of interest.

The Society will continue to concentrate on the provision of traditional products and services.

Post Balance Sheet Events

The Directors consider that there have been no events which have occurred since the year end that have had an important effect on the Society.

Future Developments

The Society will continue to offer competitive products with a balance being struck between the interests of the investors and those of the borrowers.

Total Assets

The Society experienced growth of 4.60% during 2009 with total assets increasing from £84,973,927 to £88,884,985

Liquid Assets

Liquid assets, in the form of cash and securities at 31st December 2009 were £32,351,882 representing 36.40 % of total assets and 41.28% of total shares and borrowings.

Mortgages

During 2009 mortgage lending totalled £5,917,174. There were 95 advances, including 30 further advances.

Mortgage balances reduced by 5.74% over the year.

At 31st December 2009 there were 3 mortgages (2008 – 2) where the repayment of principal and interest was more than 12 months in arrears. The total amount of arrears in these cases was £43,652 on balances totalling £269,881. All of these cases have low loan to value ratios. At 31st December 2009 the Society had no properties in possession (2008 – 0).

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.

Administrative Expenses

Administrative expenses including depreciation rose to £986,890, an increase of 3.22%.

Administrative expenses expressed as a ratio of mean total assets stood at 1.14% (2008 – 1.17%).

Fixed Assets

Movements in tangible fixed assets during the year are detailed in note 17 to the accounts.

The Society continues actively to manage its liquidity and the movement in financial fixed assets is detailed in notes 11 and 16 to the accounts.

Funding

Share and deposit balances at 31st December 2009 totalled £78,371,664. Receipts were £23,321,673 and withdrawals £19,160,609.

Capital

At 31st December 2009, free capital (aggregate of General Reserve and general provision for bad and doubtful debts less tangible fixed assets) amounted to £10,203,603, or 13.02% of total shares and borrowings. Gross capital amounted to 13.03% of total shares and borrowings.

Staff

The Directors are pleased to record their appreciation of management and staff for the loyal service rendered during the year. Recognition is also given of the additional workload on all staff due to ever increasing regulatory requirements.

The Board encourages the education and training of both management and staff in order to ensure that employees have sufficient expertise and qualifications to provide the standard of service required. Wherever appropriate, staff and management are sent on training courses and seminars.

Creditor Payment Policy

The Society's policy concerning the payment of its trade creditors for the next financial year is as follows:

The Society will discharge the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments) when in full conformity with the terms and conditions of the purchase within the agreed payment terms.

For all trade creditors, it is the Society's policy to:

- agree the terms of payment at the start of trading with that supplier,
- ensure that suppliers are aware of the terms of payment, and
- pay in accordance with its contractual and other legal obligations.

There were no trade creditors at the year end.

Principal Risks

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 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.

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

There is a formal structure for risk management in place which includes full control procedures including the establishment of risk limits, mandates and reporting lines. All risk management policies are reviewed regularly by the Board of Directors.

The main risks to which the Society is exposed are Credit Risk, Liquidity Risk, Interest Rate and Operational Risk.

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 Lending Policy and existing mortgages are monitored regularly for potential default.

With regard to investment 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 does not have any fixed rate products and therefore this risk is limited to exposure to fixed rate investments including Gilts. This risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society as at 31 December 2009 is detailed in note 25 to the accounts.

Liquidity Risk

This is the risk of the Society being unable to meet its financial obligations. 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.

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 procedures and adherence to these systems and procedures is monitored by senior management and the Audit and Compliance Committee.

Corporate Governance

The Combined Code of Corporate Governance issued by the Financial Reporting Council applies to listed companies. The Financial Services Authority however advises that building societies should pay regard to the provisions of the code in drawing up corporate governance procedures. The Building Societies Association has provided guidance on how those provisions should be interpreted by building societies and the Society has followed that guidance where the Board has considered it appropriate.

The Board

The Board of Directors provides leadership and direction in achieving the Society's Objectives and Activities.

The Board currently comprises two executive directors and six non-executive directors. The Chief Executive and Secretary are executive directors and are responsible for the management of the Society within guidelines set by the Board. The Chairman is elected annually by the Board from the complement of non-executive directors.

The Board considers that all of its non-executive directors are independent. All members of the Board reside within the Penrith area and are all well known within the community; all are readily accessible either in person, by telephone or by correspondence.

In accordance with good practice the Board has appointed Mr G Silburn to the role of Senior Independent Director.

Four of the Society's non-executive directors have served on the Board for periods over nine years. In addition to having extensive local knowledge, those Directors have developed a thorough understanding of the practise of building societies and each have individual talents which continue to serve the Society well. The Board considers that those Directors make valuable contributions to the Society and continue to maintain their independence.

The Society's Rules require that one third of the Board must retire by rotation each year. In practice as there are only ever eight members of the Board this means that three members of the Board must stand for re-election each year and therefore within any period of eight years a director must have stood for re-election at least 3 times.

A formal process exists to evaluate, on an annual basis, the performance and effectiveness of individual directors and of the Board and its committees as a whole. All Directors must meet the fitness and propriety requirements under the "Approved Person" regulations.

All directors 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.

Directors

Main Board Meetings are held monthly. Additional meetings may be called as required. There were thirteen meetings of the full Board in 2009.

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

	NUMBER OF MAIN BOARD MEETINGS ATTENDED
P O'M Campbell, BVM & S, MRCVS (Chairman)	13
J S Hollins-Gibson, FCA (Vice Chairman)	12
G M Rigg, BSc	13
Lord Hothfield, DL, MA, MICE	12
G Silburn, BSc MRPharmS	10
D Driver, FCA	12
C Hayward, BSc, ACIB	13
P Richardson, MBA	13

Lord Hothfield having reached the retirement age specified retires under Rule 24(1)(j). The other members of the Board wish to record their appreciation for the service and contribution he has provided to the Society since his appointment in 1999.

Messrs Rigg, Driver and Richardson retire under Rule 26(1) and being eligible offer themselves for re-election under Rule 26(3).

During the 12 months ended 31st December 2009 there were no associated bodies in which the Society or its Directors had an interest.

In adhering to the principles of good corporate governance the Board has established certain committees to advise on various issues. The committees in question are:

Audit & Compliance Committee

The Audit and Compliance Committee consists of Messrs J S Hollins-Gibson, G Silburn, D Driver and Lord Hothfield.

Mr Hollins-Gibson was Chairman of the committee for the whole of the financial year ending 31st December 2009. Four meetings were held within the year and these were attended as follows:

	NUMBER OF MEETINGS ATTENDED
J S Hollins-Gibson	4
G Silburn	4
D Driver	4
Lord Hothfield	3

The principal purpose of this committee is to ensure that the Society complies with all regulatory and prudential requirements which may affect the Society.

Remuneration Committee

This is comprised of the Society's non-executive Directors. During the financial year ending 31st December 2009 the Chairman of the Remuneration Committee was the Chairman of the Society. The committee is responsible for setting the Society's remuneration policy for executive Directors. The committee also settles all other benefits and matters relevant to executive Directors including contracts of employment with the Society.

Treating Customers Fairly Committee

This committee is comprised of Messrs Silburn and Richardson and two members of the Society's staff. This committee reviews the Society's policies and procedures and makes recommendations to the Board and management.

DIRECTORS REMUNERATION REPORT

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 fee and salary levels in comparable organisations.

The Board will include an advisory vote 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.

Executive salaries are considered by the Remuneration Committee which meets at least once yearly. 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 contract of employment requires a 12 month notice period.

The Secretary's contract of employment requires a 6 month notice period.

Non-Executive Directors

The remuneration of all non-executive directors is reviewed annually by the Board. The remuneration consists of annual fees assessed by comparison with similar organisations and other external factors. The Chairman of the Board and Chairman of the Audit and Compliance Committee receive higher fees than other non-executive directors in recognition of the additional workload and responsibilities incumbent with those positions.

Non-executive directors do not participate in any performance pay scheme, pension arrangements or other benefits and do not have service contracts.

Details of Remuneration are set out in note 6 to the accounts on page 20.

Going Concern

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason the accounts continue to be prepared on the going concern basis.

Auditors

A resolution for the re-appointment of O'Reilly as Auditors of the Society will be proposed at the Annual General Meeting.

Approved on behalf of the Board
P O'M Campbell (Chairman)
17th February 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Preparation of Annual Accounts

The following statement, which should be read in conjunction with the statement of the Independent Auditors' responsibilities on page 11, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, annual accounts which give a true and fair view of the income and expenditure of the Society for the financial year and of the state of affairs of the Society as at the end of the financial year.

In preparing these accounts, the Directors are required to:

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

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

Accounting Records and Internal Control

The Directors are responsible for ensuring that the Society:

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENRITH BUILDING SOCIETY

We have audited the annual accounts of Penrith Building Society for the year ended 31st December 2009 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These Annual Accounts have been prepared under the accounting policies set out therein. We have examined the Annual Business Statement (other than the details of Directors and Officers upon which we are not required to report) and the Directors' Report.

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 auditors' 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 Auditors

The Directors responsibilities for the preparation of the Annual Report, including the Annual Accounts, the Annual Business Statement and the Directors' Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 10. Our responsibility is to audit the Annual Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other that the details of Directors and Officers) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the Annual Accounts.

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. We also report to you our opinion as to whether certain information in the annual business statement gives a true representation of the matters in respect of which it is given, whether the information in the directors' report is consistent with the accounting records and the annual accounts and whether the annual accounts, 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 made under it.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information accompanying the annual accounts, the annual business statement and the director's report and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual accounts, annual business statement and directors' report. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts and the annual business statement. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

Opinion

In our opinion:

(a) 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 2009, and of the income and expenditure of the Society for the year then ended;

(b) 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;

(c) the information given in the directors' report is consistent with the accounting records and the annual accounts; and

(d) the annual accounts, 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 made under it.

Gary Ritzema (Senior Statutory Auditor)
for and on behalf of O'Reilly, Statutory Auditor
Registered Auditors & Chartered Accountants
Ullswater House
Duke Street
Penrith
Cumbria
CA11 7LY

17th February 2010

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2009

	Notes	2009 £	2008 £
Interest receivable and similar income	2	2,916,988	4,475,396
Interest payable and similar charges	3	(1,551,617)	(3,237,375)
Net interest receivable		1,365,371	1,238,021
Fees and commissions receivable		40,400	61,207
Fees and commissions payable		(19,818)	(36,528)
Other operating income	4	9,634	9,634
Total Income		1,395,587	1,272,334
Administrative expenses	5	(947,909)	(918,401)
Depreciation and amortisation		(38,981)	(37,673)
Provision for bad and doubtful debts	15	(1,056)	-
Provision for Financial Services Compensation Scheme Levy	21	27,274	(130,400)
Profit on ordinary activities before tax		434,915	185,860
Tax on profit on ordinary activities	9	(97,934)	(38,161)
Profit for the financial year		336,981	147,699

The Society has no recognised gains/losses other than the profits for the years shown above.

Profit for the financial year arises from continuing operations.

BALANCE SHEET AS AT 31ST DECEMBER 2009

	Notes	2009 £	2008 £
ASSETS			
LIQUID ASSETS			
Cash in hand and balances with the Bank of England		12,429	9,536
Loans and advances to credit institutions	10	14,990,639	11,478,683
Debt securities	11	17,348,814	13,524,563
LOANS AND ADVANCES TO CUSTOMERS	13		
Loans fully secured on residential property		53,258,830	56,284,192
Other loans	12	2,882,985	3,279,734
INVESTMENTS			
Other investments	16	2,654	2,654
TANGIBLE FIXED ASSETS	17	110,159	109,592
OTHER ASSETS	14	241,219	256,153
PREPAYMENTS AND ACCRUED INCOME		37,256	28,820
TOTAL ASSETS		88,884,985	84,973,927
LIABILITIES			
SHARES	18	77,617,542	74,071,258
AMOUNTS OWED TO OTHER CUSTOMERS	19	754,122	545,967
OTHER LIABILITIES	20	190,875	309,312
ACCRUALS AND DEFERRED INCOME		37,313	42,605
PROVISION FOR LIABILITIES	21	73,767	130,400
		78,673,619	75,099,542
RESERVES	23	10,211,366	9,874,385
TOTAL LIABILITIES		88,884,985	84,973,927

Approved by the Board of Directors on 17th February 2010 and signed on its behalf by:
P O'M Campbell, Chairman
J S Hollins-Gibson, Director
C Hayward, Director & Chief Executive

The notes on pages 16 to 32 form part of these Accounts.

CASHFLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2009

	2009	2008 £
Net cash inflow/(outflow) from operating activities	5,094,309	(759,156)
Taxation	(62,114)	(50,048)
Capital expenditure and financial investment		
Purchase of financial fixed assets	(28,062,948)	(21,659,152)
Sale and maturity of financial fixed assets	24,124,387	23,763,994
Purchase of tangible fixed assets	(39,549)	(51,445)
Increase in cash	1,054,085	1,244,193
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	434,915	185,860
Decrease in prepayments and accrued income	99,511	198,726
(Decrease) in accruals and deferred income	(411,917)	(42,979)
Provisions for bad and doubtful debts	1,056	0
Depreciation and amortisation	84,581	63,023
Increase /(Decrease) in provisions	(56,633)	130,400
Net cash inflow from trading activities	151,513	535,030
Movement in:		
Loans and advances to customers	3,421,055	(7,365,206)
Shares	3,952,909	6,196,258
Amounts owed to credit institutions and other customers	208,155	385,610
Loans and advances to credit institutions and other customers	(2,500,000)	(500,000)
Other assets	81	120
Other liabilities	(139,404)	(10,968)
Net cash inflow/(outflow) from operating activities	5,094,309	(759,156)

	Cash Balances £	Net Increase /(Decrease) £
Cash in hand	12,429	
Loans and advances to credit institutions repayable on demand	4,953,883	
at 31st December 2009	4,966,312	
Increase 2008 to 2009		1,054,085
at 31st December 2008	3,912,227	
Increase 2007 to 2008		1,244,193
at 31st December 2007	2,668,034	

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Society's Annual Accounts.

(i) Accounting Convention

The accounts have been prepared under the historical cost convention as modified by the revaluation of the freehold property (See Note 17).

(ii) Basis of Preparation

The accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 and applicable accounting standards.

(iii) Interest Receivable

Interest receivable is obtained from continuing activities in the United Kingdom.

(iv) Mortgage Incentives

Interest discounts are recognised over the period of the discount as part of interest receivable.

(v) Corporation Tax

Corporation tax is provided upon the profit on ordinary activities, as adjusted for taxation purposes.

(vi) Deferred Tax

Full provision is made at the anticipated tax rates on differences arising from the allocation of items to different periods for taxation and for accounting purposes.

(vii) Fixed Assets and Depreciation

The cost of major additions to Freehold Buildings, Office and Computer Equipment and Motor Vehicles is capitalised. Computer development costs are also capitalised.

Depreciation is provided to write down fixed assets over their estimated useful economic life. The following depreciation rates are used:

Freehold Buildings at 1% per annum straight line.
Office and computer equipment at 20% per annum straight line.
Computer development costs at 20% per annum straight line.

(viii) Repairs

The cost of repairs is charged to revenue in the year in which the expenditure is incurred.

(ix) Liquid Assets

Interest on liquid assets is accrued to the date of the balance sheet and is adjusted by the interest element on purchase and sale of investments.

Debt securities are held as financial fixed assets with the intention of use on a continuing basis in the Society's activities. These are shown at cost excluding any interest element forming part of the purchase consideration. Where the adjusted cost price varies from the maturity value, any premium or discount is amortised in equal instalments up to maturity. Any amounts so amortised are charged/credited to the income and expenditure account for the relevant financial years.

Wherever a financial fixed asset experiences a diminution in value which is expected to be permanent, a provision is made so as to write down the cost of the security to its recoverable amount.

(x) Pensions Costs

Contributions to a defined contribution scheme are treated as a revenue expense in the year in which they occur.

(xi) Provisions for Loans and Advances

The specific provision is in respect of non-performing mortgages which are three months or more in arrears. The specific provision for non-performing loans is calculated by discounting the value of the property at the balance sheet date so that if the property were to be placed on the market a sale would be agreed within three months of that date. The calculation also takes into account anticipated realisation costs and amounts recoverable under mortgage indemnity policies.

The general provision is in respect of those advances in arrears, but not in possession, which have not been specifically identified as being impaired, but which might give rise to losses in the light of the Society's experience relating to such matters.

Interest is suspended on impaired loans wherever it appears that it is unlikely that the interest will be collected i.e. if the value of the security is less than the outstanding loan.

Loans and advances in the balance sheet are shown net of provisions, specific and general and suspended interest. The increase in the provisions as adjusted by recoveries made during the year comprise the charge to the income and expenditure account.

(xii) Leases

Rentals under operating leases are charged to administrative expenses in the year in which the expenditure is incurred.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2009	2008 £
On loans fully secured on residential property	1,975,970	3,133,733
On other loans	154,216	207,821
On debt securities	532,651	675,683
On other liquid assets	254,151	458,159
	2,916,988	4,475,396

The total income from fixed income securities (within debt securities above) was £532,651 (2008 - £675,683).

Interest receivable on "other loans" includes £8,880 (2008 - £12,989) in respect of loans advanced prior to the 1st September 1998 to corporate bodies such as Housing Associations, which are fully secured on residential property. The classification adopted for such amounts is consistent with the balance sheet classification of the related loan in accordance with the Building Societies Act 1997 (see Note 12).

Where a discounted interest rate is charged for a period, interest on the loan is included in "interest receivable" as charged.

The Society retains an interest in certain residential shared ownership properties. The sale price of such interests reflect the proportion of the Society's interest in the property applied to the market price of the property as a whole.

Interest which is considered irrecoverable, where the property has been taken into possession or the normal lending relationship has ceased, has been suspended and deducted from the appropriate assets in the balance sheet. Movements in the suspended interest accounts are as follows:

	2009	2008 £
Balance brought forward	2,203	2,203
Interest written off during the year	-	-
Interest suspended in the year	-	-
Balance carried forward	2,203	2,203

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £	2008 £
On shares held by individuals	1,538,378	3,219,225
On other shares	3,385	9,142
On deposits and other borrowings	9,854	9,008
	1,551,617	3,237,375

4. OTHER OPERATING INCOME

	2009 £	2008 £
Rents received on shared ownership properties	9,634	9,634

5. ADMINISTRATIVE EXPENSES

	2009 £	2008 £
Staff costs (including Executive Directors)		
* Wages and salaries	372,391	355,138
* Social security costs	38,324	37,173
* Other pension costs	131,485	131,740
	542,200	524,051
Other administrative expenses	405,709	394,350
	947,909	918,401

Other administrative expenses include:

Auditors' remuneration (expenses nil) for audit work	24,050	22,150

6. DIRECTORS' EMOLUMENTS

		Salary & Fees	
		2009	2008
For Services as Non-Executive Directors			
P O'm Campbell		13,808	13,341
D Driver		8,919	8,617
J S Hollins-Gibson		10,735	10,372
Lord Hothfield		8,919	8,617
G M Rigg		8,919	8,617
G Silburn		8,919	8,617
TOTAL FOR NON-EXECUTIVE DIRECTORS		60,219	58,181
For Services as Executive Directors			
C Hayward	Salary	70,047	67,443
	Pension Contributions	84,000	84,000
		154,047	151,443
P Richardson	Salary	61,942	59,391
	Pension Contributions	6,220	6,130
	Subsistence Allowance	-	1,907
		68,162	67,428
TOTAL FOR EXECUTIVE DIRECTORS		222,209	218,871
GRAND TOTAL		**282,428**	**277,052**

7. DIRECTORS' LOANS AND RELATED PARTY TRANSACTIONS

The aggregate amount of loans outstanding as at 31st December 2009 to four Directors and connected persons was £836,071. 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 in the period 15 days expiring with the date of the Society's Annual General Meeting and at the Annual General Meeting.

There are no other related party transactions which require disclosure under FRS 8 (Related Party Disclosures).

8. EMPLOYEES

	Full Time		Part Time	
	2009	**2008**	**2009**	**2008**
	No.	**No.**	**No.**	**No.**
The average number of persons employed (including Executive Directors) during the year was:				
Head Office	7	7	1	1
Head Office Branch	3	3	6	6
	10	10	7	7

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2009	2008
	£	£
a) Analysis of charge in year:		
UK Corporation Tax at 22.60% (2008 - 20.75%)	83,081	62,114
Deferred Tax (see note 22)	14,853	(23,953)
	97,934	38,161
b) Factors affecting the tax charge for the period:		
Profit on ordinary activities before tax	434,915	185,860
Tax at 28% (2008 - 20%/21%)	121,776	38,572
Effects of:		
Capital allowance in excess of depreciation	(3,835)	(4,059)
Expenses not deductible for tax purposes	520	539
Disallowed general provision for bad and doubtful debts	295	-
FSCS levy provision	(15,857)	27,062
Marginal Relief	(19,818)	-
Current tax charge for year	83,081	62,114

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions have remaining maturities as follows:

	2009	2008
	£	£
Accrued interest	36,756	75,992
Repayable on demand	4,953,883	3,902,691
Other loans and advances by residual maturity repayable:		
in not more than three months	4,500,000	3,500,000
in more than three months but not more than one year	5,500,000	4,000,000
	14,990,639	11,478,683

11. DEBT SECURITIES

	2009 £	2008 £
Issued by public bodies	6,433,684	5,396,294
Issued by other borrowers	10,915,130	8,128,269
	17,348,814	13,524,563

Debt securities have remaining maturities as follows:

	2009 £	2008 £
Accrued interest	174,939	243,649
In not more than one year	10,824,012	7,940,784
In more than one year	6,349,863	5,340,130
	17,348,814	13,524,563
Transferable debt securities comprise:		
* Listed on a recognised investment exchange	6,349,863	5,340,130
* Unlisted	10,824,012	7,940,784
	17,173,875	13,280,914
Market value of listed transferable debt securities:	6,633,022	5,678,289
Included in debt securities are:		
* Unamortised premiums	123,112	90,130
* Unamortised discounts	(23,250)	-

The Directors of the Society consider that the primary purpose of holding securities is prudential. The securities are held as liquid assets with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets rather than current assets.

Movements during the year of transferable debt securities held as financial fixed assets are analysed as follows:

	2009 £	2008 £
Adjusted cost and net book value (excluding accrued interest)		
At 1st January 2009	13,280,914	15,411,106
Premium/Discount amortised during the year	(45,600)	(25,350)
Disposals	(24,124,387)	(23,763,994)
Acquisitions	28,062,948	21,659,152
At 31st December 2009	17,173,875	13,280,914

12. LOANS AND ADVANCES TO CUSTOMERS

	2009 £	2008 £
Other loans fully secured on land	2,882,985	3,279,734

Other loans fully secured on land include £148,206 (2008 - £159,427) of loans which are fully secured on residential property and which were made to corporate bodies, such as Housing Associations, prior to 1st September 1998 the date the Society adopted the powers of the Building Societies Act 1997. The classification of these assets is not consistent with the treatment of similar loans made after 1st September 1998 which are included in "loans fully secured on residential property" but is necessary to comply with the requirements of the Building Societies Act 1997.

13. LOANS AND ADVANCES TO CUSTOMERS

Maturity Analysis

The remaining maturity of loans and advances to customers from the date of the balance sheet is as

	2009 £	2008 £
Repayable on demand	171,291	161,398
Other loans and advances by residual maturity repayable:		
In not more than three months	349,440	347,612
In more than three months but not more than one year	1,897,082	1,742,085
In more than one year but not more than five years	12,927,335	13,057,517
In more than five years	40,899,063	44,356,654
	56,244,211	59,665,266
Less: Provisions for bad and doubtful debts (see Note 15)	(102,396)	(101,340)
	56,141,815	59,563,926

The maturity analysis is produced on the basis that where a loan is repayable by instalment, each such instalment is treated as a separate repayment. Arrears are spread across the remaining term of the loan.

14. OTHER ASSETS

	2009 £	2008 £
Residential shared ownership properties where the Society retains an interest in those properties with a view to making advances on the security of the equitable interests	156,875	156,875
Other assets	75,244	75,325
Deferred Tax (see note 22)	9,100	23,953
	241,219	256,153

15. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Loans Fully Secured on Residential Property £
At 1st January 2009	
~ general provision	101,340
General provision	
~ increase during year	1,056
At 31st December 2009	
~ general provision	102,396

There are no specific provisions.

16. OTHER INVESTMENTS

Unlisted Investments	**2009** **£**	**2008** **£**
At cost:		
Mutual Vision Technologies Limited	2,654	2,654

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. TANGIBLE FIXED ASSETS

	Land and Buildings £	Equipment, Fixtures and Fittings £	Total £
Cost or valuation			
At 1st January 2009	40,000	362,936	402,936
Additions	-	39,548	39,548
Disposals	-	-	-
At 31st December 2009	40,000	402,484	442,484
Depreciation			
At 1st January 2009	12,400	280,944	293,344
Charged for the year	400	38,581	38,981
Disposals	-	-	-
At 31st December 2009	12,800	319,525	332,325
Net book value			
At 31st December 2008	27,600	81,992	109592
At 31st December 2009	27,200	82,959	110,159

Net book value of land and buildings is represented by:

	2009 £	**2008 £**
Freehold	27,200	27,600

The freehold buildings were valued at 24th June 1974 on the basis of an open market valuation for existing use by Penrith Farmers' and Kidd's plc, Chartered Surveyors. These buildings are occupied by the Society for its own activities.

18. SHARES

	2009 £	2008 £
Held by individuals	77,398,121	73,854,842
Other shares	219,421	216,416
	77,617,542	74,071,258

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

	2009 £	2008 £
Accrued interest	378,882	785,507
Repayable on demand	75,001,590	70,830,653
Other shares by residual maturity repayable:		
In not more than three months	2,237,070	2,455,098
	77,617,542	74,071,258

19. AMOUNTS OWED TO OTHER CUSTOMERS

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	2009 £	2008 £
Repayable on demand	754,122	545,967

20. OTHER LIABILITIES

	2009 £	2008 £
Amounts falling due within one year		
Income tax	97,004	235,365
Corporation tax	83,081	62,114
Other creditors	10,790	11,833
	190,875	309,312

21. PROVISIONS FOR LIABILITIES

	2009 £	2008 £
Financial Services Compensation Scheme Levy	73,767	130,400
	73,767	130,400

In common with all regulated deposit takers, the Society pays levies to the Financial Services Compensation Scheme (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 scheme pays net of any recoveries it makes using the rights that have been assigned to it. In 2008 claims were triggered against the FSCS by the transfer of Bradford and Bingley's retail deposit business to (then) Abbey National and similar issues in respect of Heritable Bank, Kaupthing Singer & Friedlander, Icesave and London Scottish Bank.

The FSCS has met the claims by way of loans from HM Treasury. The FSCS has in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to meet the interest payments on the loans from HM Treasury. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to repay fully the respective HM Treasury loans.

The Society made provision of £130,400 in last years accounts to cover the estimated liability of the Society in the scheme years 2008/2009 to 2010/2011 and has actually paid a sum of £29,359 to the FSCS in 2009. As a result of notifications received from the Financial Services Authority, it has been calculated that the likely liability to the Society for an additional amount chargeable for scheme year 2008/2009 and for the scheme years 2009/10 and 2010/11 will total £73,767. It is not possible to calculate any future liabilities following those scheme years and therefore no additional provision may be made. Accordingly this year's accounts show a reduction in the provision of £27,274.

22. DEFERRED TAXATION

	2009 £
At 1st January 2009	23,953
Debit to Income and Expenditure account for the year	(14,853)
At 31st December 2009	9,100

The deferred tax asset is set out below:

	2009 £	2008 £
Differences between accumulated depreciation and amortisation and capital allowances	(6,391)	(3,431)
FSCS Levy	15,491	27,384
	9,100	23,953

23. RESERVES

	General Reserve 2009 £
At 1st January 2009	9,874,385
Profit for the financial year	336,981
At 31st December 2009	10,211,366

24. CONTINGENT LIABILITIES & COMMITMENTS

a) The Society has a contingent liability in respect of potential contributions to the Financial Services Compensation Scheme under Part XV of the Financial Services and Markets Act 2000. (See also Note 21.)

b) Capital Commitments

There were no contracted capital commitments at the financial year end.

c) At 31st December 2009 the Society has annual commitments under non-cancellable operating leases as follows:

	2009 £	2008 £
Office equipment leases which expire:		
within two to five years inclusive	5,006	3,679
over five years	-	-

25. 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 to 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 of Directors.

Instruments commonly used for risk management purposes include derivative financial instruments ("derivatives"), 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, since the Society does not currently offer any capped or fixed rate mortgage or savings products that would give rise to a balance sheet exposure. The Society does not undertake any financial instruments for trading or speculative purposes.

RISK MANAGEMENT

The main financial risks arising from the Society's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, and these are summarised below.

* Credit Risk
  Credit risk is the risk of default by counterparties to transactions. Appropriate credit limits have been established by the Board for individual counterparties and sectors.

* Liquidity Risk
  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 full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations.

* Interest Rate Risk
  The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset 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 table below summarises these repricing mismatches as at 31st December 2009. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing date and the maturity date.

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	Non-interest bearing	Total
	£	£	£	£	£	£
ASSETS						
Liquid Assets	13,556,930	9,851,682	1,540,851	6,349,863	1,052,556	32,351,882
Loans and advances to customers	56,141,815	-	-	-	-	56,141,815
Investments	-	-	-	-	2,654	2,654
Tangible fixed assets	-	-	-	-	110,159	110,159
Other assets	74,915	-	-	-	166,304	241,219
Prepayments and accrued income	-	-	-	-	37,256	37,256
TOTAL ASSETS	69,773,660	9,851,682	1,540,851	6,349,863	1,368,929	88,884,985
LIABILITIES						
Shares	77,617,542	-	-	-	-	77,617,542
Amounts owed to other customers	754,122	-	-	-	-	754,122
Other liabilities	-	-	-	-	190,875	190,875
Accruals and deferred income	-	-	-	-	37,313	37,313
Provisions for liabilities	-	-	-	-	73,767	73,767
Reserves	-	-	-	-	10,211,366	10,211,366
TOTAL LIABILITIES	78,371,664	-	-	-	10,513,321	88,884,985
Interest rate sensitivity gap	(8,598,004)	9,851,682	1,540,851	6,349,863	(9,144,392)	-

Comparative Position at 31st December 2008:

TOTAL ASSETS	70,458,315	5,102,823	3,017,062	5,340,130	1,055,597	84,973,927
TOTAL LIABILITIES	74,617,225	-	-	-	10,356,702	84,973,927
Interest Rate Sensitivity Gap	(4,158,910)	5,102,823	3,017,062	5,340,130	(9,301,105)	-

ANNUAL BUSINESS STATEMENT

1. STATUTORY PERCENTAGES

	2009	Statutory Limit
Lending Limit	4.35%	25.00%
Funding Limit	0.97%	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 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 value of Y used is the greater of the value at 31st December 2009 and the value at 30th September 2009, the previous quarter day.

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

X = shares and borrowings, 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 value of Y used is the greater of the value at 31st December 2009 and the value at 30th September 2009, the previous quarter day.

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

	2009 %	2008 %
As percentage of shares and borrowings:		
Gross capital	13.03	13.23
Free capital	13.02	13.22
Liquid assets	41.28	33.52
Profit for the financial year after taxation as a percentage of mean total assets	0.39	0.18
Management expenses as a percentage of mean total assets	1.14	1.17

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

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

* "Gross capital" represents the General Reserve.

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

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

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

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

3. INFORMATION RELATING TO THE DIRECTORS AND OTHER OFFICERS

NAME	ADDRESS	DATE OF BIRTH	DATE OF APPOINTMENT	BUSINESS OCCUPATION	OTHER DIRECTORSHIPS
DIRECTORS					
P O'M CAMPBELL	Haresgill, Stainton, Penrith, Cumbria	13/10/1942	30/03/1988	Veterinary Surgeon	None
C HAYWARD	54 Lowther Street, Penrith, Cumbria	08/02/1953	11/03/1992	Chief Executive	None
J S HOLLINS-GIBSON	Churchtown House, Sebergham, Carlisle	14/10/1946	10/09/1986	Retired Chartered Accountant	Grasmere Sports Committee Limited
A C S TUFTON, LORD HOTHFIELD	Drybeck Hall, Appleby, Cumbria	21/10/1939	01/12/1999	Retired Civil Engineer	None
G M RIGG	Jopplety How, 6 Brougham Avenue, Brougham, Penrith, Cumbria	24/11/1948	31/03/1982	Finance Administrator	None
G SILBURN	19 Maple Drive, Penrith, Cumbria	20/11/1954	01/11/2002	Managing Director, Pharmacy	Joseph Cowper Limited
D DRIVER	The Old Vicarage, Little Salkeld, Penrith, Cumbria	12/12/1945	01/03/2003	Retired Chartered Accountant	Keld Energy Limited
P RICHARDSON	135 Tennyson Avenue, Harrogate, North Yorkshire	05/03/1960	10/07/2006	Secretary	ShareAfrica

SERVICE CONTRACTS

None of the non-executive Directors has a service contract.

The Chief Executive has a contract which can be terminated by either party giving not less than 12 months prior written notice. This contract was entered into on 1st October 2006.

The Secretary has a contract which can be terminated by either party giving not less than 6 months prior written notice. This contract was entered into on 10th July 2006.