PENRITH BUILDING SOCIETY

Annual Report and Accounts

31st December 2012

CHAIRMAN’S STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2012

Where we are

In this my first year as chairman, the Penrith Building Society (‘the Society’) has had its highs and lows. Continued difficult market conditions have meant that the Board has needed to make adjustments to the Society’s business model. There was a feeling in some quarters that there would be a base rate increase but this never came and we now feel it will be some time before the base rate moves again. As part of the changes made to our business model, we achieved record lending but also had to absorb significant one-off costs and strengthen our mortgage loss provisioning. As a result the Society has suffered a loss. Due to an exceptionally strong balance sheet built up over many years, the loss has been absorbed with minimal impact on our excellent capital position. We remain financially sound and should return to profit in 2013.

The Society was ably steered through the worst recession since the 1930s by Chris Hayward, who has just reached retirement and we had to embark on the establishment of a completely new management team. There was a cost to this in both recruitment fees and parallel salaries of senior executives, but I am confident that in Amyn Fazal and Elspeth James we now have a very good team. Amyn, as Chief Executive, has brought a revitalised vision and Elspeth, as Finance Director, brings valuable experience from her career in accountancy. The caution and prudence of the past years have both built up our reserves and enabled us to remain independent when others have failed. We do not forget that easily.

You may have read that the Government has introduced the Funding for Lending Scheme (FLS); the high cost of entering this scheme means it is not a viable option for smaller institutions. It will however have an effect in the market place and we are already seeing lower savers’ rates.

Mutuality

The Society is owned by you (its members), both savers and borrowers, each with a different focus. Ever since our Victorian beginnings, we have enabled local people to buy their own homes and today we are a national but small building society still able to help our community, as we understand the local market. One of our most attractive features is that the Society is one of those organisations that looks at each mortgage application individually in detail and tries to lend where possible. Many of our members tell us that it is refreshing to be able to speak to a person and it is in this way that we acquire many good mortgages that do not fit the criteria of a computer model. This is not to say we can approve everything, but we do look at it and help if we can and especially in the local market which we understand.

Savers want higher returns and borrowers want lower mortgage rates and it is between these two rates that we make our margin or profit. We operate in a market place but being a mutual organisation we do not have to make even more in order to pay dividends to shareholders. You are the owners.

The Society

I mentioned the costs we have faced this past year which contributed to our overall loss. In addition to the costs in changing our management team, we set aside further provisions for potential losses on our mortgage book of £180,542 and to cover our levy to the Financial Services Compensation Scheme (FSCS) of £54,530.

The Society, continued

We have put aside a provision for some property development loans about which we are concerned.

The FSCS is the organisation that provides the security or insurance to your investment in the Society. Our levy, which has increased from last year, covers the ongoing costs of bailing out such organisations as the Bradford and Bingley, various Icelandic banks, the Dunfermline Building Society, etc. Sometimes it seems unfair that we have to bear this cost when these businesses ran riskier business models, but that is the cost of the security to you. This cost will recur for some years yet and we have to make sufficient extra margin to cover this.

We have taken on an extra member of staff to assist with the additional regulation arising from the Mortgage Market Review and we hope to see benefits from this additional resource in 2013 as she will be proactive in the market. We also incurred the recruitment costs already referred to.

We continue to invest in technology and this year has seen the development of secure online services, which will make it possible for our customers to view their balances and other information online and to correspond with us via secure messaging. We will be developing these services to include online mortgage applications.

Regulation and Corporate Governance

Every aspect of our business is subject to regulation with its attendant costs. Your Board continues to embrace the low-risk business model that has served the Society so well over the years and built up our enviable reserves. The Society will continue to offer a range of simple and competitive products which aim to give you a fair and affordable deal despite the market conditions.

Peter Campbell retires from the Board this year, having given up the chairmanship last year in order to allow me to take over before all the changes in senior management. I would like to put on record our thanks to Peter for his leadership through difficult economic times. The Society hopes to replace him with a person with building society sector experience. The Board continues to play an increasingly involved role in the direction of the Society. Our regulators examine the Board members and the skill base they bring on appointment and through periodic board review visits. I am pleased to be able to report that all members of your Board remain fully committed and spend an increasing amount of their time on the affairs of the Society.

Our Staff

We are fortunate to have a very loyal staff who share the Board's aim of serving our members well, providing excellent customer service and delivering good products. I extend my and the Board's thanks to them for their hard work and contribution.

Outlook

The economy is still fragile and needs confidence to return for it to grow, but your Board is confident that the Society will continue to be financially sound and offer good-value products. We are extremely well capitalised, have funds to lend and are positive about the future.

CHIEF EXECUTIVE'S REVIEW
FOR THE YEAR ENDED 31ST DECEMBER 2012

My first report on the Society's results is set against a backdrop of well documented difficulties in the market and the national economy. Our accounts for the year ended 31st December 2012 show a loss after tax of £218,535 (2011 – profit £25,854) as a result of a small number of significant and necessary charges in the year which had they not occurred would show that our underlying performance is profitable. Overall our results should be seen in conjunction with the Society's strong capital and liquidity positions which I believe lay firm foundations for future success and growth.

Overview

It is now over five years since the global banking crisis caused turmoil in worldwide financial markets. The end of the recession seems some way off with many commentators foreseeing a decade or more of financial infrastructure rebalancing. The Society has been affected by these events in common with the rest of the financial services sector. The low Bank Base Rate (BBR) which has been at 0.5% since March 2009, looks set to remain that way for a while longer. For the Society this has meant that the margin between the rate paid to savers and that charged to borrowers has been very tight because we have held firm to our strategy of keeping mortgage rates as low as possible while, at the same time, maintaining favourable rates for savers.

Being a mutual, the Society does not aim to maximise profits but seeks to generate a small surplus each year to operate its business and to set aside reserves to act as a buffer for any future conditions such as we face today. This year we are reporting a loss and so will be drawing a small amount from that pool of accumulated reserves. A large part of the loss incurred is attributable to the provision that we have made for potential bad debts. Whilst the Society's mortgage book remains very strong and we have one of the best arrears positions in the sector, we have felt that the current length and severity of the recession, coupled with some anticipated losses we may incur on property development related loans, needed to be provided for.

There are many costs associated with running a building society today from increased regulation, the prescribed levy to the FSCS and the cost of maintaining the people and technological resources essential to running the Society. In 2012 we made the decision to finance two one-off projects from existing resources rather than to increase our margin. First we embarked on building up our mortgage asset base in order to secure our future income streams and secondly, we established an Executive team of the right calibre and with the necessary skills to take the Society forward.

I am pleased to report that the Society has, for the first time in many years, increased its total number of customers, maintained its overall assets and increased its mortgage assets. You have told us through the customer satisfaction surveys we conduct that we have continued to provide exemplary customer service with your positive ratings at nearly 100%. The Society remains financially strong and able to contend with difficult economic conditions.

Society Strength

The health of the Society's reserves is borne out by our gross capital ratio which is amongst the best in the building society sector. Our capital (or our accumulated reserves) and amounts of readily available cash (otherwise known as liquidity) together form the basis of a very strong Society. Chris Hayward's tenure as Chief Executive ended at the end of this reporting period. For the past year I have, prior to taking over from him at the start of 2013, led a programme of restructuring to continue to make the Society relevant for the challenges of the future. A key element of this restructuring has been the appointment of a Finance Director, a process which naturally incurred some costs but I am pleased to report that Elspeth James took up this new post in September 2012 and became a Board director with effect from 1 January 2013. Our new team is already establishing a strong footprint and a fresh perspective for the future.

Savings

Whilst market pressures have inevitably affected savings rates across the sector, we aim consistently to deliver competitive products and services to our members. The Society has prided itself in having a product range that is simple to understand with none of the hidden charges and penalties that some other institutions build into their products.

It is pleasing to report that the continuing popularity of our existing simple no-nonsense range together with the development of some new products for savers has led to a welcome increase in overall customer numbers since December 2011 and the balance on savers' accounts has increased from £76.88 million to £77.02 million.

In 2012, we again offered our hugely popular Christmas Saver account which allows savers to build up a fund to alleviate the seasonal financial pressures. We also launched an Affinity Account in partnership with the Pride in Penrith Lottery as a further way of supporting local charity and community groups. Every £1 invested in this account attracts interest for savers and triggers a contribution from the Society to the Lottery fund which makes regular donations to local good causes. Further new product development is planned for 2013.

Mortgages

Lending on residential property out of funds raised from retail savers is at the heart of the simple and successful building society model and I am proud to report that during 2012 the Society achieved record mortgage lending. Gross mortgage lending increased by 18.87% from the previous year, being an increase in net lending from £51.99 million to £61.68 million.

The Society offers one basic type of mortgage priced at its Standard Variable Rate (SVR) which is discounted by various rates from time to time and in response to competition. During 2012, the Society was able to offer a series of these discounts and for a period had the best 'Fees Paid' product in the market (Moneysupermarket). These discounts were in response to the market and form a critical part of the Society's strategy.

Every mortgage application we receive is given individual attention as opposed to the 'computer says no' model favoured by so many other institutions. Our customers tell us that this is refreshing especially at a time when applicants can face considerable anxiety during the house-buying process. Applications that can, in some places, disappear down a black hole of bureaucracy are at the Society given full attention by senior staff located just paces away from the mortgage department.

Mortgages, continued

The Society's arrears position has remained one of the lowest in the building society sector. There were again no repossessions and only one mortgage twelve or more months in arrears at 31st December 2012. Further details are on page 8. Levels of arrears across all accounts have fallen slightly over the year and there is no underlying trend causing concern. We have created a specific provision of £199,725 in the accounts this year end to cover potential losses on property development loans within the portfolio.

The Society uses a number of forbearance measures to assist those borrowers approaching or at the point of experiencing financial difficulties. Such measures include the acceptance of reduced or suspended payments for a concessionary period. Borrowers are expected to resume normal payments when able once any such concessionary period expires. At 31st December 2012 there was one account (2011 – none) subject to forbearance measures. Where the Society considers there is a risk of loss in such cases, provisions are assessed as detailed in Note 1 to the accounts.

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.

Finally, our roots as a local society mean that we are committed to providing Cumbrian applicants with more favourable products such as the fees-paid scheme and higher percentage loans to value.

Staff and Community

Since those humble beginnings in 1877, the Society has never lost sight of the fact that it is the people that serve our members day in and day out whether in person, by telephone or through written communication that bring the vision and values of the organisation to life. It is no surprise that we receive many letters and comments complimenting the way that our staff have dealt with their particular transaction. Low turnover and longevity of service amongst our team has meant that our customers have continued to enjoy consistent and personal service with real people you have got to know.

Our members will know the extensive support we have given to a great number of charitable, cultural, sporting, agricultural, educational and commercial initiatives in the area. We are proud to serve our local community in this way with financial and practical support and will continue to do so.

We also appreciate that Penrith's business community plays a vital role in this historic market town and in 2012 we continued to play an important role in the Penrith Show, the Chamber of Trade and the town's successful bid to form a Business Improvement District.

Vision

The Society's Vision is that 'We aim to become a nationally recognised, secure local mutual society with excellent customer service, simple, great value products and to be chosen by our town above all others to help with their financial services needs.'

Our strategy throughout our long history has been to provide attractive products coupled with a community focused and personal customer service. You tell me that you trust and value the Society's traditional model and I thank you for your continued loyalty. I intend to keep it that way for the benefit of all and especially for our local customers and community as a whole.

CHIEF EXECUTIVE'S REVIEW continued

FOR THE YEAR ENDED 31ST DECEMBER 2012

The Future

We operate within a very volatile and competitive market but our business model has stood the test of time when others have faltered. We are a modern mutual, operating successfully and at a time when customer sentiment favours the mutual way as a demonstrably better way to do business. The Society is now over 135 years old and we continue to provide a personalised and attractive financial services offering.

The restructuring of roles and responsibilities, the establishment of a dedicated team with a viable and engaging vision and the steps we have taken to ensure the protection of our assets and reserves are all in place. I can be supremely confident that together, our staff, our management and Board working with our customers and members can continue the proud and resonant traditions of this fine Society into the future.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2012

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31st December 2012.

Business Review

The Business Review is covered in the Chairman's Statement and Chief Executive's Review on pages 1 to 6.

Directors

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

Non-Executive Directors

J S Hollins-Gibson, FCA	Chairman
P O'M Campbell, BVM & S, MRCVS	Vice Chairman
G M Rigg, BSc	
A G Waterfield, BA, CIMA	
G Silburn, BSc MRPharmS	Senior Independent Director
D Driver, FCA	

Executive Directors

C Hayward, BSc, ACIB	Chief Executive
A S Fazal, BA, FCIB	Deputy Chief Executive

Messrs Hollins-Gibson, Rigg, Silburn and Driver having served on the Board for over 9 years have agreed to retire under Rule 26(1) and being eligible offer themselves for re-election. Mr Campbell fully retires from the Board at the forthcoming AGM.

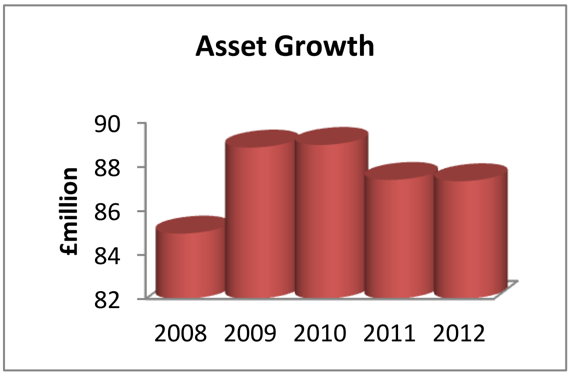
Mr Hayward retired as Chief Executive and stepped down from the Board on 31st December 2012. He was succeeded by Mr Fazal. Miss E L James was appointed to the Board as Finance Director from 1st January 2013.

During the 12 months ended 31st December 2012 Mr Fazal was appointed as a non-executive director to 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.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2012

Key Performance Indicators

Total Assets



The Society experienced a small asset contraction of 0.07% during 2012 with total assets decreasing from £87,409,025 to £87,348,298. Movement in total assets reflects the performance of the Society in its core business of mortgages and savings.

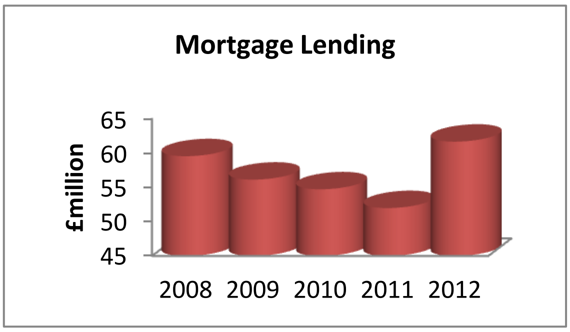
Liquid Assets

Liquid assets, in the form of cash and securities at 31st December 2012 were £24,980,956, representing 28.60% of total assets and 32.43% of total shares and borrowings. These levels of liquidity show that the Society continues to be able to meet all calls on its funds.

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 – ILSA) is carried out by management and approved by the Board on an annual basis.

Mortgages

During 2012 new mortgage lending totalled £17,255,756, a record for the Society. There were 130 advances, including 38 further advances. The mortgage balance increased by 18.87% over the year.

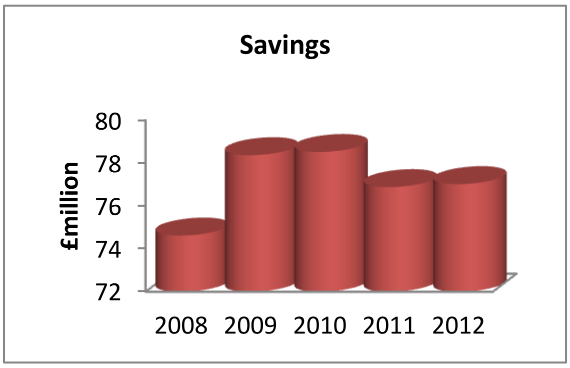


At 31st December 2012 there was one mortgage (2011 – two) where the repayment of principal and interest was twelve or more months in arrears. The total amount of arrears in this case was £8,950 (2011 – £22,105) on a balance totalling £8,950 (2011 – £188,500). This case has a low loan to value ratio. At 31st December 2012 the Society had no properties in possession (2011 – 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.

Savings

Share and deposit balances at 31st December 2012 totalled £77,019,914, an increase of £140,971 over 2011 levels. The Society introduced a successful limited edition 2012 Christmas Saver account at the end of 2011 and a new Affinity account in conjunction with the Penrith Lottery Fund. Both of these have contributed to the overall growth in balances and customer numbers in 2012.

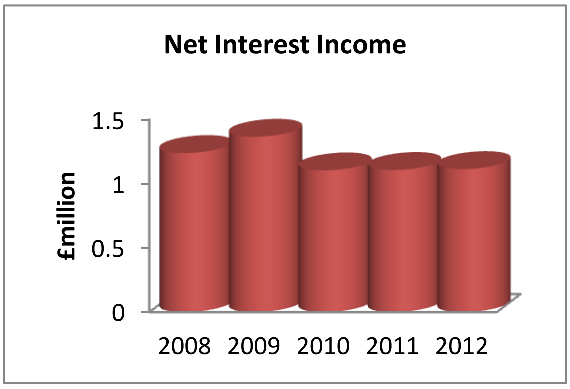


DIRECTORS' REPORT continued

FOR THE YEAR ENDED 31ST DECEMBER 2012

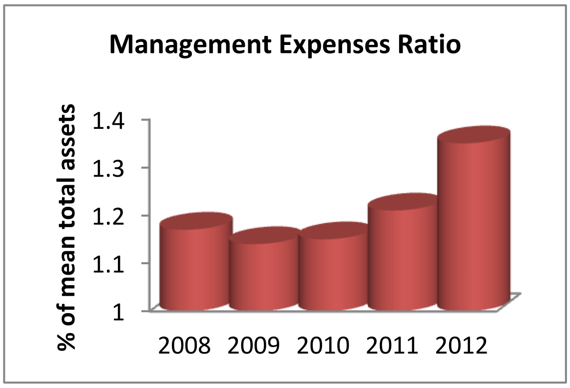
Key Performance Indicators, continued

Results for the year



The Society made a loss for the year of £218,535 (2011 - profit £25,415). Our net interest income year on year was unchanged at £1.11million and our operating loss before provisions was £31,320 (2011 – profit £82,906) which can be attributed to the costs of changing our management team. The remaining loss arose from the need to set aside further provisions for potential losses on our mortgage book of £180,542 and to cover our contribution to the FSCS of £54,530.

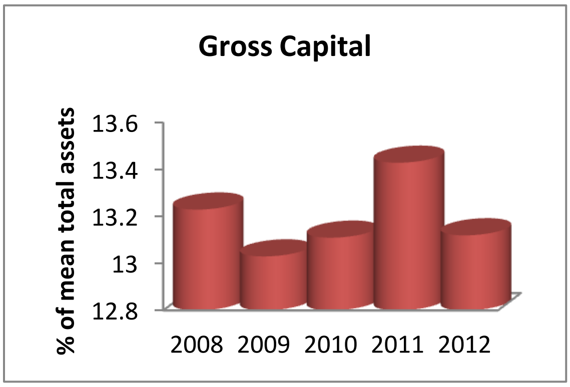
Management Expenses



Management expenses including depreciation rose to £1,177,953, an increase of 10.02% (2011 – 4.76%).

Management expenses expressed as a ratio of mean total assets stood at 1.35% (2011 – 1.21%). The Board reviews Management Expenses each quarter. The increase over previous years is due to the changes in the executive team, continuing renovations and repairs to the Society's offices and increased staff costs.

Capital



At 31st December 2012, free capital (the aggregate of General Reserve and general provision for bad and doubtful debts less tangible fixed assets) amounted to £10,033,597 or 13.03% of total shares and borrowings. Gross capital amounted to 13.12% of total shares and borrowings. These remain amongst the highest such ratios in the industry. 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.

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

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

Land and Buildings

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

Staff

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

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.

Donations

During the year charitable donations totalling £7,158 (2011 – £7,414) were made. No contributions were made for political purposes.

Post Balance Sheet Events

Since the year end, the Society has taken a portfolio of connected properties into possession. These properties had already been provided for in the mortgage loss provision at year end and the Directors are satisfied no further provisions are necessary at this time.

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 and Uncertainties

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

The main risks to which the Society is exposed are Credit Risk, Interest Rate Risk, Liquidity Risk, Conduct Risk 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 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 does not have any fixed rate products and therefore this risk is limited to exposure to fixed rate investments including 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 2012 is detailed in note 25 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.

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

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2012

Financial Risk Management Objectives and Policies

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.

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. Further details are given in note 25 to the Accounts.

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.

Auditor

A resolution for the re-appointment of KPMG Audit Plc as Auditor of the Society will be proposed at the Annual General Meeting.

Approved and signed on behalf of the Board

J S Hollins-Gibson (Chairman)
27th February 2013

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2012

The UK Corporate Governance Code (June 2010) 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 and is responsible for the continued success of the Society.

It is responsible for devising 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.

The Board meets at least once per calendar month and there is a formal schedule of matters which are reserved for Board approval.

Board Composition and Independence

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

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

The Board considers that all of its Non-Executive Directors are independent. The majority of the Board resides within the Penrith area and are well known within the community; all are readily accessible either in person, by telephone or by correspondence. Mr G Silburn continues as Senior Independent Director and is available to members having any concerns which they consider would be inappropriate to discuss with senior managers and executives.

Four of the Society's Non-Executive Directors, Messrs Hollins-Gibson, Driver, Silburn and Rigg will have served on the Board for periods over nine years at the date of the coming Annual General Meeting. In addition to having extensive local knowledge, these Directors have developed a thorough understanding of the practice of building societies and each has individual talents which continue to serve the Society well. The Board considers that these Directors make valuable contributions to the Society and continue to maintain their independence.

The Board has however agreed that any Director with over nine years' service should seek annual re-election and therefore these four will stand for re-election at the forthcoming AGM.

Board Composition and Independence, continued

Mr Campbell will retire as a Non-Executive Director from the Board at the forthcoming AGM.

Mr Fazal was appointed as Chief Executive from 1st January 2013, following the retirement of Mr Hayward. Miss E L James was appointed to the Board as Finance Director from 1st January 2013.

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. A formal recruitment process will be employed and may include the advertising of the position in appropriate media and canvassing the Society membership. A Board Sub-Committee, including the Chairman, will be established to oversee the recruitment of all Directors. It is necessary for Board appointments to be approved by the FSA under the Approved Persons regime and this may include a personal interview with the FSA.

The Rules provide for a minimum number of Directors to retire by rotation or otherwise each year and that no Director may serve for over 3 years without offering themselves for re-election.

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 2012 the appraisal of the Chairman was carried out by the Chief Executive and the Senior Independent Director. The appraisal of the Chairman of Audit and Compliance was carried out by the Chief Executive and Chairman. The other Non-Executive Directors' appraisals were carried out by the Chief Executive, Chairman and Chairman of Audit and Compliance. 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.

Appraisals of the Executive Directors are carried out by the Non-Executive Directors.

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 Person regime and must complete a questionnaire confirming their continued compliance with this requirement.

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.

All Directors are provided with clear, timely and accurate information 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 building societies as a whole and the Penrith Building Society in particular.

Board and Committee meetings

Main Board Meetings are held monthly. Additional meetings may be called as required. There were fourteen meetings of the full Board in 2012 attended as follows:

	NUMBER OF MAIN BOARD MEETINGS ATTENDED
J S Hollins-Gibson, FCA (Chairman)	13
P O'M Campbell, BVM & S, MRCVS (Vice-Chairman)	14
G M Rigg, BSc	13
A G Waterfield, BA, CIMA	13
G Silburn, BSc MRPharmS	13
D Driver, FCA	13
C Hayward, BSc, ACIB	14
A S Fazal, BA, FCIB	14

During the 12 months ended 31st December 2012 Mr Fazal was appointed as a non-executive director to Mutual Vision Technologies Limited, who provide IT services to the Society. There were no other 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 terms of reference for these committees may be obtained from the Chief Executive. The committees in question are:

Audit & Compliance Committee

The Audit and Compliance Committee consists of Messrs D Driver, P O'M Campbell, G Silburn and G M Rigg.

Mr Driver replaced Mr Hollins-Gibson as Chairman of the committee from 28th March 2012. He is a retired Chartered Accountant. Mr P O'M Campbell was appointed to the Committee on the same date.

Four meetings were held within the year and these were attended as follows:

	NUMBER OF MEETINGS ATTENDED
D Driver	4
J S Hollins-Gibson	1
G Silburn	2
G M Rigg	4
P O'M Campbell	2

In addition, representatives of the outsourced Compliance Function, Internal and External Auditors and the Executive Directors attend most of these meetings

Board and Committee meetings, continued

Audit & Compliance Committee, continued

The principal purposes of this committee include ensuring that the Society complies with all regulatory and prudential requirements and reviewing the Society's internal controls and management systems. The committee has responsibility for monitoring the Compliance function including approval of an annual compliance monitoring plan. The committee is also responsible for the review of the effectiveness of the compliance monitoring and internal audit functions and the monitoring of the External Auditors' independence, objectivity and effectiveness.

Conduct Risk Committee

The committee comprises at least two Directors. Mr Driver was appointed to the committee on 18th July 2012 and Mr Silburn took over the role of chairman from Mr Fazal on the same date. Miss James and four members of the Society's staff also attend the meetings.

Five meetings were held within the year and these were attended as follows:

	NUMBER OF MEETINGS ATTENDED
G Silburn	5
A S Fazal	5
D Driver	2

This committee reviews the Society's policies and procedures in all areas having impact on the Society's members and makes recommendations thereon to the Board and management.

Remuneration Committee

This is comprised of the Society's Non-Executive Directors. During the financial year ended 31st December 2012 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. There were two meetings of the Remuneration Committee in 2012 which were held as part of main Board meetings. All Non-Executive Directors were present at those meetings.

The Directors' Remuneration Report for 2012 is on page 18.

Financial Reporting

The Statement of Directors' Responsibilities on page 19 sets out the Board's responsibilities in relation to the preparation of the Society's Annual Report and Accounts and a statement that the Society's business is a going concern is included on page 12.

Risk Management and Internal Control

The Executive Directors and 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 continually to review risk strategy and policies.

The Board has delegated the responsibility for managing the systems of internal control to senior management. The Internal Audit function has been outsourced to Mutual One who provide independent assurance to the Board through the Audit and Compliance Committee that these controls are adequate and effective.

Approved and signed on behalf of the Board

J S Hollins-Gibson (Chairman)
27th February 2013

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2012

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 or final salary pension scheme. The Society makes contributions to the private pension arrangements of the Executive Directors.

The Chief Executive and Deputy Chief Executive's contracts of employment require a 12 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, Chairman of the Audit and Compliance Committee and the Senior Independent Director receive higher fees than other Non-Executive Directors in recognition of the additional workload and responsibilities incumbent on 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.

Approved and signed on behalf of the Remuneration Committee

J S Hollins-Gibson (Chairman)
27th February 2013

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 2012

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 Remuneration Committee is responsible for ensuring compliance with the provisions of the Financial Services Authority's Remuneration Code.

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).

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 group and 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 Services 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 2012 set out on pages 22 to 38. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 17 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/auditscopeuk/private.

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 2012 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.

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

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 Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
27th February 2013

INCOME & EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2012

	Notes	2012 £	2011 £
Interest receivable and similar income	2	2,573,615	2,536,898
Interest payable and similar charges	3	(1,460,351)	(1,431,103)
Net interest receivable		1,113,264	1,105,795
Fees and commissions receivable		75,835	48,539
Fees and commissions payable		(51,515)	(27,165)
Other operating income	4	9,049	26,457
Total income		1,146,633	1,153,626
Administrative expenses	5	(1,133,716)	(1,028,264)
Depreciation		(44,237)	(42,456)
Operating (loss)/profit before provisions		(31,320)	82,906
Provisions for bad and doubtful debts	15	(180,542)	(5,066)
Provisions for FSCS scheme levy	21	(54,530)	(51,986)
(Loss)/profit on ordinary activities before tax		(266,392)	25,854
Tax on (loss)/profit on ordinary activities	9	47,857	(439)
(Loss)/profit for the financial year		(218,535)	25,415

There have been no recognised gains or losses other than the loss for the year.

The notes on pages 25 to 38 form part of these accounts.

All income and expenditure relates to continuing operations.

BALANCE SHEET AT 31ST DECEMBER 2012

	Notes	2012 £	2011 £
Assets			
Liquid Assets:			
Cash in hand		55,381	58,885
Treasury bills	11(a)	3,597,416	-
Loans and advances to credit institutions	10	13,059,001	16,402,614
Debt securities	11(b)	8,269,158	18,508,115
		24,980,956	34,969,614
Loans and advances to customers			
Loans fully secured on residential property		60,043,815	50,482,312
Loans fully secured on land	12	1,641,158	1,512,354
	13	61,684,973	51,994,666
Investments			
Other investments	16	173,015	106,521
Tangible fixed assets	17	160,934	140,470
Other assets	14	206,054	158,093
Prepayments and accrued income		142,366	39,661
Total Assets		87,348,298	87,409,025
Liabilities			
Shares	18	76,069,447	76,086,949
Amounts owed to other customers	19	950,467	791,994
Other liabilities	20	93,516	99,017
Accruals and deferred income		28,342	29,808
Provisions for liabilities	21	102,270	78,466
		77,244,042	77,086,234
Reserves			
General reserves	23	10,104,256	10,322,791
Total Liabilities		87,348,298	87,409,025

Approved by the Board of Directors on 27th February 2013 and signed on its behalf by:

J S Hollins-Gibson, Chairman D Driver, Director A S Fazal, Director & Chief Executive

The notes on pages 25 to 38 form part of these accounts.

CASHFLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2012

	2012	2011
	£	£
Net cash outflow from operating activities	(5,577,048)	(2,177,547)
Taxation	(3,687)	(24,513)
Capital expenditure and financial investment		
Purchase of financial fixed assets	(20,370,648)	(17,488,158)
Sale and maturity of financial fixed assets	26,754,589	18,261,819
Purchase of tangible fixed assets	(64,701)	(45,838)
Purchase of investments	(66,494)	(20,781)
Increase/ (decrease) in cash	672,011	(1,495,018)

Reconciliation of operating (loss)/profit to net cash flow from operating activities

	2012	2011
Operating (loss)/profit	(266,392)	25,854
(Increase)/decrease in prepayments and accrued income	(12,528)	35,356
(Decrease)/increase in accruals and deferred income	(1,466)	20,273
Provisions for bad and doubtful debts	180,542	5,066
Depreciation and amortisation	211,660	163,715
Increase in provisions for liabilities	23,804	26,325
Net cash inflow from trading activities	135,620	276,589
Loans and advances to customers	(9,870,849)	2,730,971
Shares	(17,502)	(1,728,717)
Amounts owed to other customers	158,473	87,228
Loans and advances to credit institutions	4,019,128	(3,552,152)
Other assets	(104)	12,639
Other liabilities	(1,814)	(4,105)
Net cash outflow from operating activities	(5,577,048)	(2,177,547)

Reconciliation of cash balances

	Opening	Net Increase/ (Decrease)	Closing
	£	£	£
Current year end			
Cash in hand	58,885	(3,504)	55,381
Loans and advances to credit institutions repayable on demand	2,314,804	675,515	2,990,319
	2,373,689	672,011	3,045,700
Prior year end			
Cash in hand	48,523	10,362	58,885
Loans and advances to credit institutions repayable on demand	3,820,184	(1,505,380)	2,314,804
	3,868,707	(1,495,018)	2,373,689

The notes on pages 25 to 38 form part of these accounts.

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 ('the accounts regulations'), the Building Societies Act 1986 and applicable UK generally accepted accounting practice.

The Board has reviewed the future financial projections for the Society, with a focus on liquidity, profitability and capital. It is satisfied that the Society has adequate resources to continue to operate for the foreseeable future.

(iii) Interest Receivable and Fees and Commissions
Interest income and fees and commissions are recognised on an accruals basis 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
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

(vi) Deferred Tax
Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(vii) Fixed Assets and Depreciation
Fixed assets are capitalised and stated at cost less depreciation.

Depreciation is provided to write down fixed assets to net realisable value 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.

NOTES TO THE ACCOUNTS continued

1. PRINCIPAL ACCOUNTING POLICIES, continued

(viii) 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.

Marketable 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. Other securities are included in the accounts at cost.

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.

(ix) Pensions Costs

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

(x) 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. A specific provision is also made where an account may not be in arrears but the Society has exercised forbearance in the conduct of the account. Any provision is based on a management assessment of the account had it not been subject to forbearance.

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 comprises the charge to the income and expenditure account.

(xi) Leases

Rentals under operating leases are charged to administrative expenses in the year in which they fall due.

NOTES TO THE ACCOUNTS continued

2 Interest Receivable and Similar Income

	2012	2011
	£	£
On loans fully secured on residential property	2,013,385	1,857,987
On other loans	85,890	84,049
On debt securities		
Interest and other income	179,223	322,540
Gain on sale	-	39,211
On other liquid assets		
Interest and other income	295,117	233,111
	2,573,615	2,536,898

Total income from fixed income securities was £177,537 (2011 – £361,751).
Interest of £2,203 (2011 - £2,203) is considered irrecoverable and has been suspended from the appropriate assets in the balance sheet.

3 Interest Payable and Similar Charges

	2012	2011
	£	£
On shares held by individuals	1,446,482	1,418,601
On other shares	3,150	3,115
On deposits and other borrowing	10,719	9,387
	1,460,351	1,431,103

4 Other Operating Income

	2012	2011
	£	£
Rents received on shared ownership properties	9,049	9,657
On sale of interest or part interest in shared ownership properties	-	16,800
	9,049	26,457

5 Administrative Expenses

	2012	2011
	£	£
Staff costs (including Executive Directors)		
Wages and salaries	435,167	393,082
Social security costs	76,497	41,094
Other pension costs	128,337	135,216
	640,001	569,392
Other administrative expenses	493,715	458,872
	1,133,716	1,028,264
Other administrative expenses include:		
Audit of annual accounts (excluding VAT)	28,000	27,000

NOTES TO THE ACCOUNTS continued

6 Directors' Emoluments

		2012	2011
		£	£
Fees for services as Non-Executive Directors			
P O'M Campbell		10,975	14,720
D Driver		11,122	9,510
J S Hollins-Gibson		14,109	11,440
G M Rigg		9,653	9,510
G Silburn		10,454	10,300
A G Waterfield		9,653	9,510
TOTAL FOR NON EXECUTIVE DIRECTORS		65,966	64,990
For services as Executive Directors			
C Hayward	Salary	76,167	74,763
	Pension Contributions	34,000	84,000
		110,167	158,763
A S Fazal	Salary	75,004	58,334
(Appointed 30th March 2011)	Pension Contributions	8,000	5,833
		83,004	64,167
P Richardson	Salary	-	1,278
(Resigned 7th January 2011)	Pension Contributions	-	518
		-	1,796
TOTAL FOR EXECUTIVE DIRECTORS		193,171	224,726
GRAND TOTAL		**259,137**	**289,716**

7 Directors' Loans and Related Party Transactions

The aggregate amount of loans outstanding at 31st December 2012 to four (2011 – four). Directors and connected persons was £660,821 (2011 – £743,932). 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.

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

NOTES TO THE ACCOUNTS continued

8 Employees

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

	2012	2011
	No	No
Full Time	12	10
Part Time	7	7
Total	19	17

9 Taxation

	2012	2011
	£	£
a) Analysis of (credit)/charge in year:		
Corporation Tax		
Current tax on income for the year	(3,687)	3,687
	(3,687)	3,687
Deferred Tax (see note 22)		
Origination/reversal of timing differences	(39,226)	(3,248)
Adjustment in respect of previous years	(4,944)	-
	(44,170)	(3,248)
Tax on ordinary activities	(47,857)	439
b) Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax	(266,392)	25,854
Tax at 20% (2011 – 20%)	(53,278)	5,171
Effects of:		
Capital allowance in excess of depreciation	(3,528)	(2,910)
Expenses not deductible for tax purposes	398	413
Disallowed general provision for bad and doubtful debts	(3,837)	1,013
Unutilised losses carried forward	56,558	-
Current tax charge for year	(3,687)	3,687

10 Loans and Advances to Credit Institutions

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

	2012	2011
	£	£
Accrued interest	67,276	87,810
Repayable on demand	2,990,319	2,314,804
Other loans and advances by residual maturity payable:		
in not more than 3 months	2,000,000	4,500,000
in more than 3 months, but not more than 1 year	8,001,406	9,500,000
	13,059,001	16,402,614

11 Debt Securities and Treasury Bills

The Directors of the Society consider that the primary purpose of holding securities is prudential. In accordance with the FSA requirements the Society has invested a proportion of its liquid assets in UK Government issued Gilts (shown as issued by public bodies overleaf) and Treasury Bills.

Debt securities and Treasury Bills 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.

(a) Treasury Bills

	2012	2011
	£	£
Treasury Bills have remaining maturities as follows:		
Accrued Interest	1,968	-
In not more than 1 year	3,595,448	-
	3,597,416	-

Movements during the year of Treasury Bills held as financial fixed assets are analysed as follows:

Adjusted cost and net book value (excluding accrued interest)

At 1st January	-	-
Disposals and maturities	(4,094,999)	-
Acquisitions	7,690,447	-
At 31st December	3,595,558	-

11 Debt Securities and Treasury Bills, continued

(b) Debt Securities

	2012 £	2011 £
Issued by public bodies	2,546,605	6,196,039
Issued by other borrowers	5,722,553	12,312,076
	8,269,158	18,508,115
Debt securities have remaining maturities as follows:		
Accrued Interest	131,482	223,627
In not more than 1 year	4,623,211	14,227,534
In more than 1 year	3,514,465	4,056,954
	8,269,158	18,508,115
Transferable debt securities comprise:		
Listed on a recognised investment exchange	2,518,002	6,111,025
Unlisted	5,619,673	12,173,463
	8,137,675	18,284,488
Market value of listed transferable debts	2,561,403	6,209,614
Included in debt securities are:		
Unamortised premiums	18,003	111,025
Unamortised discounts	4,552	-

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

Adjusted cost and net book value (excluding accrued interest)

	2012 £	2011 £
At 1st January	18,284,488	19,179,408
(Premium amortisation)/discount accretion during the year	(167,423)	(121,259)
Disposals and maturities	(22,659,591)	(18,261,819)
Acquisitions	12,680,201	17,488,158
At 31st December	8,137,675	18,284,488

12 Loans Fully Secured on Land

	2012 £	2011 £
Loans fully secured on land	1,641,158	1,512,354

Loans fully secured on land include £123,715 (2011 – £123,715) 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.

NOTES TO THE ACCOUNTS continued

13 Loans and Advances to Customers – Maturity Analysis

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

	2012	2011
	£	£
On call and at short notice	-	-
In not more than three months	813,617	846,555
In more than three months but not more than one year	1,860,527	1,990,342
In more than one year but not more than five years	13,131,741	11,069,815
In more than five years	46,169,088	38,197,412
	61,974,973	52,104,124
Provisions	(290,000)	(109,458)
	61,684,973	51,994,666

14 Other Assets

	2012	2011
	£	£
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 interest	144,875	144,875
Other assets	365	261
Corporation tax debtor (see note 9)	3,687	-
Deferred tax (see note 22)	57,127	12,957
	206,054	158,093

15 Provisions for Bad and Doubtful Debts

	Loans fully secured on land	Loans fully secured on residential property	Total
	£	£	£
At 1st January			
General Provision	44,560	64,898	109,458
Specific Provision	-	-	-
	44,560	64,898	109,458
(Credit)/Charge for the year			
General Provision	(31,178)	11,995	(19,183)
Specific Provision	20,536	179,189	199,725
	(10,642)	191,184	180,542
At 31st December			
General Provision	13,382	76,893	90,275
Specific Provision	20,536	179,189	199,725
	33,918	256,082	290,000

The Society has one mortgage case where forbearance has been exercised (2011 – None). This has not been specifically provided for at the year end.

NOTES TO THE ACCOUNTS continued

16 Other Investments

Unlisted investments	Shares	Loans	Total
	£	£	£
Cost			
At beginning of year	6,914	99,607	106,521
Additions	-	66,494	66,494
At end of year	6,914	166,101	173,015

The Society holds unlisted shares in Mutual Vision Technologies Limited (MVT), which provides IT services to the Society. The Society has an interest bearing loan to MVT of £166,101 (2011 – £99,607).

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

	Freehold land and buildings	Office and computer equipment fixtures and fittings	Total
Cost	£	£	£
At beginning of year	40,000	515,608	555,608
Additions	-	64,701	64,701
At end of year	40,000	580,309	620,309
Depreciation			
At beginning of year	13,600	401,538	415,138
Charge for the year	400	43,837	44,237
At end of year	14,000	445,375	459,375
Net book value			
At 31st December 2011	26,400	114,070	140,470
At 31st December 2012	26,000	134,934	160,934

The net book value of the freehold premises occupied by the Society for its own activities is £26,000 (2011 – £26,400).

18 Shares

	2012	2011
	£	£
Held by individuals	75,843,818	75,862,741
Other shares	225,629	224,208
	76,069,447	76,086,949

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

	2012	2011
	£	£
Accrued interest	420,351	409,314
Repayable on demand	73,950,182	73,780,735
Other shares by residual maturity repayable:		
In not more than three months	1,698,914	1,896,900
	76,069,447	76,086,949

19 Amounts Owed to Other Customers

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

	2012	2011
	£	£
Repayable on demand	950,467	791,994

20 Other Liabilities

	2012	2011
	£	£
Other liabilities due within one year comprise:		
Corporation tax	-	3,687
Income tax	84,137	83,562
Other creditors	9,379	11,768
	93,516	99,017

21 Provisions for Liabilities

FSCS levy	2012	2011
	£	£
At beginning of year	78,466	52,141
Levy paid in year	(30,726)	(25,661)
Charge for the year	54,530	51,986
At end of year	102,270	78,466

21 Provisions for Liabilities, continued

FSCS Levy

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 scheme 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 over this period.

The Society FSCS provision reflects market participation up to the reporting date. £80,794 of the provision relates to the estimated management expense levy for the scheme years 2012/13 and 2013/14. This amount was calculated on the basis of the Society's current share of protected deposits taking into account the FSA's estimate of total management expense levies for each scheme year.

The management expenses levy for scheme year 2011/12, which formed part of the provision at 31st December 2011, was calculated using the agreed funding rate of 12 month LIBOR + 30bps. Following the expiry of the initial three year fixed interest term, extensive negotiations between HMT and FSCS resulted in an agreed funding rate of 12 month LIBOR + 100bps which is the rate that will be charged for the HMT loans for the period from 1st April 2012, on which the management expenses levy for scheme year 2012/13 and 2013/14 has been based.

In addition to the management levies, from scheme year 2013/14, triggered by participation in the market at 31st December 2012, the FSCS is to levy over three years the current estimated shortfall on capital loans outstanding of £802m. In common with the management expenses levy, the capital loan repayment was calculated on the basis of the Society's current share of UK protected deposits. The Society has therefore recognised a provision of £21,476 related to the compensation levy.

NOTES TO THE ACCOUNTS continued

22 Deferred Taxation

	2012	2011
	£	£
At beginning of year	12,957	9,709
Charge to Income and Expenditure Account for year	39,226	3,248
Difference in respect of prior year	4,944	-
At end of year	57,127	12,957

The elements of deferred taxation are as follows:

	2012	2011
Differences between accumulated depreciation and amortisation and capital allowances	(17,486)	(8,935)
Other timing differences	18,055	21,892
Tax losses	56,558	-
	57,127	12,957

The emergency budget on 22nd June 2010 announced that the UK small profits corporation tax rate will reduce from 21% to 20% from 1st April 2012. The deferred taxation balance has been calculated at the substantively enacted rate of 20% (2011 – 20%) to reflect the rate at which the balance will unwind.

Deferred tax assets are recognised for tax losses only to the extent that the realisation of the related tax benefit in future years is probable.

23 Reserves

	2012
	£
General reserves	
At beginning of year	10,322,791
Loss for financial year	(218,535)
At end of year	10,104,256

24 Contingent Liabilities and Commitments

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

At 31st December 2012 the Society has annual commitments under non-cancellable operating leases as follows:

	2012	2011
	£	£
Office equipment leases which expire:		
less than 2 years	-	2,300
within 2 – 5 years inclusive	8,776	4,669
over 5 years	-	-

NOTES TO THE ACCOUNTS continued

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 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 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 enter into 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 overleaf summarises these re-pricing mismatches at 31st December 2012. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing date and the maturity date.

NOTES TO THE ACCOUNTS continued

25 Financial Instruments, continued

31st December 2012	Not more than 3 months	More than 3 months, but no more than 6 months	More than 6 months, but not more than 1 year	More than 1 year, but not more than 5 years	Non-interest bearing	Total
ASSETS	£	£	£	£	£	£
Liquid Assets	7,870,482	6,960,588	5,533,226	3,572,032	1,044,628	24,980,956
Loans and advances to customers	61,684,973	-	-	-	-	61,684,973
Investments	-	-	-	-	173,015	173,015
Tangible fixed assets	-	-	-	-	160,934	160,934
Other assets	-	-	-	-	206,054	206,054
Prepayments and accrued interest	-	-	-	-	142,366	142,366
TOTAL ASSETS	69,555,455	6,960,588	5,533,226	3,572,032	1,726,997	87,348,298
LIABILITIES						
Shares	75,649,096	-	-	-	420,351	76,069,447
Amounts owed to other customers	950,467	-	-	-	-	950,467
Other liabilities	-	-	-	-	93,516	93,516
Accruals and deferred income	-	-	-	-	28,342	28,342
Provision for liabilities	-	-	-	-	102,270	102,270
Reserves	-	-	-	-	10,104,256	10,104,256
TOTAL LIABILITIES	76,599,563	-	-	-	10,748,735	87,348,298
Interest rate sensitivity gap	(7,044,108)	6,960,588	5,533,226	3,572,032	(9,021,738)	-
Cumulative sensitivity gap	(7,044,108)	(83,520)	5,449,706	9,141,120	-	-

31st December 2011						
ASSETS	£	£	£	£	£	£
Liquid Assets	12,002,531	7,151,865	10,573,138	4,056,954	1,185,126	34,969,614
Loans and advances to customers	51,994,666	-	-	-	-	51,994,666
Investments	-	-	-	-	106,521	106,521
Tangible fixed assets	-	-	-	-	140,470	140,470
Other assets	-	-	-	-	158,093	158,093
Prepayments and accrued interest	-	-	-	-	39,661	39,661
TOTAL ASSETS	63,997,197	7,151,865	10,573,138	4,056,954	1,629,871	87,409,025
LIABILITIES						
Shares	75,677,635	-	-	-	409,314	76,086,949
Amounts owed to other customers	791,994	-	-	-	-	791,994
Other liabilities	-	-	-	-	99,017	99,017
Accruals and deferred income	-	-	-	-	29,808	29,808
Provision for liabilities	-	-	-	-	78,466	78,466
Reserves	-	-	-	-	10,322,791	10,322,791
TOTAL LIABILITIES	76,469,629	-	-	-	10,939,396	87,409,025
Interest rate sensitivity gap	(12,472,432)	7,151,865	10,573,138	4,056,954	(9,309,525)	-
Cumulative sensitivity gap	(12,472,432)	(5,320,567)	5,252,571	9,309,525	-	-

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2012

1. Statutory Percentages

	2012	Statutory Limit
Lending Limit	3.51%	25.00%
Funding Limit	1.53%	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 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 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.

ANNUAL BUSINESS STATEMENT, continued

FOR THE YEAR ENDED 31ST DECEMBER 2012

2 Other Percentages

	2012	**2011**
	%	**%**
As percentage of shares and borrowings:		
Gross capital	13.12	13.43
Free capital	13.03	13.39
Liquid assets	32.43	45.49
Profit for the financial year after taxation as a percentage of mean total assets	(0.25)	0.03
Management expenses as a percentage of mean total assets	1.35	1.21

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 Reserves.

"Free capital" represents the aggregate of gross capital and general mortgage loss provisions for bad and doubtful debts less tangible 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 2011 and 31st December 2012.

3 Information Relating to the Directors at 31st December 2012

Name (Date of Birth)	Date of Appointment	Business Occupation	Other Directorships
J S Hollins-Gibson Chairman (14/10/1946)	10/09/1986	Retired Chartered Accountant	Grasmere Sports Committee Limited
C Hayward Chief Executive (08/02/1953)	11/03/1992	Chief Executive	None
A S Fazal Deputy Chief Executive (17/03/1958)	30/03/2011	Deputy Chief Executive	Mutual Vision Technologies Limited
P O'M Campbell Chairman (13/10/1942)	30/03/1988	Veterinary Surgeon	None
A G Waterfield (29/12/1970)	01/07/2010	Director	Alan Waterfield Consulting Limited
G M Rigg (24/11/1948)	31/03/1982	Retired Company Director	None
G Silburn (20/11/1954)	01/11/2002	Managing Director, Pharmacy	Joseph Cowper Limited Penrith Health Centre (PD) Consortium Limited
D Driver (12/12/1945)	01/03/2003	Retired Chartered Accountant	Keld Energy Limited

Documents may be served on the above named Directors c/o KPMG Audit Plc at the following address:
1 The Embankment, Neville Street, Leeds, LS1 4DW

Service Contracts

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

The Chief Executive and Deputy Chief Executive have contracts which can be terminated by either party giving not less than 12 months prior written notice. These contracts were entered into on 1st October 2006 and 1st March 2011 respectively.