PENRITH BUILDING SOCIETY

Annual Report and Accounts

31st December 2010

DIRECTORS' REPORT

For the year ended 31st December 2010

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

Business Review

The economic environment meant that trading conditions were extremely difficult in 2010. The Society's financial results show a sharp reduction in profits and only a very small increase in assets. The Directors however consider that in the circumstances the fact that the Society remained in profit and did not suffer asset shrinkage represents a reasonable overall performance.

Interest rates on savers' accounts were maintained throughout 2010. Competition for retail funds was intense throughout the year with some institutions continuing to pay premium introductory rates to attract funds, with those rates reducing after an initial period. The Directors have chosen not to follow that route but instead continue to offer straightforward, easy to understand products and to try to combine a reasonably competitive rate of return with exceptional levels of service. The year did see a slight increase in savers balances but this was only due to the capitalisation of interest earned.

Gross lending increased over 2009's low of under £6m to over £8.7m. However there was a reduction of over £1.4m in mortgage balances over the year. This was due partly to borrowers continuing to reduce their levels of debt using the additional disposable income available to them because of previous reductions in mortgage repayments. Other factors include the fear of the effect of cut backs in the private and especially public sectors leading to increased unemployment levels and the often propounded view that there is the possibility of further reductions in property prices. These combined to ensure that the housing and mortgage markets remained subdued in 2010. Some lenders offered deeply discounted mortgage products in, sometimes successful, attempts to attract business. Those products were generally only open to new borrowers with substantial deposits or existing home owners with relatively low loan to value mortgages. The Society's products are open to all new borrowers in the local area up to a maximum loan to value of 90% and elsewhere up to 75% loan to value. In addition existing borrowers benefit from a highly competitive standard variable rate of 4.15% which has not moved since April 2009.

Several lenders increased their own standard variable rates in the year in order to maintain or increase levels of savers' rates and to increase profitability. As a mutual organisation the Board does not consider profitability as the main driver and 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 has been mentioned in previous reports the Society has always operated with a prudent Lending Policy which has sometimes restricted the amount of business done by the Society in this area. However lending prudently has benefits not least of which is the low propensity of mortgages to fall into serious arrears. There were again no repossessions in the year and there were only 2 mortgages 12 or more months in arrear at 31st December 2010. Both of those mortgages have low loan to value ratios and there are arrangements in place to assist the borrowers in overcoming their financial problems. Levels of arrears across all accounts reduced slightly over the year and there would appear to be no underlying trend to cause concern. As in previous years 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 has not had the need to seek funding from the wholesale markets for many years and this continued in 2010. The Society was able to finance its activities from the high levels of liquidity held and the increased mortgage repayments noted above.

Bank base rate remained at 0.5% throughout the year. The current low interest rate environment is proving to be extremely challenging to financial institutions in general and the Society is not immune from this. The total interest received on the Society's investments in other financial institutions and on the money markets showed a substantial reduction from 2009 levels. Also the reduction in mortgage balances over the year has meant a reduction in interest receipts from that source. These two factors are the main contributors to the reduction in profit levels.

As mentioned in previous reports 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. The Society paid an amount of £28,174 into the scheme in 2010 and it is forecast that amounts totalling approximately £26,150 will be payable in 2011 and 2012 covering the scheme years 2010/11 and 2011/12. The Society therefore needs to increase the provision in these accounts to that amount which means that a charge of £6,548 appears in the income and expenditure account for this year. Whilst no information is available to predict amounts for future years it seems likely that such payments will continue.

The Society appointed new Auditors in 2010 following the mutually agreed resignation of O'Reilly from that position. O'Reilly have been Auditors of the Society for many years and an extremely good working relationship at all levels had developed. The decision was taken purely for business reasons and the required report from O'Reilly following the resignation contained a statement that there were no matters which needed to be brought to the notice of the members or depositors of the Society. The Board wishes to record its thanks to the firm for the many years of service and offer best wishes for continued success.

The complexity of building society activities and regulatory requirements is ever increasing and the burdens, administrative and financial, placed on auditors are considerable. Most other societies are audited by one of the big four accountancy firms which are able to devote considerable resources and develop particular expertise in this area. It was therefore agreed that the Society appoint KPMG as successors to O'Reilly. A long mutually beneficial relationship is looked forward to.

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

There have been no material subsequent events between 31 December 2010 and the approval of this Annual Report and Accounts by the Board.

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.

Key Performance Indicators

Total Assets

The Society experienced growth of 0.13% during 2010 with total assets increasing from £88,884,985 to £89,002,823. Movement in total assets reflect the performance of the Society in its core business of mortgages and savings. The Board considers that in the current economic environment growth of any amount is an achievement.

Liquid Assets

Liquid assets, in the form of cash and securities at 31st December 2010 were £33,763,053 representing 37.94 % of total assets and 43.00% of total shares and borrowings. These levels of liquidity show that the Society continues to be able to meet all calls on its funds.

Mortgages

During 2010 mortgage lending totalled £8,777,270. There were 105 advances, including 38 further advances.

Mortgage balances reduced by 2.51% over the year.

At 31st December 2010 there were 2 mortgages (2009 – 3) where the repayment of principal and interest was 12 or more months in arrears. The total amount of arrears in these cases was £20,963 (2009 -£43,652) on balances totalling £187,177 (2009 - £269,881). Both of these cases have low loan to value ratios. At 31st December 2010 the Society had no properties in possession (2009 – 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 £1,021,990, an increase of 3.56%.

Administrative expenses expressed as a ratio of mean total assets stood at 1.15% (2009 – 1.14%).

The Board reviews Management Expenses each quarter. The increase over previous years is mainly due to renovations and repairs to the Society's offices, increased compliance costs and increased staff costs.

Funding

Share and deposit balances at 31st December 2010 totalled £78,520,432, an increase of £148,768 over 2009 levels.

Capital

At 31st December 2010, free capital (the aggregate of General Reserve and general provision for bad and doubtful debts less tangible fixed assets) amounted to £10,264,680, or 13.07% of total shares and borrowings. Gross capital amounted to 13.11% 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 the requirements of Basel II 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 Secretary.

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 of 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.

The Society's Secretary, Mr Paul Richardson, having given notice of his intention, left the employment of the Society after the balance sheet date. It is hoped he enjoys success in his new position. The Society is well along the path to the appointment of his successor and an announcement will hopefully be made early in the year.

It is sad to report the death of Mr Bill Dawson in December 2010. Mr Dawson was associated with the Society for many years and as Secretary (the then equivalent of Chief Executive) presided over a period of unprecedented growth of the Society until his retirement from that position in 1986. He carried on as a Director of the Society until 1991. He remained a loyal member of the Society until his death and will be sorely missed by the members of the Board and staff who had the privilege of working with him.

Donations

During the year charitable donations totalling £8,075 (£7,502 - 2009) were made. No contributions were made for political purposes.

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

The main risks to which the Society is exposed are Credit Risk, Interest Rate Risk, Liquidity 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 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 at 31st December 2010 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.

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 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.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Auditors

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

Approved and signed on behalf of the Board

P O'M Campbell (Chairman)
16th February 2011

CORPORATE GOVERNANCE REPORT

The Combined Code of Corporate Governance (2008 Version) 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

Board Composition and Independence

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. The majority of the Board reside 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.

Three of the Society's non-executive directors, Messrs Campbell, Hollins-Gibson and Rigg 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 practice 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 Board has however agreed that any Director with over nine years service should seek annual re-election and therefore those three will stand for re-election at the forthcoming AGM.

Mr Alan Waterfield was co-opted onto the Board with effect from 1st July 2010 as a replacement for Lord Hothfield who retired at the last AGM.

Appointments

The Society has a recruitment policy agreed by the Board which details the processes by which new Directors are appointed. 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 2010 the appraisal of the Chairman was carried out by the Chief Executive and the Chairman of Audit. The appraisal of the Chairman of Audit was carried out by the Chief Executive and Chairman. The other non-executive appraisals were carried out by the Chief Executive, Chairman and Chairman of Audit. 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" regulations 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.

Directors

Main Board Meetings are held monthly. Additional meetings may be called as required. There were fourteen meetings of the full Board in 2010.

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)	14
J S Hollins-Gibson, FCA (Vice Chairman)	14
G M Rigg, BSc	13
A G Waterfield, BA, CIMA (Appointed 1st July 2010)	6
G Silburn, BSc MRPharmS	13
D Driver, FCA	13
C Hayward, BSc, ACIB	14
P Richardson, MBA	13
Lord Hothfield, DL, MA, MICE (Retired 31st March 2010)	3

Mr Waterfield retires under Rule 25(4) and being eligible offers himself for election under Rule 25(5).

Mr Silburn and Mr Hayward retire under Rule 26(1) and being eligible offer themselves for re-election under Rule 26(3).

Messrs Campbell, Hollins-Gibson and Rigg 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.

During the 12 months ended 31st December 2010 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 terms of reference for these committees may be obtained from the Secretary. 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 G M Rigg. Mr Rigg replaced Lord Hothfield who retired in March 2010.

Mr Hollins-Gibson was Chairman of the committee for the whole of the financial year ending 31st December 2010. He is a retired Chartered Accountant, as is Mr Driver. Five meetings were held within the year and these were attended as follows:

	NUMBER OF MEETINGS ATTENDED
J S Hollins-Gibson	5
G Silburn	5
D Driver	5
G M Rigg	3
Lord Hothfield	1

In addition representatives of the Internal and External Auditors and the Executive Directors attend most of these meetings

The principal purposes of this committee include ensuring that the Society complies with all regulatory and prudential requirements and to review 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 and of the internal audit function and the monitoring of the External Auditors independence, objectivity and effectiveness

Remuneration Committee

This is comprised of the Society's non-executive Directors. During the financial year ending 31st December 2010 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 2010 which were held as part of main Board meetings. All non-executive Directors were present at those meetings.

Treating Customers Fairly Committee

This committee 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.

Financial Reporting

The Statement of Directors' Responsibilities on page 12 sets out the Boards' 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 6.

Internal Control

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

P O'M Campbell (Chairman)
16th February 2011

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, 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

P O’M Campbell (Chairman)
16th February 2011

Directors’ responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors’ Report and the annual accounts

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

The Building Societies Act (“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 society annual accounts of Penrith Building Society for the year ended 31 December 2010 set out on pages 15 to 34. 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 12 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 (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm**.**

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 31 December 2010 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 financial statements are prepared is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

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

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

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
16th February 2011

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2010

	Notes	2010 £	2009 £
Interest receivable and similar income	2	2,560,730	2,916,988
Interest payable and similar charges	3	(1,456,930)	(1,551,617)
Net interest receivable		1,103,800	1,365,371
Fees and commissions receivable		48,396	40,400
Fees and commissions payable		(22,004)	(19,818)
Profit on financial operations		1,130,192	1,385,953
Other operating income	4	9,647	9,634
Administrative expenses	5	(981,633)	(947,909)
Depreciation and amortisation		(40,357)	(38,981)
Provision for bad and doubtful debts	15	(1,996)	(1,056)
Provision for Financial Services Compensation Scheme Levy	21	(6,548)	27,274
Profit on ordinary activities before tax		109,305	434,915
Tax on profit on ordinary activities	9	(23,295)	(97,934)
Profit for the financial year		86,010	336,981

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 2010

	Notes	2010 £	Restated 2009 £
ASSETS			
LIQUID ASSETS			
Cash in hand and balances with the Bank of England		48,523	12,429
Loans and advances to credit institutions	10	14,355,842	14,990,639
Debt securities	11	19,358,688	17,348,814
LOANS AND ADVANCES TO CUSTOMERS	13		
Loans fully secured on residential property		52,611,807	53,258,830
Other loans	12	2,118,896	2,882,985
INVESTMENTS			
Other investments	16	85,740	77,568
TANGIBLE FIXED ASSETS	17	137,088	110,159
OTHER ASSETS	14	166,875	166,305
PREPAYMENTS AND ACCRUED INCOME		119,364	37,256
TOTAL ASSETS		89,002,823	88,884,985
LIABILITIES			
SHARES	18	77,815,666	77,617,542
AMOUNTS OWED TO OTHER CUSTOMERS	19	704,766	754,122
OTHER LIABILITIES	20	123,339	190,875
ACCRUALS AND DEFERRED INCOME		9,535	37,313
PROVISION FOR LIABILITIES	21	52,141	73,767
		78,705,447	78,673,619
RESERVES	23	10,297,376	10,211,366
TOTAL LIABILITIES		89,002,823	88,884,985

Approved by the Board of Directors on 16th February 2011 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 18 to 34 form part of these Accounts.

CASHFLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2010

	2010 £	2009 £
Net cash inflow from operating activities	1,146,209	5,094,309
Taxation	(83,081)	(62,114)
Capital expenditure and financial investment		
Purchase of financial fixed assets	(22,797,411)	(28,062,948)
Sale and maturity of financial fixed assets	20,712,136	24,124,387
Purchase of tangible fixed assets	(67,286)	(39,549)
Purchase of investments	(8,172)	-
Increase in cash	1,097,605	1,054,085
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	109,305	434,915
Increase in prepayments and accrued income	(86,449)	99,511
Decrease in accruals and deferred income	(27,778)	(411,917)
Increase in provisions for bad and doubtful debts	1,996	1,056
Depreciation and amortisation	120,099	84,581
Decrease in provisions	(21,626)	(56,633)
Net cash inflow from trading activities	95,547	151,513
Decrease in loans and advances to customers	1,409,116	3,421,055
Increase in shares	198,124	3,952,909
Decrease in amounts owed to credit institutions and other customers	(49,356)	208,155
Increase in loans and advances to credit institutions and other customers	(498,902)	(2,500,000)
Decrease in other assets	39	81
Decrease in other liabilities	(8,359)	(139,404)
Net cash inflow from operating activities	1,146,209	5,094,309

	Opening £	Net Increase/ (Decrease) £	Closing £
Current year end			
Cash in hand	12,429	36,094	48,523
Loans and advances to credit institutions repayable on demand	4,953,883	(1,133,699)	3,820,184
	4,966,312	(1,097,605)	3,868,707
Prior year end			
Cash in hand	9,536	2,893	12,429
Loans and advances to credit institutions repayable on demand	3,902,691	1,051,192	4,953,883
	3,912,227	1,054,085	4,966,312

<u>Notes to the Accounts</u>

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) <u>Accounting Convention</u>

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

(ii) <u>Basis of Preparation</u>

The accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 ('the accounts regulations') and the Building Societies Act 1986.

(iii) <u>Interest Receivable</u>

Interest income and fees and commission are recognised on an accruals basis from continuing activities in the United Kingdom.

(iv) <u>Mortgage Incentives</u>

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

(v) <u>Corporation Tax</u>

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) <u>Deferred Tax</u>

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) <u>Fixed Assets and Depreciation</u>

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.

(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.

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.

(ix) Pensions Costs

Contributions to a defined contribution scheme are treated as a revenue 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.

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 the expenditure is incurred.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2010 £	2009 £
On loans fully secured on residential property	1,921,731	1,975,970
On other loans	108,524	154,216
On debt securities		
Interest	277,713	466,387
Profit on disposals	94,538	66,264
Interest and other income	158,224	254,151
	2,560,730	2,916,988

The total income from fixed income securities (within debt securities above) was £372,251 (2009 - £532,651).

Interest receivable on "other loans" includes £8,003 (2009 - £8,880) in respect of loans advanced prior to 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 reflects 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:

	2010 £	2009 £
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

	2010 £	2009 £
On shares held by individuals	1,444,427	1,538,378
On other shares	3,070	3,385
On deposits and other borrowings	9,433	9,854
	1,456,930	1,551,617

4. OTHER OPERATING INCOME

	2010 £	2009 £
Rents received on shared ownership properties	9,647	9,634

5. ADMINISTRATIVE EXPENSES

	2010 £	2009 £
Staff costs (including Executive Directors)		
Wages and salaries	388,071	372,391
Social security costs	40,782	38,324
Other pension costs	131,585	131,485
	560,438	542,200
Other administrative expenses	421,195	405,709
	981,633	947,909

Other administrative expenses include:

Audit of the annual accounts	27,000	24,050

6. DIRECTORS' EMOLUMENTS

		2010	2009
Fees For Services as Non-Executive Directors			
P O'm Campbell		14,290	13,808
D Driver		9,230	8,919
J S Hollins-Gibson		11,110	10,735
G M Rigg		9,230	8,919
G Silburn		10,000	8,919
A Waterfield		4,615	-
Lord Hothfield		2,230	8,919
TOTAL FOR NON-EXECUTIVE DIRECTORS		60,705	60,219
For Services as Executive Directors			
C Hayward	Salary	72,704	70,047
	Pension Contributions	84,000	84,000
		156,704	154,047
P Richardson	Salary	64,058	61,942
	Pension Contributions	6,220	6,220
		70,278	68,162
TOTAL FOR EXECUTIVE DIRECTORS		226,982	222,209
GRAND TOTAL		**287,687**	**282,428**

7. DIRECTORS' LOANS AND RELATED PARTY TRANSACTIONS

The aggregate amount of loans outstanding as at 31st December 2010 to five (2009-four) Directors and connected persons was £1,000,516 (2009 -£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 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).

8. EMPLOYEES

	Full Time		Part Time	
	2010	**2009**	**2010**	**2009**
	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

	2010	2009
	£	£
a) Analysis of charge in year:		
Corporation Tax		
Current tax on income for the year	18,916	83,081
Adjustments in respect of prior years	4,988	-
	23,904	83,081
Deferred Tax (see note 22)		
Origination/reversal of timing differences	5,082	14,853
Effect of increased/decreased tax rate	(304)	-
Adjustment in respect of previous years	(5,387)	-
	(609)	14,853
Tax on ordinary activities	23,295	97,934
b) Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax	109,305	434,915
Tax at 21% (2009 - 28%)	22,954	121,776
Effects of:		
Capital allowance in excess of depreciation	(4,957)	(3,835)
Expenses not deductible for tax purposes	500	520
Disallowed general provision for bad and doubtful debts	419	295
FSCS levy provision	-	(15,857)
Marginal Relief	-	(19,818)
Adjustments in respect of prior years	4,988	-
Current tax charge for year	23,904	83,081

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

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

	2010 £	2009 £
Accrued interest	35,658	36,756
Repayable on demand	3,820,184	4,953,883
Other loans and advances by residual maturity repayable:		
in not more than three months	4,500,000	4,500,000
in more than three months but not more than one year	6,000,000	5,500,000
	14,355,842	14,990,639

11. DEBT SECURITIES

	2010 £	2009 £
Issued by public bodies	7,240,138	6,433,684
Issued by other borrowers	12,118,550	10,915,130
	19,358,688	17,348,814

Debt securities have remaining maturities as follows:

	2010 £	2009 £
Accrued interest	179,280	174,939
In not more than one year	13,061,134	10,824,012
In more than one year	6,118,274	6,349,863
	19,358,688	17,348,814

Transferable debt securities comprise:		
* Listed on a recognised investment exchange	7,150,176	6,349,863
* Unlisted	12,029,232	10,824,012
	19,179,408	17,173,875
Market value of listed transferable debt securities:	7,323,312	6,633,022
Included in debt securities are:		
* Unamortised premiums	159,476	123,112
* Unamortised discounts	(9,300)	(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:

	2010	**2009**
	£	**£**
Adjusted cost and net book value (excluding accrued interest)		
At 1st January	17,173,875	13,280,914)
Premium/Discount amortised during the year	(79,742)	(45,600)
Disposals and Maturities	(20,712,136)	(24,124,387)
Acquisitions	22,797,411	28,062,948
At 31st December	19,179,408	17,173,875

12. OTHER LOANS

	2010	2009
	£	£
Other loans fully secured on land	2,118,896	2,882,985

Other loans fully secured on land include £136,282 (2009 - £148,206) 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 follows:

	2010	2009
	£	£
Repayable on demand	-	171,291
Other loans and advances by residual maturity repayable:		
In not more than three months	714,312	349,440
In more than three months but not more than one year	2,466,873	1,897,082
In more than one year but not more than five years	11,769,920	12,927,335
In more than five years	39,883,990	40,899,063
	54,835,095	56,244,211
Less:		
Provisions for bad and doubtful debts (see Note 15)	(104,392)	(102,396)
	54,730,703	56,141,815

14. OTHER ASSETS

	2010 £	2009 £
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	291	330
Deferred Tax (see note 22)	9,709	9,100
	166,875	166,305

15. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Loans fully secured on land	Loans Fully Secured on Residential Property £	Total £
General Provision			
At 1st January	-	102,396	102,396
Charge for the year	71,700	(69,704)	1,996
At 31st December	71,700	32,692	104,392

There are no specific provisions.

16. OTHER INVESTMENTS

Unlisted Investments	Shares £	Loans £	Total £
Cost			
At beginning of year	2,654	74,914	77,568
Additions	280	7,892	8,172
At end of year	2,934	82,806	85,740

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 £82,806 (2009: £74,914) 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. In previous years' accounts the loan was included under "Other Assets". The Directors consider that in view of the nature of the loan it is more appropriately classified under this heading.

17. TANGIBLE FIXED ASSETS

	Land and Buildings £	Equipment, Fixtures and Fittings £	Total £
Cost or valuation			
At 1st January 2010	40,000	402,484	442,484
Additions	-	67,286	67,286
At 31st December 2010	40,000	469,770	509,770
Depreciation			
At 1st January 2010	12,800	319,525	332,325
Charged for the year	400	39,957	40,357
At 31st December 2010	13,200	359,482	372,682
Net book value			
At 31st December 2009	27,200	82,959	110,159
At 31st December 2010	26,800	110,288	137,088

Net book value of land and buildings is represented by:

	2010 **£**	**2009** **£**
Freehold	26,800	27,200

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

	2010 £	2009 £
Held by individuals	77,593,520	77,398,121
Other shares	222,146	219,421
	77,815,666	77,617,542

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

	2010 £	2009 £
Accrued interest	412,730	378,882
Repayable on demand	75,370,493	75,001,590
Other shares by residual maturity repayable:		
In not more than three months	2,032,443	2,237,070
	77,815,666	77,617,542

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:

	2010 £	2009 £
Repayable on demand	704,766	754,122

20. OTHER LIABILITIES

	2010	2009
	£	£
Amounts falling due within one year		
Income tax	88,385	97,004
Corporation tax	23,904	83,081
Other creditors	11,050	10,790
	123,339	190,875

21. PROVISIONS FOR LIABILITIES

	FSCS LEVY
	£
At beginning of year	73,767
Utilised during the year	(28,174)
Additional amounts provided	6,548
At end of year	52,141

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 & 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.

In addition, HM Treasury issued a notification to the FSCS under the Banking Act 2009 requiring a contribution to the resolution costs of the failure of Dunfermline Building Society. The timing and size of any actual payments to the FSCS under the notification and the consequent need for levies on the industry is unclear.

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.

To the extent that loans have not been repaid in full by 31st March 2012, the FSCS will agree a schedule of repayment with HM Treasury. The FSCS will then levy the industry, including the Society accordingly.

There was a provision of £73,767 in last year's accounts to cover payments due for the scheme years 2009/2010 and 2010/2011. A payment of £28,174 was paid to FSCS in 2010 in respect of scheme year 2009/2010 and the revised estimate of payments due for scheme years 2010/2011 and 2011/2012 is £52,141. An increase in the previous provision of £6,548 has therefore been charged to these accounts.

The provision does not include any estimate for management expenses levies relating to future scheme years nor for any compensation levies which may arise from any ultimate payout of the claims.

22. DEFERRED TAXATION

	£
At beginning of year	9,100
Charge to Income and Expenditure Account for year	(5,082)
Effect of Change in Tax Rate	304
Adjustment in respect of previous years	5,387
At end of year	9,709

The elements of deferred taxation are as follows:

	2010	2009
	£	£
Differences between accumulated depreciation and amortisation and capital allowances	(11,169)	(6,391)
Other timing differences	20,878	15,491
	9,709	9,100

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 2011. The deferred taxation balance has been calculated at the substantively enacted rate of 20% to reflect the rate at which the balance will unwind.

23. RESERVES

	General Reserve
	£
At 1st January	10,211,366
Profit for the financial year	86,010
At 31st December	10,297,376

24. CONTINGENT LIABILITIES & COMMITMENTS

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

At 31st December 2010 the Society has annual commitments under non-cancellable operating leases as follows:

	2010	2009
	£	£
Office equipment leases which expire:		
less than two years	2,254	-
within two to five years inclusive	-	5,006
over five years	499	-

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 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.

<u>Credit Risk</u>

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.

<u>Liquidity Risk</u>

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.

<u>Interest Rate Risk</u>

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 re-pricing mismatches at 31st December 2010. 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	12,418,495	9,227,782	4,914,857	6,118,274	1,083,645	33,763,053
Loans and advances to customers	54,730,703	-	-	-	-	54,730,703
Investments	-	-	-	-	85,740	85,740
Tangible fixed assets	-	-	-	-	137,088	137,088
Other assets	-	-	-	-	166,875	166,875
Prepayments and accrued income	-	-	-	-	119,364	119,364
TOTAL ASSETS	67,149,198	9,227,782	4,914,857	6,118,274	1,592,712	89,002,823
LIABILITIES						
Shares	77,402,936	-	-	-	412,730	77,815,666
Amounts owed to other customers	704,766	-	-	-	-	704,766
Other liabilities	-	-	-	-	123,339	123,339
Accruals and deferred income	-	-	-	-	9,535	9,535
Provisions for liabilities	-	-	-	-	52,141	52,141
Reserves	-	-	-	-	10,297,376	10,297,376
TOTAL LIABILITIES	78,107,702	-	-	-	10,895,121	89,002,823
Interest rate sensitivity gap	(11,289,872)	9,274,388	4,936,461	6,185,997	(9,106,974)	-
Cumulative sensitivity gap	(11,289,872)	(2,015,484)	2,920,977	9,106,974	-	

Comparative Position at 31st December 2009:

	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	77,238,660	-	-	-	378,882	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	77,992,782	-	-	-	10,892,203	88,884,985
Interest rate sensitivity gap	(8,598,004)	9,851,682	1,540,851	6,349,863	(9,144,392)	-
Cumulative sensitivity gap	(8,598,004)	1,253,678	2,794,529	9,144,392	-	

ANNUAL BUSINESS STATEMENT

1. STATUTORY PERCENTAGES

	2010	Statutory Limit
Lending Limit	4.64%	25.00%
Funding Limit	1.18%	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.

2. OTHER PERCENTAGES

	2010 %	2009 %
As percentage of shares and borrowings:		
Gross capital	13.11	13.03
Free capital	13.07	13.02
Liquid assets	43.00	41.28
Profit for the financial year after taxation as a percentage of mean total assets	0.1	0.39
Management expenses as a percentage of mean total assets	1.15	1.14

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.

"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.

"Mean Total Assets" is the average of the total assets at 31st December 2009 and 31st December 2010.

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	c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW	13/10/1942	30/03/1988	Veterinary Surgeon	None
C HAYWARD	c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW	08/02/1953	11/03/1992	Chief Executive	None
J S HOLLINS-GIBSON	c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW	14/10/1946	10/09/1986	Retired Chartered Accountant	Grasmere Sports Committee Limited
A G WATERFIELD	c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW	29/12/1970	01/07/2010	Director	Adapt Enterprise Services Limited Alan Waterfield Consulting Limited
G M RIGG	c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW	24/11/1948	31/03/1982	Retired Company Director	None
G SILBURN	c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW	20/11/1954	01/11/2002	Managing Director, Pharmacy	Joseph Cowper Limited Penrith Health Centre (PD) Consortium Ltd
D DRIVER	c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW	12/12/1945	01/03/2003	Retired Chartered Accountant	Keld Energy Limited
P RICHARDSON	c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW	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.