



PENRITH BUILDING SOCIETY

your PENRITH

BUILDING SOCIETY | *for life*



EST. 1877
BUILDING SOCIETY FOR LIFE

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WIN a
kindle fire

See page 5 for details.



Amyn Fazal, Chief Executive.

News & Views

MESSAGE FROM THE CHIEF EXECUTIVE

the larger banks and building societies. This in turn led to a reduction in borrowing costs and an increase in credit availability for UK businesses and households and is feeding through to more lending than there would have been in the absence of the scheme and a steady decline in savers' interest rates. The Society's small size and high costs associated with joining the scheme precluded us from taking advantage of these low rates. We are restricted again by our size in our ability to carry out more than a modest amount of fixed rate lending.

Secondly, the government's two **Help to Buy** schemes

were launched in the second half of 2013 and sought to make higher value loans of 95% more accessible. The Society, along with the majority of its peer societies, took the view that they have always been willing to consider higher loan to value cases and did not formally enter the schemes. The Society launched its **Eden Mortgage Boost** scheme for the local high loan to value market with many positive headlines.

It was savers who felt most acutely the results of the benign credit conditions caused by these government initiatives. The decline in the average savings rate across the financial services industry

meant that the Society was forced to react by lowering our interest rates or face extremely large inflows of funds without being in a position to lend these out on mortgages. Once again, the Board was very mindful to balance the needs of both savers and borrowers. **Our average savings rates are still higher than the sector average and we have maintained our low standard variable rate (SVR) at 4.15% - one of the lowest in the sector.** A mark of the Society's success can be seen by the fact that we achieved a significant inflow of savers' funds, just over £6.0 million, and maintained near steady mortgage balances.

The Society has been keenly aware that in spite of the intense competition for mortgages, we should not compromise the prudent lending position which has consistently delivered an arrears position that is among the best in the sector. Our mortgage provisioning requirements have reduced from 2012 where we had specifically provided against some properties in possession and the Board has not seen evidence to suggest we should increase our general provision held across the mortgage book at this year end. A change in interest rates going forward may give rise to some concerns in this area, but we continue to manually underwrite all our mortgage cases on an individual

basis to minimise our potential risk in this area.

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 once any such concessionary period expires, provided they are able to do so. At the end of 2013 there was one account (2012: one) subject to forbearance measures. Where the Society considers there is a risk of loss in such cases, provisions are assessed.

During the year the **Penrith Path** gained momentum and started to bear fruit. This programme focuses on our people, products, processes, distribution, and brand in order to deliver the very best for our customers. It is starting to produce some very exciting results and I am proud that our team has embraced the concepts and has become even more involved in developing the Society's offering as a modern mutual.

Our customers are extremely important to us and the reason we exist at all and so it is very pleasing to note that in 2013, the Society once again saw a net increase in



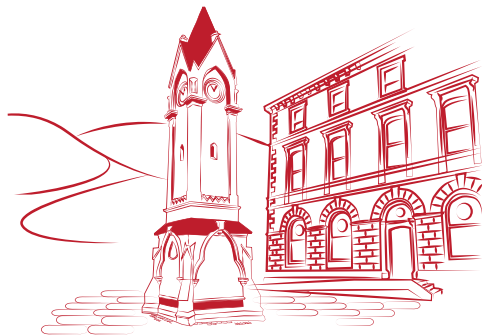
its customer numbers over and above the year before. To add to that, the comments and letters we receive about the Society's staff, products and service continue to be overwhelmingly positive; each piece of feedback is assessed by a team which recommends any changes that it feels will enhance our service further. In 2013, we made a number of enhancements to our products and services as a result of constantly reviewing what we do and how we do it.

Looking at products, our successful **Christmas Saver Account** is now in its third year and is proving to be very popular and has brought many new customers to the Society. An important innovation last year was the launch of fixed interest rate products on both the savings and the mortgage side. For savers the limited edition **Penrith Capital**



Bond was offered to existing customers only. For borrowers we launched a small tranche of a fixed rate mortgage that was taken up within three weeks from launch. We are restricted by regulation on the amount of fixed rate lending we can carry out but with a considerable slice of the mortgage market now made up of fixed rate lending and with the onset of further regulatory change moving the distribution of mortgages to mainly advice only, we feel that it is important to have the widest possible range of mortgage product options.

We recognised that in order to continue to be seen as a modern mutual building society



which has a part to play in the local as well as the national economy, we needed in 2013 to accelerate the process and technological changes that we had begun in 2012. We launched **My PBS**, our online enquiry platform which in the future will be used for developing more online services over the coming months. **We understand that our customers expect the very highest standards of service and these process changes will continue in the months ahead.**

We have refreshed our brand during the year. This has seen us retain the traditional values of the Society in our continued use of the seal in our logo and at the same time reaffirms our commitment to our customers in that we view our relationships with them as being



'for life'. The work in planning the refreshed brand saw us engage with our stakeholders on what the brand meant to them and how financial products and services impact on them throughout their life. The design work was completed by individuals with local connections in the Eden Valley who again understood what the Penrith Building Society means in the community.

Costs are always a key area of focus for the Society and on the back of a difficult year in 2012 for the cost base, we were keen to keep business expenditure to a minimum. As noted above, we have recognised the need to invest in our technology platform, which will continue in 2014. The main investment has continued to be in our people as we recognise that personal contact is a key differentiator to many of our competitors and is still what matters most to our customers in all their dealings with the Society.



This focus on costs has not been at the expense of continued financial support in the wider community. We were again a main sponsor of the **Penrith Show** in 2013 and participated in both flagship events of the Penrith calendar - the Food and Farming

week and the Winter Festival. Each of these gave us an opportunity to engage directly with our customers and to receive feedback on what we are doing and how we could do things better. We continue to sponsor a number of other local organisations and charities and our charity window display always provides a colourful highlight as people pass the Society on their way into town reminding them of the work done in the last year, amongst others, by **Eden Carers, Penrith and Patterdale Mountain Rescue teams, and Eden Valley Hospice at Home**. Our affinity partner, **Pride in Penrith Lottery**, also provided a splash in the window as we moved into the summer months. These relationships are important to us and we will continue to support local and national partners going forward.

To conclude, 2013 has been a strong year for the Society as it recovers from the loss in 2012 to return a modest profit. Underpinning this is a more robust business model with a clear vision for the future supported by dedicated staff and a loyal and supportive customer base to take the Society forward.



Ameen Fazal, Chief Executive.

New Direction: Forward March!

With the new Chief Executive and Finance Director in place the year moved on briskly. Our AGM was held, allowing our members to come and have their say to the Board. **Moving forward we wish to encourage more members to attend this year's event and use this as their forum to present their ideas, questions and views.**

Date for your diary...

This year the AGM will take place at 5.30pm, April 30th at North Lakes Hotel.

We have a host of surprises planned for this year's AGM and would be delighted if you would attend, **PLUS**, register your vote for the chance to win a Kindle Fire!



WIN!

To enter the draw to win a Kindle Fire, you need to register your vote for the AGM. This can be done online, by post or in person at our branch.

kindle fire

Full prize draw terms and conditions can be found at www.penrithbuildingsociety.co.uk



PBS is Proud to support our local mountain rescue teams

During April and May we worked closely with our local mountain rescue teams, Patterdale and Penrith. We sold tickets for their popular duck race and to coincide with the national **Mountain and Cave Rescue Awareness Week** we created a window display with posters and a display of their equipment. We also had a visit from two of their rescue vehicles!



As main sponsors of **Penrith Show** we entertained and amused in our marquee, the Pimms going down extremely well on a hot day with the many visitors to our tent. We also launched our rebrand which involved updated logos and a new look to our banners and stationery. As a very traditional local society we feel it very important to maintain those core values, but hopefully we now have a more polished and modern appearance.



Launching the rebrand at Penrith Show, anyone for Pimms..?



Food and Farming Week was entered into enthusiastically by the staff, in partnership with **Penrith Allotments Association**. Cakes were baked and vegetables sold, with all proceeds going to Macmillan nurses. Our thanks go to the Allotment Association and we hope we raised interest in the allotments and helped them to remain a part of the landscape of Penrith.



Wizeup to help plan for a financial future

This year we also worked closely with our local schools, Ullswater Community College and Queen Elizabeth Grammar School. We sponsored **Wizeup workshops** for pupils in both schools and took part in a 'Dragons Den' style business enterprise event with QEGS, our Finance Director Elspeth James being one of the dragons in our boardroom den. It was loads of fun having a building full of budding entrepreneurs although unfortunately also on one of the hottest days of the year!

Summer flew by quickly as always. Another highlight was the Society's joint initiative with Eden District Council to boost the housing market locally with the **Eden Boost Scheme**, designed to help local people onto the property ladder. We even made the Border News!



Working together for the benefit of our local community.



We said goodbye to two long standing non-executive directors this year. Peter Campbell stepped down from the board in April at our AGM and Gordon Rigg retired after more than 30 years of service at the end of September. The board recognises and is grateful for their significant contributions to the Society over many years and we all wish them both well for the future.

October brought the **Society's strategy event**, a chance for the board and senior staff to discuss and plan the future. We were lucky enough this year to have as our guests Adrian Coles and Chris Lawrenson of the Building Societies Association to give us their insights and expert views. Many thanks to them for taking the time to spend with us.



Maisie Twigg with her Halloween prize

Annalee Hicks-Bainbridge with her wonderful winning hat!

October also brought **Halloween**. Some rather scary witches and even Count Dracula entertained the children with various spooky tricks and treats, apologies to those parents whose children overindulged on the treats! It was hugely enjoyed by all and we are already planning next year's ghostly goings on.

During December we plunged wholeheartedly into the local **Winter Festival**. Superb artistic efforts were made to produce our glittery sparkly 'Strictly...' themed window with our dancing pigs and glitter balls...

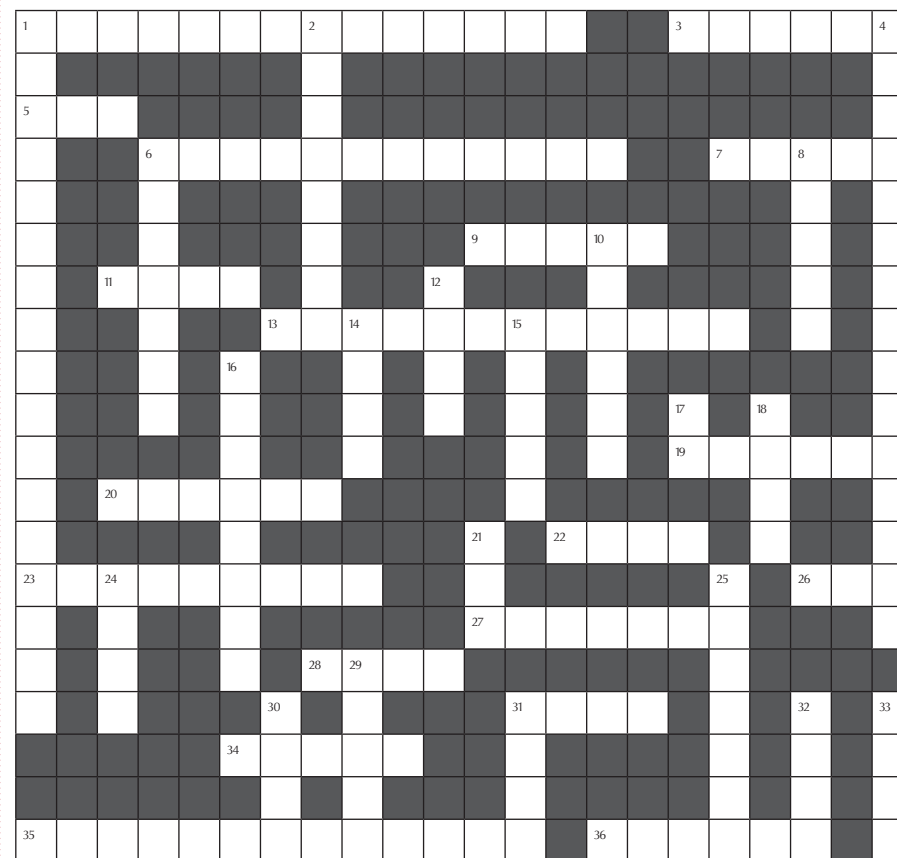


We had a **Festive Friday** event at which we warmed late night shoppers and guests with mulled wine and some delicious nibbles. We were also pleased to welcome Sue McDonald, Fundraising Manager for **Macmillan Cancer Support**, to accept a cheque for funds we had been raising throughout the year, so a big thank you to everyone who took part in our events and helped to raise those funds.

Crossword Competition 2014

Please hand in or post your entry to Penrith Building Society, 7 King Street, Penrith, Cumbria CA11 7AR. **Entry is for members only.** Closing date is 31st May 2014. A draw will be held from the correct entries. £50 prize to be paid to a new or existing account with the Society.

WIN!
£50 paid into your PBS account



NAME:

ADDRESS:

Across

- 1 Macmillan Nurses benefited from cakes and vegetables sold in this week (4,3,7)
- 3 School workshops (6)
- 5 2013's direction (3)
- 6 Spooky nobility (5,7)
- 7 Our online enquiry platform (5)
- 9 Our team of employees (5)
- 11 Monday to Friday closing hour (4)
- 13 Come to the branch on Saturday but make sure it's before this time (6,6)
- 19 Our 17 down was one of these for young entrepreneurs (6)
- 20 We celebrated this festival with glitter balls and dancing pigs (6)
- 22 New branding but traditional values – we've kept the seal in our ____ (4)
- 23 Adjective for our 9 across – they really support PBS's vision for the future (9)
- 26 We love working with the young people at this Penrith school (3)

- 27 You might have enjoyed a Pimms with us in this big tent at the Penrith Show (7)
- 28 The PBS Penrith track we follow to deliver the very best for our customers (4)
- 31 Limited edition product for savers (4)
- 34 There were positive headlines for our Eden Mortgage ____ scheme (5)
- 35 We are proud to support this Eden Valley charity (7,2,4)
- 36 See 14 down

Down

- 1 A key government scheme (7,3,7)
- 2 We gave the winter one our wholehearted support (8)
- 4 A patrol connects (anag.) – this makes us stand out from the crowd (8,7)
- 6 Ours increased in 2013 – London's one too! (7)
- 8 Group of lions – and the feeling we have about PBS (5)
- 10 See 25 down

- 12, 15 Government scheme aiding home purchasers (4,2,3)
- 14, 36 across Another deserving charity – need racers (anag.) (4,6)
- 15 See 12 down
- 16 Home loan (8)
- 17 Elspeth James's role (2)
- 18 See 24 down
- 21 Please join us at this event on April 30 (3)
- 24, 18 We sold tickets for this popular event to support local mountain rescue teams (4,4)
- 25, 10 Alliterative Xmas late opening night (7,6)
- 29, 31 This has grown by 6.9% to a new record level (5,4)
- 30 Polished and modern, but we still want to preserve the best of traditional ____ values (4)
- 31 See 29 down
- 32 Just like 26 across, we love working with the students here too (4)
- 33 Warmed tippie to be enjoyed by late night Christmas shoppers (4)



Alan Waterfield
Non-executive
Director & Senior
Independent Director

Alan was educated at Dulwich College and the University of Sussex and has a degree in economics. He qualified as an accountant in 1996 whilst working for Andersen Consulting. He enjoys working in smaller organisations and has held several finance director roles, primarily in telecoms and technology businesses over recent years. Following a number of years in the London area, Alan moved to Cumbria with his wife, who is from Penrith and their two children. He became a director of Penrith Building Society in 2010 and was appointed to the position of Senior Independent Director in 2013. He loves sport including cycling, hockey, rugby and cricket.



Geoff Silburn
Non-executive
Director & Chair
of Conduct Risk
Committee

Educated at Hull Grammar School and Manchester University, Geoff has a degree in pharmacy. Since leaving university he has worked for Joseph Cowper Ltd in Penrith and became the Managing Director in 1984. He has been a director of Penrith Building Society since 2002. He was appointed the chair of the Conduct Risk Committee in July 2012 and is a member of the Audit, Risk and Compliance Committee. Geoff enjoys gardening, photography and watching sports.



Amyn Fazal
Chief Executive

Amyn was educated at the King's School, Canterbury and at Reading University and is a Fellow of the Chartered Institute of Bankers. He worked with Nationwide for 30 years in a wide range of roles and came to Penrith as Deputy Chief Executive in January 2011 from the Furness Building Society where he was General Manager (Operations). He was appointed to the role of Chief Executive on 1 January 2013. Amyn is married and has three children. A keen runner and walker, Amyn also enjoys music, films and cooking.



Stephen Hollins-Gibson
Non-executive
Director & Chairman

Born in Cumbria, Stephen qualified as a chartered accountant in Manchester working for KMG Thomson McLintock (now part of KPMG). He moved to Armstrong Watson where he spent 30 years with the practice, retiring in 2006 following a period as senior partner. He has been a director of the Society since 1986 and took over as Chairman of the board in 2012. Married with two children, Stephen is involved in many aspects of community life, which include the chairmanship of Sebergham Parish Council, being a director of Grasmere Sports, and County Treasurer of Crimestoppers. He is also a Freeman of the City of London.



David Driver
Non-executive
Director & Chair
of Audit, Risk
and Compliance
Committee

David was born in Manchester where he qualified as a chartered accountant. He worked for ICI for three years before moving to Penrith to join O'Reilly, becoming a partner in 1975 and was a senior partner when he left in 2001. David has been a director of Penrith Building Society since 2003 and was appointed to the position of chair of the Audit, Risk and Compliance Committee in March 2012. He is also a member of the Conduct Risk Committee. David is married and has two children.



Robert Cairns
Non-executive
Director

Rob joined the Board in May 2013 having retired from the Furness Building Society where he was Chief Executive for 14 years. Prior to this he was the Deputy Chief Executive at the Cumberland Building Society. He is a graduate of the University of Sussex, holding a degree in psychology. Following his retirement he has remained actively involved in the Cumbrian business community and is currently Treasurer of the Cumbria Community Foundation. He is a sports fan, particularly when it comes to football and cricket. He has two grown-up daughters and has become a grandfather more recently.



Elsbeth James
Finance Director

Elsbeth was born in Carlisle and studied at Edinburgh University where she qualified with a mathematics and statistics degree. Elspeth then gained over 17 years' accounting experience with KPMG and latterly Johnston Carmichael where she worked with retail banking clients and other building societies both in the UK and Australia. Elspeth became the Finance Director of Penrith Building Society at the start of 2013. She lives with her partner and two Airedale terriers in Penrith and enjoys running, rugby and pilates in her spare time.

Business Review

This financial statement, on pages 12 to 17 (excluding the Directors' Remuneration Report) is a summary of information in the audited annual accounts, directors report and annual business statement, all of which will be available to members and depositors free of charge on demand in our branch and on our website, from 5th April 2014. A summary of events of the Society during the year can be found in the message from the Chief Executive on pages 2 to 5. The principal business activity of the Society is the provision of long-term residential mortgages to borrowers, financed by personal savings from members, in keeping with traditional building society principles and values.

Total Assets

The Society has seen a growth of 6.9% in its total assets in 2013 to a new record level of £93.38 million (2012: £87.35 million). This has been as a result of significant savers inflows throughout the year.

Liquid Assets

Liquid assets, in the form of cash and securities are £31.33 million in 2013 (2012: £24.98 million) representing 33.55% of total assets (2012: 28.60%) and 37.73% of total shares and borrowings (2012: 32.43%). 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) is carried out by management and approved by the Board annually.

Mortgages

New mortgage lending in 2013 totalled £9.19 million (2012: £17.26 million). There were 100 advances, including 35 further advances. The total of mortgage balances at £61.35 million has fallen slightly this year (2012: £61.86 million). This has been in light of a competitive mortgage market on the back of the Funding for Lending Scheme in which the Society has not participated.

At 31st December 2013 there were three mortgages (2012: one) where the repayment of principal and interest was twelve or more months

in arrears.

The total amount of arrears on these cases was £16,088 (2012: £8,950) on balances totalling £191,231 (2012: £8,950). All cases have a low loan to value ratio. The Society has four properties in possession (2012: none) at the end of 2013.

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 have grown by 7.81% to a total of £83.03 million at the year end (2012: £77.02 million).

The Society reduced the rates on a number of savers accounts during the year to manage inflows and to remain in line with the market. However, our rates have remained higher than the average in the sector which has resulted in strong inflows throughout the year.



Results for the year

The Society made a profit for the year of £0.05 million (2012: loss £0.22 million).

The net interest income improved to £1.25 million (2012: £1.11 million) and we made an operating profit before provisions of £0.12 million (2012: loss £0.031 million) which can be attributed to an improved margin on mortgages and further cost management during the year.

There has not been a requirement for additional mortgage provisioning this year and we have utilised a proportion of the specific provision we set aside last year.

We continue to provide for the charge on all deposit-taking firms, imposed by the Financial Services Compensation Scheme (FSCS) levy, as a result of the failure of other financial services institutions in recent years. We have set aside £98,465 to cover our share this year (2012: £102,270).

Management Expenses

Management expenses including depreciation were £1.16 million (2012: £1.18 million) a decrease of 1.70%.

Management expenses expressed as a ratio of mean total assets is 1.28% (2012: 1.35%). The cost income ratio has fallen to 90.52% (2012: 102.73%). This year the Society has focused on managing the cost base closely and has not seen the changes to personnel which were a contributing factor to the ratio being greater than 100% in the prior year.



Capital

At 31st December 2013, the Society's capital had increased to £10.16 million (2012: £10.10 million). A satisfactory level of capital must be maintained to ensure the Society is protected against any adverse changes in economic conditions in general or in circumstances particular to the Society. The free capital (the aggregate of general reserves and general provision for bad and doubtful debts, less tangible fixed assets) was 12.12% (2012 13.03%) of total shares and borrowings.

Gross capital amounted to 12.23% (2012: 13.12%) of total shares and borrowings. The free and gross capital ratios continue to be amongst the highest such ratios in the sector.

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

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



Principal Risks and Uncertainties

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, Concentration Risk, Conduct Risk, Operational Risk and Reputational Risk. These are described in more detail within the full Annual Accounts.

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.



Donations

During the year charitable donations totalling £7,693 (2012: £7,158) were made.

No contributions were made for political purposes.

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 personal development 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.

DIRECTORS

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

Non-Executive Directors

JS Hollins-Gibson, Chairman

G Silburn, Vice Chairman

D Driver

AG Waterfield, Senior Independent Director

RJ Cairns (Appointed 1st May 2013)

GM Rigg (Retired 30th September 2013)

PO'M Campbell (Retired 30th April 2013)

Executive Directors

AS Fazal, Chief Executive (Appointed 1st Jan 2013)

EL James, Finance Director (Appointed 1st Jan 2013)

The Directors retiring in accordance with the Rules are and offering themselves for re-election are Messrs Hollins-Gibson, Silburn and Driver, having served on the Board for over 9 years and Mr Waterfield, having served on the Board for a 3-year period. Miss James and Mr Cairns, having been appointed to the Board in 2013 are eligible for election in accordance with Rule 25(5).

During the 12 months ended 31st December 2013 Mr Fazal has been 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.

Post Balance Sheet Events

There are no post balance sheet events to report.

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

Our auditor, KPMG Audit Plc, has instigated an orderly wind-down of business, with future audit work being undertaken by KPMG LLP. The board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning their appointment will be put to the forthcoming Annual General Meeting of the Society.

Approved and signed on behalf of the Board
AS Fazal (Director & Chief Executive)
27 February 2014

SUMMARY FINANCIAL STATEMENT

For the year ended 31st December 2013

RESULTS FOR THE YEAR

	2013 £	2012 £
Net Interest Receivable	1,252,305	1,113,264
Other Income and Charges	26,842	33,369
Administrative Expense	(1,157,934)	(1,177,953)
Provisions	(54,094)	(235,072)
Profit/(Loss) for the Year before Taxation	67,119	(266,392)
Taxation	(14,379)	47,857
Profit/(Loss) for the Year	52,740	(218,535)

FINANCIAL POSITION AT END OF YEAR

	2013 £	2012 £
ASSETS		
Liquid Assets	31,329,991	24,980,956
Mortgages	61,347,770	61,684,973
Fixed and Other Assets	703,867	682,369
Total Assets	93,381,628	87,348,298
LIABILITIES		
Shares	81,712,790	76,069,447
Amounts Owed to Other Customers	1,320,779	950,467
Other Liabilities	191,063	224,128
Reserves	10,156,996	10,104,256
Total Liabilities	93,381,628	87,348,298

Approved by the Board of Directors on 27th February 2014 and signed on its behalf by JS Hollins-Gibson (*Chairman*), D Driver (*Director*), AS Fazal (*Director & Chief Executive*)

SUMMARY OF KEY FINANCIAL RATIOS

	2013	2012
Gross capital as % of shares & borrowings ^A	12.23%	13.12%
Liquid assets as % of shares & borrowings ^B	37.73%	32.43%
Profit for the year as % of mean total assets ^C	0.06%	(0.25)%
Management expenses as % of mean total assets ^D	1.28%	1.35%

NOTES TO THE SUMMARY FINANCIAL STATEMENT

^A The gross capital ratio measures the proportion which the Society's capital bears to the Society's shares and borrowings. The Society's gross capital consists of reserves, which are the Society's profits accumulated over many years.

Capital provides a financial cushion against difficulties which might arise in the Society's business and therefore protects investors.

^B The liquid assets ratio measures the proportion which the liquid assets held in the form of cash, short term deposits, and government securities bear to the Society's shares and borrowings. Liquid assets are utilised by the Society in its cash management enabling the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

^C The ratio of profit for the year as a percentage of mean total assets measures the proportion which the profit after taxation for the year bears to the average of the total assets at the beginning and end of the financial year. The ratio is similar to a company's return on assets. Profit is transferred to reserves, thus forming the capital which is essential in order to protect investors.

^D The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses as reported in this document (which includes depreciation) bear to the mean of total assets in accordance with the Accounts Regulations.



DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31ST DECEMBER 2013

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

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

Executive Directors

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

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

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

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

Non-executive Directors

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

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

Details of Remuneration

Fees for services as Non-executive Directors		2013 £	2012 £
JS Hollins-Gibson		15,164	14,109
G Silburn		11,786	10,454
D Driver		11,786	11,122
AG Waterfield		9,798	9,653
RJ Cairns (<i>Appointed 1st May 2013</i>)		6,532	-
PO'M Campbell (<i>Retired 24th April 2013</i>)		3,266	10,975
GM Rigg (<i>Retired 30th September 2013</i>)		7,348	9,653
TOTAL FOR NON EXECUTIVE DIRECTORS		65,680	65,966
For services as Executive Directors			
AS Fazal	Salary	100,000	75,004
	Pension Contributions	10,000	8,000
		110,000	83,004
EL James	Salary	70,000	-
	Pension Contributions	7,000	-
		77,000	-
C Hayward	Salary	-	76,167
	Pension Contributions	-	34,000
		-	110,167
TOTAL FOR EXECUTIVE DIRECTORS		187,000	193,171
GRAND TOTAL		252,680	259,137

Approved and signed on behalf of the Remuneration Committee
JS Hollins-Gibson (Chairman)
27 February 2014

INDEPENDENT AUDITOR'S STATEMENT TO MEMBERS & DEPOSITORS OF PENRITH BUILDING SOCIETY

We have examined the summary financial statement of Penrith Building Society for the year ended 31st December 2013 on pages 12 to 17 (excluding the Directors' Remuneration Report).

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement 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 and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

The Directors are responsible for preparing the summary financial statement within the Annual Review, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review with the full Annual Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 The auditor's statement on the summary financial statement in the United Kingdom issued by the Auditing Practices Board. Our report on the Society's full Annual Accounts describes the basis of our opinions on those Annual Accounts, the Annual Business Statement and Directors' Report.

Opinion on financial statement

In our opinion the summary financial statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of Penrith Building Society for the year ended 31st December 2013 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

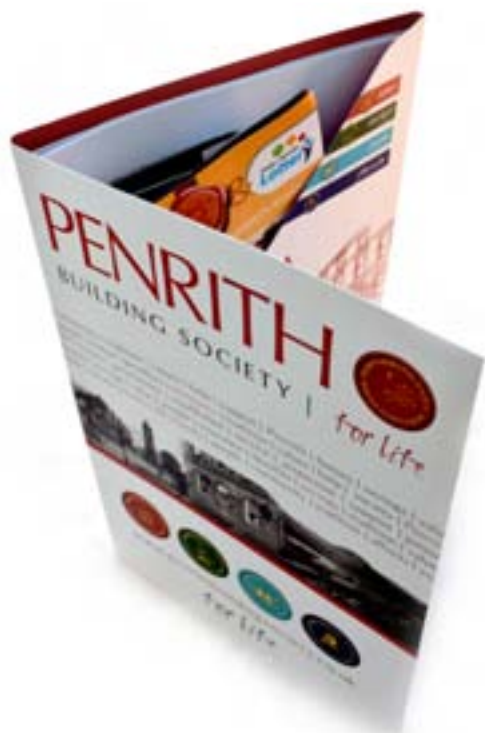


Richard Gabbertas
for and on behalf of
KPMG Audit Plc, Statutory Auditor
Chartered Accountants, 1 The Embankment,
Neville Street, Leeds, LS1 4DW
28 February 2014



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Directors

JS Hollins-Gibson (Chairman),
D Driver, G Silburn,
AG Waterfield, RJ Cairns,
AS Fazal, EL James.

Solicitors

Gaynham King & Mellor,
2 Mason Court, Gillan Way, Penrith,
CA11 9GR

Auditor

KPMG Audit Plc,
1 The Embankment, Neville Street,
Leeds, LS1 4DW

Bankers: NatWest Bank Plc

Chief Executive: AS Fazal

Finance Director: EL James

Operational Risk Manager/Secretary:
SJ Askew

PENRITH



BUILDING SOCIETY |

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We would like to thank Jeff Coates for our scenic cover image. Beacon View © Jeff Coates 2014