



ESTABLISHED 1877

Annual Review  
of the  
year ended 31<sup>st</sup> December 2012

PENRITH BUILDING SOCIETY

Member of the Building Societies Association  
Eligible for investment by Trustees  
Authorised and regulated by the Financial Services Authority



ESTABLISHED 1877

### **Directors**

J S Hollins-Gibson, FCA (Chairman), P O'M Campbell, BVM & S, MRCVS,  
D Driver, FCA, G M Rigg, BSc, G Silburn, BSc, MRPharmS,  
A G Waterfield, BA, CIMA, A S Fazal, BA, FCIB, Miss E L James, BSc ACA

### **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:** A S Fazal, BA, FCIB

**Finance Director:** Miss E L James, BSc, ACA

**Operational Risk Manager/Secretary:** Mrs S J Askew

## **CHAIRMAN'S STATEMENT**

### **Where we are**

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

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

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



**Aryn Fazal**  
**Chief Executive**



**Stephen Hollins-Gibson**  
**Chairman**

## **CHAIRMAN'S STATEMENT, continued**

### **Mutuality**

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

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

### **The Society**

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

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

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

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

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

## **Regulation and Corporate Governance**

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

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

## **Our Staff**

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

## **Outlook**

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

**Stephen Hollins-Gibson, Chairman**

## CHIEF EXECUTIVE'S REVIEW

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

### Overview

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

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

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

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

### **Society Strength**

The health of the Society's reserves is borne out by our gross capital ratio which is amongst the best in the building society sector. Our capital (or our accumulated reserves) and amounts of readily available cash (otherwise known as liquidity) together form the basis of a very strong Society. Chris Hayward's tenure as Chief Executive ended at the end of this reporting period. For the past year I have, prior to taking over from him at the start of 2013, led a programme of restructuring to continue to make the Society relevant for the challenges of the future.

A key element of this restructuring has been the appointment of a Finance Director, a process which naturally incurred some costs but I am pleased to report that Elspeth James took up this new post in September 2012 and became a Board director with effect from 1<sup>st</sup> January 2013. Our new team is already establishing a strong footprint and a fresh perspective for the future.

### **Savings**

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

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

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

## CHIEF EXECUTIVE'S REVIEW, continued

### Mortgages

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

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

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

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

The Society uses a number of forbearance measures to assist those borrowers approaching or at the point of experiencing financial difficulties. Such measures include the acceptance of reduced or suspended payments for a concessionary period. Borrowers are expected to resume normal payments when able once any such concessionary period expires. At 31<sup>st</sup> December 2012 there was one account (2011 – none) subject to forbearance measures. Where the Society considers there is a risk of loss in such cases, provisions are assessed. It is appreciated that borrowers' circumstances can and do change over the term of a mortgage and the Society will continue wherever possible to assist borrowers experiencing repayment difficulties.

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



## **Staff and Community**

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

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

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

## **Vision**

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

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

## **The Future**

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

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

**Amyn Fazal, Chief Executive**

**SUMMARY FINANCIAL STATEMENT**  
**For the year ended 31<sup>st</sup> December 2012**

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at Penrith Building Society from 3<sup>rd</sup> April 2013.

**Summary Directors' Report**

A summary of the events and business of the Society during the year can be found on pages 1 to 8.

<b>RESULTS FOR THE YEAR</b>	2012 £	2011 £
Net Interest Receivable	1,113,264	1,105,795
Other Income and Charges	33,369	47,831
Administrative Expenses	(1,177,953)	(1,070,720)
Provisions	<u>(235,072)</u>	<u>(57,052)</u>
(Loss)/Profit for the Year before Taxation	(266,392)	25,854
Taxation	<u>47,857</u>	<u>(439)</u>
(Loss)/Profit for the Year	<u>(218,535)</u>	<u>25,415</u>
 <b>FINANCIAL POSITION AT END OF YEAR</b>	 2012 £	 2011 £
<b>Assets</b>		
Liquid Assets	24,980,956	34,969,614
Mortgages	61,684,973	51,994,666
Fixed and Other Assets	<u>682,369</u>	<u>444,745</u>
Total Assets	<u>87,348,298</u>	<u>87,409,025</u>
<b>Liabilities</b>		
Shares	76,069,447	76,086,949
Borrowings	950,467	791,994
Other Liabilities	224,128	207,291
Reserves	<u>10,104,256</u>	<u>10,322,791</u>
Total Liabilities	<u>87,348,298</u>	<u>87,409,025</u>

Approved by the Board of Directors on 27<sup>th</sup> February 2013 and signed on its behalf by:-

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

## SUMMARY OF KEY FINANCIAL RATIOS

	2012	2011
Gross capital as a percentage of shares and borrowings (Note 1)	13.12%	13.43%
Liquid assets as a percentage of shares and borrowings (Note 2)	32.43%	45.49%
Profit for the year as a percentage of mean total assets (Note 3)	(0.25)%	0.03%
Management expenses as a percentage of mean total assets (Note 4)	1.35%	1.21%

## NOTES TO THE SUMMARY FINANCIAL STATEMENT

1. 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.
2. The liquid assets ratio measures the proportion which the liquid assets held in the form of cash, short term deposits and government securities bears 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.
3. 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.
4. 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.

## **INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS AND DEPOSITORS OF PENRITH BUILDING SOCIETY**

We have examined the summary financial statement of Penrith Building Society for the year ended 31<sup>st</sup> December 2012 on pages 9 to 10.

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 31<sup>st</sup> December 2012 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

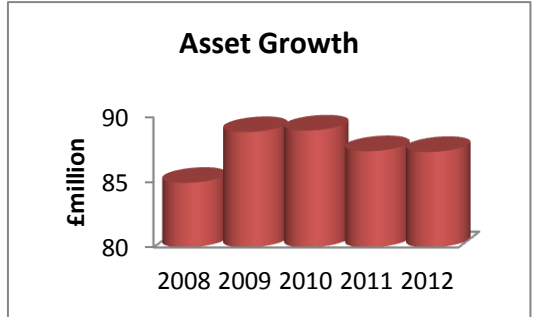
Leeds, LS1 4DW

**28<sup>th</sup> February 2013**

## KEY PERFORMANCE INDICATORS

### Total Assets

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



### Liquid Assets

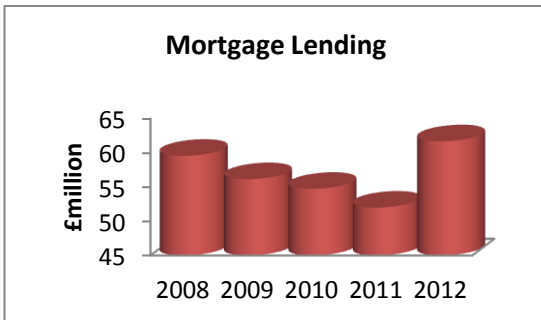
Liquid assets, in the form of cash and securities at 31<sup>st</sup> December 2012 were £24,980,956, representing 28.59% of total assets and 32.43% of total shares and borrowings. These levels of liquidity show that the Society continues to be able to meet all calls on its funds.

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

### Mortgages

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

At 31<sup>st</sup> December 2012 there was one mortgage (2011 – two) where the repayment of principal and interest was twelve or more months in arrears. The total amount of arrears in this case was £8,950 (2011 – £22,105) on a balance totalling £8,950 (2011 – £188,500). This case has a low loan to value ratio. At 31<sup>st</sup> December 2012 the Society had no properties in possession (2011 – 0).

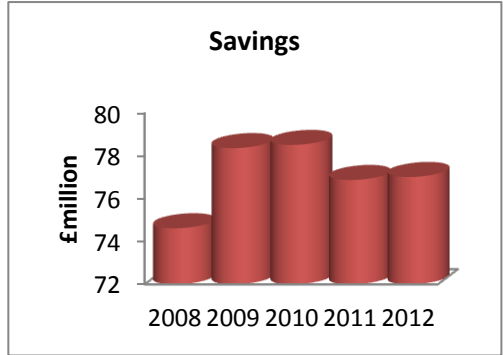


The Society will continue to take all necessary action to minimise loss and to ensure that the provisions of the lending policy are monitored so that due account may be taken of prevailing economic conditions.

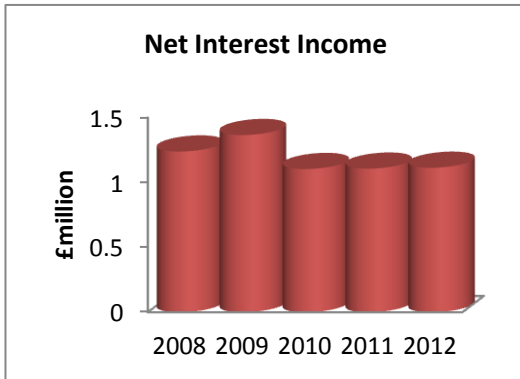
## KEY PERFORMANCE INDICATORS, continued

### Savings

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



### Results for the year



The Society made a loss for the year of £218,535 (2011 – profit £25,415).

Our net interest income year on year was unchanged at £1.11 million and our operating loss before provisions was £31,320 (2011 – profit £82,906) which can be attributed to the costs of changing our management team.

The remaining loss arose from the need to set aside further provisions for potential losses on our mortgage book of £180,542 and to cover our contribution to the FSCS of £54,530.

### Staff

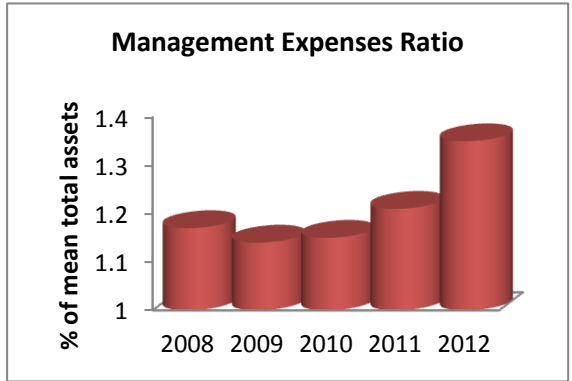
The Directors are pleased to record their appreciation to management and staff for the loyal service rendered during the year.

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

## Management Expenses

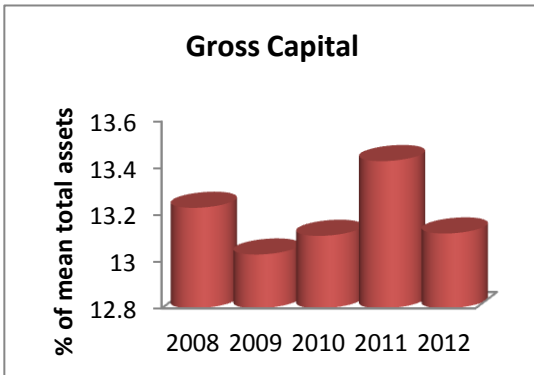
Management expenses including depreciation rose to £1,177,953 an increase of 10.02% (2011 – 4.76%).

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



## Capital

At 31<sup>st</sup> December 2012, free capital (the aggregate of General Reserve and general provision for bad and doubtful debts less tangible fixed assets) amounted to £10,033,597 or 13.03% of total shares and borrowings. Gross capital amounted to 13.12% of total shares and borrowings. These remain amongst the highest such ratios in the industry. A satisfactory level of capital must be maintained to ensure the Society is protected against any adverse changes in economic conditions in general or in circumstances particular to the Society.



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

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

## **CORPORATE GOVERNANCE**

The UK Corporate Governance Code (June 2010) issued by the Financial Reporting Council applies to listed companies. The Financial Services Authority however advises that building societies should pay regard to the provisions of the Code in drawing up corporate governance procedures. The Building Societies Association has provided guidance on how those provisions should be interpreted by building societies and the Society has followed that guidance where the Board has considered it appropriate.

### **The Board**

The Board of Directors provides leadership and direction in achieving the Society's objectives and activities and is responsible for the continued success of the Society.

It is responsible for devising strategy, formulating policies and providing guidance on the management of the Society. It regularly reviews financial performance and ensures that there are effective risk management controls and procedures in place.

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

### **Board Composition and Independence**

The Board currently comprises two Executive Directors and six Non-Executive Directors. The Chief Executive and Deputy Chief Executive (now Finance Director) are Executive Directors and are responsible for the management of the Society within guidelines set by the Board. Non-Executive Directors are essential to the governance of the Society providing, amongst other things, challenge to the Executive Directors and Management, setting objectives, monitoring performance and determining remuneration of the Executive Directors. There are ever increasing burdens on Non-Executive Directors. They must devote considerable time to the Society. As well as attendance at Board Meetings there must be a commitment to develop skills and knowledge from both internal and external sources to enable them to fulfil their duties and responsibilities.

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

The Board considers that all of its Non-Executive Directors are independent. The majority of the Board resides within the Penrith area and are well known within the community; all are readily accessible either in person, by telephone or by correspondence.



Mr G Silburn continues as Senior Independent Director and is available to members having any concerns which they consider would be inappropriate to discuss with senior managers and executives.

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

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

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

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

### **Board Appointments**

Where the need for a new Director is identified for any reason the Chief Executive prepares a description of the person required based on the skills, qualifications and experience needed to ensure an adequate balance of skills at Board level. A formal recruitment process will be employed and may include the advertising of the position in appropriate media and canvassing the Society membership. A Board Sub-Committee, including the Chairman, will be established to oversee the recruitment of all Directors. It is necessary for Board appointments to be approved by the FSA under the Approved Persons regime and this may include a personal interview with the FSA.

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

## **CORPORATE GOVERNANCE, continued**

### **Performance Evaluation**

A formal process exists to evaluate, on an annual basis, the performance and effectiveness of individual Directors and of the Board as a whole. In 2012 the appraisal of the Chairman was carried out by the Chief Executive and the Senior Independent Director.

The appraisal of the Chairman of Audit and Compliance was carried out by the Chief Executive and Chairman. The other Non-Executive Directors' appraisals were carried out by the Chief Executive, Chairman and Senior Independent Director. These appraisals are based on a number of factors including attendance at meetings and external events, contribution and performance at meetings and challenge to the Executive.

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

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

### **Fitness and Propriety**

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

All Directors have access to the advice of the Secretary. In addition any Director may take independent professional advice at the Society's expense should this be considered necessary.

All Directors are provided with clear, timely and accurate information to enable them to fulfil their duties and responsibilities.

All new Directors are provided with induction training and all Directors are encouraged to attend training courses, seminars and other events to maintain up to date knowledge of the matters affecting building societies as a whole and the Penrith Building Society in particular.

## Directors

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

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

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

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

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

During the 12 months ended 31<sup>st</sup> December 2012 Mr Fazal was appointed as a non-executive director to Mutual Vision Technologies Limited, who provide IT services to the Society. There were no other associated bodies in which the Society or its Directors had an interest.

In adhering to the principles of good corporate governance the Board has established certain committees to advise on various issues. The terms of reference for these committees may be obtained from the Chief Executive. The committees in question are:

## **CORPORATE GOVERNANCE, continued**

### **Audit & Compliance Committee**

The Audit and Compliance Committee consists of Messrs D Driver, P O'M Campbell, G Silburn and G M Rigg. Mr Driver replaced Mr Hollins-Gibson as Chairman of the committee from 28<sup>th</sup> March 2012. He is a retired Chartered Accountant. Mr P O'M Campbell was appointed to the committee on the same date. Four meetings were held within the year and these were attended as follows:

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

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

The principal purposes of this committee include ensuring that the Society complies with all regulatory and prudential requirements and reviewing the Society's internal controls and management systems. The committee has responsibility for monitoring the Compliance function including approval of an annual compliance monitoring plan.

The committee is also responsible for the review of the effectiveness of the compliance monitoring and internal audit functions and the monitoring of the External Auditors' independence, objectivity and effectiveness.

### **Remuneration Committee**

This is comprised of the Society's Non-Executive Directors. During the financial year ended 31<sup>st</sup> December 2012 the Chairman of the Remuneration Committee was the Chairman of the Society. The committee is responsible for setting the Society's remuneration policy for Executive Directors. The committee also settles all other benefits and matters relevant to Executive Directors including contracts of employment with the Society. There were two meetings of the Remuneration Committee in 2012 which were held as part of main Board meetings. All Non-Executive Directors were present at those meetings.

The Directors' Remuneration Report for 2012 is on page 21.

## **Conduct Risk Committee**

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

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

	<b><u>NUMBER OF MEETINGS ATTENDED</u></b>
G Silburn	5
A S Fazal	5
D Driver	2

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

## **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.

## **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 and Deputy Chief Executive's contracts of employment require a 12 month notice period.

### **Non-Executive Directors**

The remuneration of all Non-Executive Directors is reviewed annually by the Board. The remuneration consists of annual fees assessed by comparison with similar organisations and other external factors. The Chairman of the Board, Chairman of the Audit and Compliance Committee and the Senior Independent Director receive higher fees than other Non-Executive Directors in recognition of the additional workload and responsibilities incumbent on those positions.

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

## Details of Remuneration

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

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