



ESTABLISHED 1877

Annual Review
of the
year ended 31st December 2010

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

P O'M Campbell, BVM & S, MRCS (Chairman), J S Hollins-Gibson, FCA,
D Driver, FCA, C Hayward, BSc, ACIB, A. G Waterfield, BA, CIMA,
P Richardson, MBA, G M Rigg, BSc, G Silburn, BSc, MRPharmS

Solicitors

Gaynham, King & Mellor, 1-2 Mason Court, Gillan Way, Penrith 40 Business Park, Penrith

Auditors

KPMG Audit plc, Leeds LS1 4DW

Bankers: National Westminster Bank plc

Chief Executive: C Hayward, BSc, ACIB

Branch Manager: Mrs S J Askew

PENRITH BUILDING SOCIETY

Member of the Building Societies Association. Eligible for investment by Trustees

ANNUAL REVIEW OF THE YEAR ENDED 31ST DECEMBER 2010

Summary Directors' Report

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.

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.

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 Society's objectives are to provide a friendly and efficient service to the local community whilst offering attractive rates of interest and to continue to concentrate on the provision of traditional products and services.

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

SUMMARY FINANCIAL STATEMENT

For the year ended 31st December 2010

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 12th March 2011.

SUMMARY DIRECTORS' REPORT

A summary of the events and business of the Society during the year can be found on pages 3 & 4.

RESULTS FOR THE YEAR	2010	2009
	£	£
Net Interest Receivable	1,103,800	1,365,371
Other Income and Charges	36,039	30,216
Administrative Expenses	(1,021,990)	(986,890)
Provisions	<u>(8,544)</u>	<u>26,218</u>
Profit for the Year before Taxation	109,305	434,915
Taxation	<u>(23,295)</u>	<u>(97,934)</u>
Profit for the Year	<u>86,010</u>	<u>336,981</u>

FINANCIAL POSITION AT END OF YEAR	2010	2009
	£	£

Assets

Liquid Assets	33,763,053	32,351,882
Mortgages	54,730,703	56,141,815
Fixed and Other Assets	<u>509,067</u>	<u>391,288</u>
Total Assets	<u>89,002,823</u>	<u>88,884,985</u>

Liabilities

Shares	77,815,666	77,617,542
Borrowings	704,766	754,122
Other Liabilities	185,015	301,955
Reserves	<u>10,297,376</u>	<u>10,211,366</u>
Total Liabilities	<u>89,002,823</u>	<u>88,884,985</u>

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 and Chief Executive

SUMMARY OF KEY FINANCIAL RATIOS

	2010	2009
Gross capital as a percentage of shares and borrowings (Note 1)	13.11%	13.03%
Liquid assets as a percentage of shares and borrowings (Note 2)	43.00%	41.28%
Profit for the year as a percentage of mean total assets (Note 3)	0.10%	0.39%
Management expenses as a percentage of mean total assets (Note 4)	1.15%	1.14%

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 include depreciation) bear to the mean of total assets in accordance with the Accounts Regulations.

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. The Board consider 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.

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 arrear. 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).

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%).

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 (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.

Staff

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

**INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS
AND DEPOSITORS OF PENRITH BUILDING SOCIETY
FOR THE YEAR ENDED 31ST DECEMBER 2010**

Pursuant to section 76 of the Building Societies Act 1986, we have examined the summary financial statement of Penrith Building Society for the year ended 31 December 2010 on pages 5 to 7.

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

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 December 2010 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

16 February 2011

CORPORATE GOVERNANCE

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.

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

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

Messrs Campbell, Hollins-Gibson and Rigg having served on the Board for over 9 years have agreed to retire but 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 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 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.

DIRECTORS' REMUNERATION POLICY AND 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 Policy & 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 related pay scheme, pension arrangements or other benefits and do not have service contracts.

Details of Remuneration

	2010	2009
For Services as Non-Executive Directors:		
P O'M Campbell (Chairman)	14,290	13,808
J S Hollins-Gibson (Vice Chairman and Chairman of Audit and Compliance Committee)	11,110	10,735
D Driver	9,230	8,919
G M Rigg	9,230	8,919
G Silburn	10,000	8,919
A G Waterfield (Appointed 1st July 2010)	4,615	-
Lord Hothfield (Retired 31st March 2010)	<u>2,230</u>	<u>8,919</u>
Total Non-Executive Directors	<u>60,705</u>	<u>60,219</u>
For Services as Executive Directors:		
C Hayward	Salary 72,704	70,047
	Pension Contributions <u>84,000</u>	<u>84,000</u>
	<u>156,704</u>	<u>154,047</u>
P Richardson	Salary 64,058	61,942
	Pension Contributions <u>6,220</u>	<u>6,220</u>
	<u>70,278</u>	<u>68,162</u>
Total Executive Directors	<u>226,982</u>	<u>222,209</u>
Grand Total	<u>287,687</u>	<u>282,428</u>

PENRITH BUILDING SOCIETY

7 King Street, Penrith, Cumbria CA11 7AR

Telephone: 01768 863675 Facsimile: 01768 891275

www.penrithbuildingsociety.co.uk