PENRITH BUILDING SOCIETY

Annual Report and Accounts

31st December 2011

DIRECTORS' REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2011

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31st December 2011.

Business Review

Trading conditions remained difficult throughout 2011 and this is likely to continue. The Society made a small profit but is for the first time reporting a small asset reduction.

Interest rates on savers' accounts were maintained at previous year's levels throughout 2011 and the Society's standard variable rate on mortgages was also unchanged and remains very competitive. The Directors believe that the need to balance the needs of savers and borrowers in the current economic climate is paramount. This has been demonstrated by data showing that the interest rate spread between savers and borrowers of the Society is far below the average within its peer group. As a mutual organisation profit maximisation is not a target nor is asset growth. Rather the Society is able to use the accrued profits from previous years to protect existing savers from rate reductions and existing borrowers from rate rises and increased outgoings in these more difficult times. Competition on both sides of the balance sheet has been intense with the market offering premium rates on savings accounts and heavily discounted and/or no fee mortgage products available. The Directors consider that the Society continues to offer a competitive range of straightforward and easy to understand products backed up by exceptional levels of service.

There was a reduction in balances on savers' accounts of over £1.64m as savers looking to maximise returns were attracted by the premium rates offered by some other institutions anxious to maintain or extend market share. Some of these products offer introductory bonus rates which are reduced after an initial period or involve tying up funds for extended periods. These types of account have traditionally not been offered by the Society but the product range is continually monitored and new products will be introduced when it is considered necessary. Two new products were offered towards the end of the year: the Junior ISA account and the limited edition Christmas Saver account which proved to be extremely popular.

Gross lending was just under £8.3m, a reduction on 2010 (£8.7m). There was a reduction of over £2.7m in mortgage balances over the year. This was due mainly to exceptional levels of redemptions with borrowers being attracted by the aggressive marketing of highly competitive products from larger lenders in particular. Borrowers also continued to take advantage of the low interest rates by reducing levels of debt. The spectre of higher unemployment levels, talk of double-dip recession and the subdued housing market also contributed to increasing the impulse to reduce debt.

As in previous years, one of the advantages of operating a prudent Lending Policy is demonstrated by the Society's arrears position. There were again no repossessions in the year and there were only two mortgages twelve or more months in arrear at 31st December 2011. Further details on these two accounts are included on page 4. Levels of arrears across all accounts increased slightly over the year although the number of cases over three months in arrear reduced and there would appear to be no underlying trend to cause concern. The majority of the Society's arrears cases relate to owner occupied residential properties and there are minimal arrears in the Society's commercial mortgage book.

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 where able once any such concessionary period expires.

At 31st December 2011 there were no accounts (2010 - 4) subject to forbearance measures. Where the Society considers there is a risk of loss in such cases, provisions are assessed as detailed in Note 1 to the accounts.

It is appreciated that borrowers' circumstances can and do change over the term of a mortgage and the Society will continue wherever possible to assist borrowers experiencing repayment difficulties.

The Society has not had the need to seek funding from the wholesale markets for many years and this continued in 2011. 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 0.50% throughout the year and most commentators are not expecting any increase until 2013 at the earliest. This provides a challenge to the Society as its traditionally high level of liquidity means that the returns of interest earned remain much reduced from previous years. The Society seeks to maximise the interest due from this source but is not prepared to reduce its criteria for lending to other financial institutions in search of higher returns. The vast majority of its investments are with UK clearing banks and building societies and this will continue to be the case.

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 £25,661 into the scheme in 2011 and it is forecast that an amount of approximately £29,760 will be payable in 2012. There are negotiations ongoing regarding the continuance of the loan arrangement from 2012 and it is likely that the rate of interest charged to the FSCS will increase substantially and this will be passed on to the financial institutions. The latest estimate of this Society's contribution for scheme year 2012/2013 payable in 2013 is approx £48,700. The Society therefore needs to increase the provision in these accounts to the sum of those amounts which means that a charge of £51,986 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 and it is thought that these are likely to increase, particularly if and when any form of capital repayment of the loan is required.

Directors

In early 2011 the Society appointed a new Deputy Chief Executive and an updated succession plan has been approved by the Board. An organisational review has been carried out on the efficiency of systems and procedures for taking the Society forward to the next stage of development and the resources needed to achieve this have been recognised. Mr Amyn Fazal joined the Society in March 2011 as Deputy Chief Executive and was co-opted onto the Board on 30th March 2011.

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

Non-Executive Directors	
P O'M Campbell, BVM & S, MRCVS	Chairman
J S Hollins-Gibson, FCA	Vice Chairman
G M Rigg, BSc	
A G Waterfield, BA, CIMA	
G Silburn, BSc MRPharmS	Senior Independent Director
D Driver, FCA	
Executive Directors	
C Hayward, BSc, ACIB	Chief Executive
A Fazal, BA, FCIB (Appointed 30th March 2011)	Deputy Chief Executive
P Richardson, MBA (Resigned 7th January 2011)	Deputy Chief Executive

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

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

During the 12 months ended 31st December 2011 there were no associated bodies in which the Society or its Directors had an interest.

Business Objectives and Activities

The Society's Directors continue to believe that the members' best interests will be served by the Society remaining an independent mutual organisation and are therefore committed to ensuring the Society's continued existence. The objectives of the Society are to provide a friendly and efficient service to the local community whilst offering attractive rates of interest.

The Society will continue to concentrate on the provision of traditional products and services but will be looking to expand its range of products and to explore alternative distribution channels.

Post Balance Sheet Events

There have been no material subsequent events between 31st December 2011 and the approval of these Annual Report and Accounts by the Board.

Future Developments

The Society will continue to offer competitive products with a balance being struck between the interests of the investors and those of the borrowers.

Key Performance Indicators

Total Assets

The Society experienced asset shrinkage of 1.79% during 2011 with total assets reducing from £89,002,823 to £87,409,025. Movement in total assets reflects the performance of the Society in its core business of mortgages and savings. The Board considers that whilst it is disappointing that for the first time in memory a reduction in assets is being reported this is a result of the risk adverse approach adopted by the Board in the current market and also a reflection of the consideration given to members on both sides of the balance sheet.

Liquid Assets

Liquid assets, in the form of cash and securities at 31st December 2011 were £34,969,614, representing 40.01 % of total assets and 45.49% 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 2011 new mortgage lending totalled £8,291,842. There were 106 advances, including 28 further advances.

The mortgage balance reduced by 5.00% over the year.

At 31st December 2011 there were two mortgages (2010 – two) where the repayment of principal and interest was twelve or more months in arrears. The total amount of arrears in these cases was £22,105 (2010 – £20,963) on balances totalling £188,500 (2010 – £187,177). Both of these cases have low loan to value ratios. At 31st December 2011 the Society had no properties in possession (2010 – 0).

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

Administrative Expenses

Administrative expenses including depreciation rose to £1,070,720 an increase of 4.76%.

Administrative expenses expressed as a ratio of mean total assets stood at 1.21% (2010 – 1.15%).

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

Funding

Share and deposit balances at 31st December 2011 totalled £76,878,943, a reduction of £1,641,489 over 2010 levels.

Capital

At 31st December 2011, free capital (the aggregate of General Reserve and general provision for bad and doubtful debts less tangible fixed assets) amounted to £10,291,779 or 13.39% of total shares and borrowings. Gross capital amounted to 13.43% 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 Deputy Chief Executive.

Land and Buildings

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

Staff

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

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

Donations

During the year charitable donations totalling £7,414 (2010 – £8,075) were made. No contributions were made for political purposes.

Creditor Payment Policy

The Society's policy concerning the payment of its trade creditors for the next financial year is as follows:

The Society will discharge the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments) when in full conformity with the terms and conditions of the purchase within the agreed payment terms.

For all trade creditors, it is the Society's policy to:

- agree the terms of payment at the start of trading with that supplier,
- ensure that suppliers are aware of the terms of payment, and
- pay in accordance with its contractual and other legal obligations.

There were no trade creditors at the year end.

Principal Risks and Uncertainties

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

The main risks to which the Society is exposed are Credit Risk, Interest Rate Risk, Liquidity Risk, and Operational Risk.

Credit Risk

This is the risk of a customer or counterparty not meeting obligations when they fall due.

All applications for mortgages are assessed individually under the Board approved Lending Policy and existing mortgages are monitored regularly for potential default.

With regard to investment the Board has set appropriate credit limits covering exposure to individual counterparties, sectors and countries and processes are in place to ensure that such limits are not breached.

Interest Rate Risk

This is the risk of exposure to movements in interest rates. The Society does not have any fixed rate products and therefore this risk is limited to exposure to fixed rate investments including Gilts.

This risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society at 31st December 2011 is detailed in note 25 to the accounts.

Liquidity Risk

This is the risk of the Society being unable to meet its financial obligations as they fall due. The Board approved Liquidity Policy requires that sufficient liquid resources be held to ensure that all fluctuations in funding are covered, public confidence is maintained and the Society is able to meet any calls on funds when they fall due.

Operational Risk

This is the risk of loss through inadequate or failed systems, human error or other external factors. All areas of the Society's business have appropriate Board approved systems of control and procedures and adherence to these systems and procedures is monitored by senior management and the Audit and Compliance Committee.

Financial Risk Management Objectives and Policies

The Society is a retailer of financial instruments in the form of mortgage and savings products and also uses wholesale financial instruments to invest in liquid assets and, if necessary, to raise funds from wholesale money markets in support of its retail savings operations. These instruments also allow the management of risks arising from these business markets.

There is a formal structure for risk management in place which includes full control procedures including the establishment of risk limits, mandates and reporting lines. All risk management policies are reviewed regularly by the Board of Directors. Further details are given in note 25 to the Accounts.

Going Concern

Forecasts of the Society's financial position for the period ending twelve months from the date of the signing of these accounts have been prepared. The effects of various stressed scenarios on the Society's financial position have also been calculated. These forecasts have satisfied the Directors that the Society has adequate resources to continue in business for the foreseeable future. For this reason the accounts continue to be prepared on the going concern basis.

Auditors

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

Approved and signed on behalf of the Board

P O'M Campbell (Chairman)
17th February 2012

CORPORATE GOVERNANCE REPORT

The United Kingdom Corporate Governance Code (2010 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

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 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 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.

Five of the Society's Non-Executive Directors, Messrs Campbell, 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, those 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 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 five, together with Mr Hayward, who has also served over nine years, will stand for re-election at the forthcoming AGM.

Mr Amyn Fazal was co-opted onto the Board with effect from 30th March 2011.

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

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

Performance Evaluation

A formal process exists to evaluate, on an annual basis, the performance and effectiveness of individual Directors and of the Board as a whole. In 2011 the appraisal of the Chairman was carried out by the Chief Executive and the Senior Independent Director. The appraisal of the Chairman of Audit and Compliance was carried out by the Chief Executive and Chairman. The other Non-Executive Directors' appraisals were carried out by the Chief Executive, Chairman and Chairman of Audit and Compliance. These appraisals are based on a number of factors including attendance at meetings and external events, contribution and performance at meetings and challenge to the Executive.

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

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

Fitness and Propriety

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

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

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

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

Directors

Main Board Meetings are held monthly. Additional meetings may be called as required. There were fourteen meetings of the full Board in 2011 attended as follows:

	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	14
A G Waterfield, BA, CIMA	12
G Silburn, BSc MRPharmS	13
D Driver, FCA	13
C Hayward, BSc, ACIB	14
A Fazal, BA, FCIB (Appointed 30th March 2011)	10
P Richardson, MBA (Resigned 7th January 2011)	0

During the 12 months ended 31st December 2011 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 Deputy Chief Executive. 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 Hollins-Gibson was Chairman of the committee for the whole of the financial year ended 31st December 2011. He is a retired Chartered Accountant, as is Mr Driver.

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

	NUMBER OF MEETINGS ATTENDED
J S Hollins-Gibson	4
G Silburn	3
D Driver	4
G M Rigg	4

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

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

Remuneration Committee

This is comprised of the Society's Non-Executive Directors. During the financial year ended 31^{st} December 2011 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 2011 which were held as part of main Board meetings. All Non-Executive Directors were present at those meetings.

The Directors' Remuneration Report for 2011 is on page 12.

Conduct Risk Committee

This committee comprised of Messrs Silburn and Fazal and three members of the Society's staff. 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 Reporting

The Statement of Directors' Responsibilities on page 13 sets out the Boards' responsibilities in relation to the preparation of the Society's Annual Report and Accounts and a statement that the Society's business is a going concern is included on page 7.

Risk Management and Internal Control

The Executive Directors and Management have devised a Risk Management Framework to identify, quantify (if possible) and manage risks faced by the Society. The Board is responsible for the oversight and challenge of this process and to continually review risk strategy and policies.

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

Approved and signed on behalf of the Board

P O'M Campbell (Chairman)
17^{th} February 2012

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 are set out in note 6 to the accounts.

Approved and signed on behalf of the Remuneration Committee

P O'M Campbell (Chairman)
17th February 2012

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

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

The Remuneration Committee is responsible to ensure compliance with the provisions of the Financial Services Authority's Remuneration Code.

The Building Societies Act 1986 ("the Act") requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The annual accounts are required by law to give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing these annual accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the society will continue in business.

In addition to the annual accounts the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the society.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

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

We have audited the society annual accounts of Penrith Building Society for the year ended 31st December 2011 set out on pages 16 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 13 the Directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm**.**

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the society as at 31st December 2011 and of the income and expenditure of the society for the year then ended; and

- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;

- the information given in the Directors' Report for the financial year for which the annual accounts are prepared is consistent with the accounting records and the annual accounts; and

- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

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

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

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
17th February 2012

INCOME & EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2011

	Notes	2011 £	2010 £
Interest receivable and similar income	2	2,536,898	2,560,730
Interest payable and similar charges	3	(1,431,103)	(1,456,930)
Net interest receivable		1,105,795	1,103,800
Fees and commissions receivable		48,539	48,396
Fees and commissions payable		(27,165)	(22,004)
Other operating income	4	26,457	9,647
Total income		1,153,626	1,139,839
Administrative expenses	5	(1,028,264)	(981,633)
Depreciation		(42,456)	(40,357)
Operating profit before provisions		82,906	117,849
Provisions for bad and doubtful debts	15	(5,066)	(1,996)
Provisions for FSCS scheme levy	21	(51,986)	(6,548)
Profit on ordinary activities before tax		25,854	109,305
Tax on profit on ordinary activities	9	(439)	(23,295)
Profit for the financial year		25,415	86,010

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

The notes on pages 19 to 32 form part of these accounts.

All income and expenditure relates to continuing operations.

BALANCE SHEET AS AT 31ST DECEMBER 2011

	Notes	2011 £	2010 £
Assets			
Liquid Assets:			
Cash in hand		58,885	48,523
Loans and advances to credit institutions	10	16,402,614	14,355,842
Debt securities	11	18,508,115	19,358,688
		34,969,614	33,763,053
Loans and advances to customers			
Loans fully secured on residential property		50,482,312	52,611,807
Loans fully secured on land	12	1,512,354	2,118,896
	13	51,994,666	54,730,703
Investments			
Other investment	16	106,521	85,740
Tangible fixed assets	17	140,470	137,088
Other assets	14	158,093	166,875
Prepayments and accrued income		39,661	119,364
		87,409,025	89,002,823
Liabilities			
Shares	18	76,086,949	77,815,666
Amounts owed to other customers	19	791,994	704,766
Other liabilities	20	99,017	123,339
Accruals and deferred income		29,808	9,535
Provisions for liabilities	21	78,466	52,141
		77,086,234	78,705,447
Reserves			
General reserves	23	10,322,791	10,297,376
		87,409,025	89,002,823

Approved by the Board of Directors on 17th February 2012 and signed on its behalf by:

P O'M Campbell, Chairman
J S Hollins-Gibson, Director
C Hayward, Director & Chief Executive

The notes on pages 19 to 32 form part of these accounts.

CASHFLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2011

	2011	2010
	£	£
Net cash (outflow)/inflow from operating activities	(2,177,547)	1,146,209
Taxation	(24,513)	(83,081)
Capital expenditure and financial investment		
Purchase of financial fixed assets	(17,488,158)	(22,797,411)
Sale and maturity of financial fixed assets	18,261,819	20,712,136
Purchase of tangible fixed assets	(45,838)	(67,286)
Purchase of investments	(20,781)	(8,172)
Decrease in cash	(1,495,018)	(1,097,605)

Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	25,854	109,305
Decrease/(increase) in prepayments and accrued income	35,356	(86,449)
Increase/(decrease) in accruals and deferred income	20,273	(27,778)
Provisions for bad and doubtful debts	5,066	1,996
Depreciation and amortisation	163,715	120,099
Increase/(decrease) in provisions	26,325	(21,626)
Net cash inflow from trading activities	276,589	95,547
Loans and advances to customers	2,730,971	1,409,116
Shares	(1,728,717)	198,124
Amounts owed to credit institutions and other customers	87,228	(49,356)
Loans and advances to credit institutions and other customers	(3,552,152)	(498,902)
Other assets	12,639	39
Other liabilities	(4,105)	(8,359)
Net cash(outflow)/inflow from operating activities	(2,177,547)	1,146,209

Reconciliation of cash balances

	Opening	Net Decrease	Closing
	£	£	£
Current year end			
Cash in hand	48,523	10,362	58,885
Loans and advances to credit institutions repayable on demand	3,820,184	(1,505,380)	2,314,804
	3,868,707	(1,495,018)	2,373,689
Prior year end			
Cash in hand	12,429	36,094	48,523
Loans and advances to credit institutions repayable on demand	4,953,883	(1,133,699)	3,820,184
	4,966,312	(1,097,605)	3,868,707

The notes on pages 19 to 32 form part of these accounts.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Society's Annual Accounts.

(i) Accounting Convention

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

(ii) Basis of Preparation

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

(iii) Interest Receivable

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

(iv) Mortgage Incentives

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

(v) Corporation Tax

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

(vi) Deferred Tax

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

(vii) Fixed Assets and Depreciation

Fixed assets are capitalised and stated at cost less depreciation.

Depreciation is provided to write down fixed assets to net realisable value over their estimated useful economic life. The following depreciation rates are used:

- Freehold Buildings at 1% per annum straight line.
- Office and computer equipment at 20% per annum straight line.
- Computer development costs at 20% per annum straight line.

(viii) Liquid Assets

Interest on liquid assets is accrued to the date of the balance sheet and is adjusted by the interest element on purchase and sale of investments.

Debt securities are held as financial fixed assets with the intention of use on a continuing basis in the Society's activities. These are shown at cost excluding any interest element forming part of the purchase consideration. Where the adjusted cost price varies from the maturity value, any premium or discount is amortised in equal instalments up to maturity. Any amounts so amortised are charged/credited to the income and expenditure account for the relevant financial years.

Wherever a financial fixed asset experiences a diminution in value which is expected to be permanent, a provision is made so as to write down the cost of the security to its recoverable amount.

(ix) Pensions Costs

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

(x) Provisions for Loans and Advances

The specific provision is in respect of non-performing mortgages which are three months or more in arrears. The specific provision for non-performing loans is calculated by discounting the value of the property at the balance sheet date so that if the property were to be placed on the market a sale would be agreed within three months of that date. The calculation also takes into account anticipated realisation costs and amounts recoverable under mortgage indemnity policies. A specific provision is also made where an account may not be in arrears but the Society has exercised forbearance in the conduct of the account. Any provision is based on a management assessment that a loss may be realised had forbearance not been shown.

The general provision is in respect of those advances in arrears, but not in possession, which have not been specifically identified as being impaired, but which might give rise to losses in the light of the Society's experience relating to such matters.

Interest is suspended on impaired loans wherever it appears that it is unlikely that the interest will be collected i.e. if the value of the security is less than the outstanding loan.

Loans and advances in the balance sheet are shown net of provisions, specific and general and suspended interest. The increase in the provisions as adjusted by recoveries made during the year comprises the charge to the income and expenditure account.

(xi) Leases

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

2 Interest Receivable and Similar Income

	2011	2010
	£	£
On loans fully secured on residential property	1,857,987	1,921,731
On other loans	84,049	108,524
On debt securities		
Interest and other income	322,540	277,713
Gain on sale	39,211	94,538
On other liquid assets		
Interest and other income	233,111	158,224
	2,536,898	2,560,730

Total income from fixed income securities was £361,751 (2010 – 372,251).

3 Interest Payable and Similar Charges

	2011	2010
	£	£
On shares held by individuals	1,418,601	1,444,427
On other shares	3,115	3,070
On deposits and other borrowing	9,387	9,433
	1,431,103	1,456,930

4 Other Operating Income

	2011	2010
	£	£
Rents received on shared ownership properties	9,657	9,647
On sale of interest or part interest in shared ownership properties	16,800	-
	26,457	9,647

5 Administrative Expenses

	2011	2010
	£	£
Staff costs (including Executive Directors)		
Wages and salaries	393,082	388,071
Social security costs	41,094	40,782
Other pension costs	135,216	131,585
	569,392	560,438
Other administrative expenses	458,872	421,195
	1,028,264	981,633
Other administrative expenses include:		
Audit of annual accounts (excluding VAT)	27,000	27,000

6 Directors' Emoluments

		2011	2010
		£	£
Fees for services as Non-Executive Directors			
P O'M Campbell		14,720	14,290
D Driver		9,510	9,230
J S Hollins-Gibson		11,440	11,110
G M Rigg		9,510	9,230
G Silburn		10,300	10,000
A G Waterfield		9,510	4,615
Lord Hothfield		-	2,230
TOTAL FOR NON EXECUTIVE DIRECTORS		64,990	60,705
For services as Executive Directors			
C Hayward	Salary	74,763	72,704
	Pension Contributions	84,000	84,000
		158,763	156,704
P Richardson	Salary	1,278	64,058
(Resigned 7th January 2011)	Pension Contributions	518	6,220
		1,796	70,278
A Fazal	Salary	58,334	-
(Appointed 30th March 2011)	Pension Contributions	5,833	-
		64,167	-
TOTAL FOR EXECUTIVE DIRECTORS		224,726	226,982
GRAND TOTAL		**289,716**	**287,687**

7 Directors' Loans and Related Party Transactions

The aggregate amount of loans outstanding as at 31st December 2011 to four (2010 – five). Directors and connected persons was £743,932 (2010 – £1,000,516). These loans were made on normal commercial terms.

A register of loans to Directors and connected persons is maintained under Section 68 of the Building Societies Act 1986 at the head office of the Society. This is available for inspection during normal office hours over the period of 15 days prior to the Society's Annual General Meeting and at the Annual General Meeting.

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

8 Employees

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

	2011	2010
	No	No
Full Time	10	10
Part Time	7	7
Total	17	17

9 Taxation

	2011	2010
	£	£
a) Analysis of charge in year:		
Corporation Tax		
Current tax on income for the year	3,687	18,916
Adjustments in respect of prior years	-	4,988
	3,687	23,904
Deferred Tax (see note 22)		
Origination/reversal of timing differences	(3,248)	5,082
Effect of decreased tax rate	-	(304)
Adjustment in respect of previous years	-	(5,387)
	(3,248)	(609)
Tax on ordinary activities	439	23,295
b) Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax	25,854	109,305
Tax at 20% (2010 – 21%)	5,171	22,954
Effects of:		
Capital allowance in excess of depreciation	(2,910)	(4,957)
Expenses not deductible for tax purposes	413	500
Disallowed general provision for bad and doubtful debts	1,013	419
Adjustments in respect of prior years	-	4,988
Current tax charge for year	3,687	23,904

10 Loans and Advances to Credit Institutions

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

	2011	2010
	£	£
Accrued interest	87,810	35,658
Repayable on demand	2,314,804	3,820,184
Other loans and advances by residential maturity payable:		
in not more than 3 months	4,500,000	4,500,000
in more than 3 months, but not more than 1 year	9,500,000	6,000.000
	16,402,614	14,355,842

11 Debt Securities

	2011	2010
	£	£
Issued by public bodies	6,196,039	7,240,138
Issued by other borrowers	12,312,076	12,118,550
	18,508,115	19,358,688
Debt securities have remaining maturities as follows:		
Accrued Interest	223,627	179,280
In not more than 1 year	14,227,534	13,061,134
In more than 1 year	4,056,954	6,118,274
	18,508,115	19,358,688
Transferable debt securities comprise:		
Listed on a recognised investment exchange	6,111,025	7,150,176
Unlisted	12,173,463	12,029,232
	18,284,488	19,179,408
Market value of listed transferable debts	6,209,614	7,323,312
Included in debt securities are:		
Unamortised premiums	111,025	159,476
Unamortised discounts	-	(9,300)

The Directors of the Society consider that the primary purpose of holding securities is prudential. The securities are held as liquid assets with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets rather than current assets.

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

Adjusted cost and net book value (excluding accrued interest)

	2011	2010
At 1st January	19,179,408	17,173,875
Premium/Discount amortised during the year	(121,259)	(79,742)
Disposals and maturities	(18,261,819)	(20,712,136)
Acquisitions	17,488,158	22,797,411
At 31st December	18,284,488	19,179,408

12 Other Loans

	2011	2010
	£	£
Other loans fully secured on land	1,512,354	2,118,896

Other loans fully secured on land include £123,715 (2010 – £136,282) fully secured on residential property and which were made to corporate bodies, such as Housing Associations, prior to 1st September 1998 the date the Society adopted the powers of the Building Societies Act 1997. The classification of these assets is not consistent with the treatment of similar loans made after 1st September 1998 which are included in "loans fully secured on residential property" but is necessary to comply with the requirements of the Building Societies Act 1997.

13 Loans and Advances to Customers – Maturity Analysis

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

	2011	2010
	£	£
On call and at short notice	-	-
In not more than three months	846,555	714,312
In more than three months but not more than one year	1,990,342	2,466,873
In more than one year but not more than five years	11,069,815	11,769,920
In more than five years	38,197,412	39,883,990
	52,104,124	54,835,095
Provisions	(109,458)	(104,392)
	51,994,666	54,730,703

14 Other Assets

	2011	2010
	£	£
Residential shared ownership properties where the Society retains an interest in those properties with a view to making advances on the security of the equitable interest	144,875	156,875
Other assets	261	291
Deferred tax (see note 22)	12,957	9,709
	158,093	166,875

15 Provisions for Bad and Doubtful Debts

	Loans fully secured on land	Loans fully secured on residential property	Total
	£	£	£
General Provision			
At 1st January	71,700	32,692	104,392
(Credit)/Charge for the year	(27,140)	32,206	5,066
At 31st December	44,560	64,898	109,458

There are no specific provisions

16 Other Investments

Unlisted investments	Shares	Loans	Total
	£	£	£
Cost			
At beginning of year	2,934	82,806	85,740
Additions	3,980	16,801	20,781
At end of year	6,914	99,607	106,521

The Society holds unlisted shares in Mutual Vision Technologies Limited (MVT), which provides IT services to the Society. The Society has an interest bearing loan to MVT of £99,607 (2010 – £82,806).

The above investment is held with the intention of use on a continuing basis in the Society's activities and hence is classified as a financial fixed asset.

17 Tangible Fixed Assets

	Freehold land and buildings	**Office and computer equipment fixtures and fittings**	**Total**
Cost	**£**	**£**	**£**
At beginning of year	40,000	469,770	509,770
Additions	-	45,838	45,838
At end of year	40,000	515,608	555,608
Depreciation			
At beginning of year	13,200	359,482	372,682
Charge for the year	400	42,056	42,456
Write-offs on disposals			
At end of year	13,600	401,538	415,138
Net book value			
At 31st December 2010	26,800	110,288	137,088
At 31st December 2011	26,400	114,070	140,470

The net book value of the freehold premises occupied by the Society for its own activities is £26,400 (2010 – £26,800).

The freehold buildings were valued at 24th June 1974 on the basis of an open market valuation for existing use by Penrith Farmers' and Kidd's plc, Chartered Surveyors. These buildings are occupied by the Society for its own activities.

18 Shares

	2011	2010
	£	£
Held by individuals	75,862,741	77,593,520
Other shares	224,208	222,146
	76,086,949	77,815,666

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

	2011	2010
	£	£
Accrued interest	409,314	412,730
Repayable on demand	73,780,735	75,370,493
Other shares by residual maturity repayable:		
In not more than 3 months	1,896,900	2,032,443
	76,086,949	77,815,666

19 Amounts Owed to Other Customers

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

	2011	2010
	£	£
Repayable on demand	791,994	704,766

20 Other Liabilities

	2011	2010
	£	£
Other liabilities due within one year comprise:		
Corporation tax	3,687	23,904
Income tax	83,562	88,385
Other creditors	11,768	11,050
	99,017	123,339

21 Provisions for Liabilities

FSCS levy	2011	2010
	£	£
At beginning of year	52,141	73,767
Levy paid in year	(25,661)	(28,174)
Charge for the year	51,986	6,548
At end of year	78,466	52,141

In common with all regulated deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays net of any recoveries it makes using the rights that have been assigned to it. In 2008 claims were triggered against the FSCS by the transfer of Bradford & Bingley’s retail deposit business to (then) Abbey National and similar issues in respect of Heritable Bank, Kaupthing Singer & Friedlander, Icesave and London Scottish Bank.

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

The FSCS has met the claims by way of loans from HM Treasury. The FSCS has in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to meet the interest payments on the loans from HM Treasury. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to repay fully the respective HM Treasury loans.

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

The Management Expenses Levy for Scheme Year 2011/2012 was calculated using the agreed funding rate of 12 months Libor + 30bp. The Society is aware that negotiations are continuing between HMT and FSCS on the appropriate funding rate for the HMT loans for the period from 1st April 2012, on which the Management Expenses Levy for Scheme Year 2012/2013 will be based. Because this negotiation has not been finalised, the Society has calculated its provision for the Scheme Year 2012/2013 levy based on a funding rate of 12 months Libor + 100bp, which is the Society’s best estimate based on the press announcement made by HMT in September 2008 which stated that the loans would revert to 12 months Libor + 100bp at the end of the agreed three year period. However until negotiations are complete and the funding rate is finalised there exists the possibility that the levy for Scheme Year 2012/2013 will be based on a higher rate than 12 months Libor + 100bp, and that the Society’s liability will be consequently higher.

There was a provision of £52,141 in last year's accounts to cover payments due for the scheme years 2010/2011 and 2011/2012. A payment of £25,661 was paid to FSCS in 2011 in respect of scheme year 2010/2011 and the revised estimate of payments due for scheme years 2011/2012 and 2012/2013 is £78,466. An increase in the previous provision of £51,986 has therefore been charged to these accounts.

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

22 Deferred Taxation

	2011	2010
	£	£
At beginning of year	9,709	9,100
Charge to Income and Expenditure Account for year	3,248	(5,082)
Effect of Change in Tax Rate	-	304
Adjustment in respect of previous years	-	5,387
At end of year	12,957	9,709

The elements of deferred taxation are as follows:

	2011	2010
Differences between accumulated depreciation and amortisation and capital allowances	(8,935)	(11,169)
Other timing differences	21,892	20,878
	12,957	9,709

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

23 Reserves

	2011
	£
General reserves	
At beginning of year	10,297,376
Profit for financial year	25,415
At end of year	10,322,791

24 Contingent Liabilities and Commitments

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

At 31st December 2011 the Society has annual commitments under non-cancellable operating leases as follows:

	2011	2010
	£	£
Office equipment leases which expire:		
less than 2 years	2,300	2,254
within 2 – 5 years inclusive	4,669	-
over 5 years	-	499

25 Financial Instruments

The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest in liquid assets and may raise funds from wholesale money markets in support of its retail savings operations. These instruments also allow it to manage the risks arising from these business markets.

The Society has a formal structure for managing risk, including formal risk policies, risk limits, reporting structures, mandates and other control procedures. This structure is reviewed regularly by the Board of Directors.

Instruments commonly used for risk management purposes include derivative financial instruments ("derivatives"), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

The Society does not use any derivative financial instruments, since the Society does not currently offer any capped or fixed rate mortgage or savings products that would give rise to a balance sheet exposure. The Society does not enter into any financial instruments for trading or speculative purposes.

RISK MANAGEMENT

The main financial risks arising from the Society's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, and these are summarised below.

Credit Risk
Credit risk is the risk of default by counterparties to transactions. Appropriate credit limits have been established by the Board for individual counterparties and sectors.

Liquidity Risk
The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can cover all fluctuations in funding, retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations.

Interest Rate Risk
The Society is exposed to movements in interest rates, reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Society manages this exposure continually by matching the maturity dates of assets and liabilities.

The table below summarises these re-pricing mismatches at 31st December 2011. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing date and the maturity date.

31st December 2011	Not more than 3 months £	More than 3 months, but no more than 6 months £	More than 6 months, but not more than 1 year £	More than 1 year, but not more than 5 years £	Non-interest bearing £	Total £
ASSETS						
Liquid Assets	12,002,531	7,151,865	10,573,138	4,056,954	1,185,126	34,969,614
Loans and advances to customers	51,994,666	-	-	-	-	51,994,666
Investments	-	-	-	-	106,521	106,521
Tangible fixed assets	-	-	-	-	140,470	140,470
Other assets	-	-	-	-	158,093	158,093
Prepayments and accrued interest	-	-	-	-	39,661	39,661
TOTAL ASSETS	63,997,197	7,151,865	10,573,138	4,056,954	1,629,871	87,409,025
LIABILITIES						
Shares	75,677,635	-	-	-	409,314	76,086,949
Amounts owed to other customers	791,994	-	-	-	-	791,994
Other liabilities	-	-	-	-	99,017	99,017
Accruals and deferred income	-	-	-	-	29,808	29,808
Provision for liabilities	-	-	-	-	78,466	78,466
Reserves	-	-	-	-	10,322,791	10,322,791
TOTAL LIABILITIES	76,469,629	-	-	-	10,939,396	87,409,025
Interest rate sensitivity gap	(12,472,432)	7,151,865	10,573,138	4,056,954	(9,309,525)	-
Cumulative sensitivity gap	(12,472,432)	(5,320,567)	5,252,571	9,309,525	-	

Comparative position at 31st December 2010:

31st December 2010	Not more than 3 months	More than 3 months, but no more than 6 months	More than 6 months, but not more than 1 year	More than 1 year, but not more than 5 years	Non-interest bearing	Total
	£	£	£	£	£	£
ASSETS						
Liquid Assets	12,418,495	9,227,782	4,914,857	6,118,274	1,083,645	33,763,053
Loans and advances to customers	54,730,703	-	-	-	-	54,730,703
Investments	-	-	-	-	85,740	85,740
Tangible fixed assets	-	-	-	-	137,088	137,088
Other assets	-	-	-	-	166,875	166,875
Prepayments and accrued interest	-	-	-	-	119,364	119,364
TOTAL ASSETS	67,149,198	9,227,782	4,914,857	6,118,274	1,592,712	89,002,823
LIABILITIES						
Shares	77,402,936	-	-	-	412,730	77,815,666
Amounts owed to other customers	704,766	-	-	-	-	704,766
Other liabilities	-	-	-	-	123,339	123,339
Accruals and deferred income	-	-	-	-	9,535	9,535
Provision for liabilities	-	-	-	-	52,141	52,141
Reserves	-	-	-	-	10,297,376	10,297,376
TOTAL LIABILITIES	78,107,702	-	-	-	10,895,121	89,002,823
Interest rate sensitivity gap	(10,958,504)	9,227,782	4,914,857	6,118,274	(9,302,409)	-
Cumulative sensitivity gap	(10,958,504)	(1,730,722)	3,184,135	9,302,409	-	

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2011

1. Statutory Percentages

	2011	Statutory Limit
Lending Limit	3.55%	25.00%
Funding Limit	1.32%	50.00%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the difference between the total assets of the Society plus provisions for bad and doubtful debts and the aggregate of liquid assets and tangible fixed assets as shown in the Society's Accounts.

Y = the principal of, and interest accrued on, loans owed to the Society which are fully secured on residential property, plus provisions for bad and doubtful debts and interest in suspense.

The Funding Limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and borrowings, being the aggregate of

i) the principal value of, and interest accrued on, shares in the Society; and

ii) the principal of, and interest accrued on, sums deposited with the Society.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2 Other Percentages

	2011 %	2010 %
As percentage of shares and borrowings:		
Gross capital	13.43	13.11
Free capital	13.39	13.07
Liquid assets	45.49	43.00
Profit for the financial year after taxation as a percentage of mean total assets	0.03	0.10
Management expenses as a percentage of mean total assets	1.21	1.15

The above percentages have been prepared from the Society's accounts and in particular:

"Shares and borrowings" represent the total of shares and amounts owed to other customers.

"Gross capital" represents the General Reserves.

"Free capital" represents the aggregate of gross capital and general mortgage loss provisions for bad and doubtful debts less tangible fixed assets.

"Liquid assets" represent the total cash in hand, loans and advances to credit institutions and debt securities.

"Management expenses" represent the aggregate of administrative expenses and depreciation.

"Mean total assets" is the average of the total assets at 31st December 2010 and 31st December 2011.

ANNUAL BUSINESS STATEMENT (CONTINUED)

3 Information Relating to the Directors at 31st December 2011

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

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

Service Contracts

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

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