# PENRITH BUILDING SOCIETY

## Annual Report and Accounts

## 31st December 2013

**SOCIETY PERFORMANCE OVER THE PAST 5 YEARS**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

The Society uses a number of key performance indicators to measure and monitor performance. A summary of these measures over the last five years has been provided in the graphs below, with comments being made on the performance in the year ended 31st December 2013 compared to the year ended 31st December 2012.

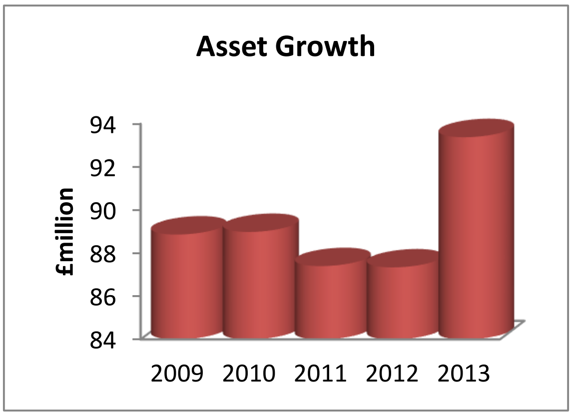
**Total Assets**

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

**Liquid Assets**

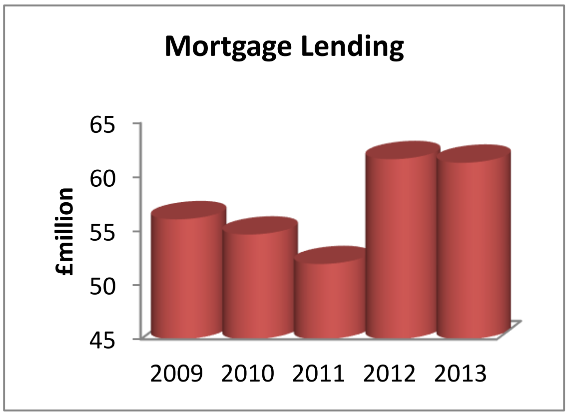
Liquid assets, in the form of cash and securities are £31.33 million in 2013 (2012: £24.98 million) representing 33.55% of total assets (2012: 28.60%) and 37.73% of total shares and borrowings (2012: 32.43%). These levels of liquidity show that the Society continues to be able to meet all calls on its funds.

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




**Mortgages**

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



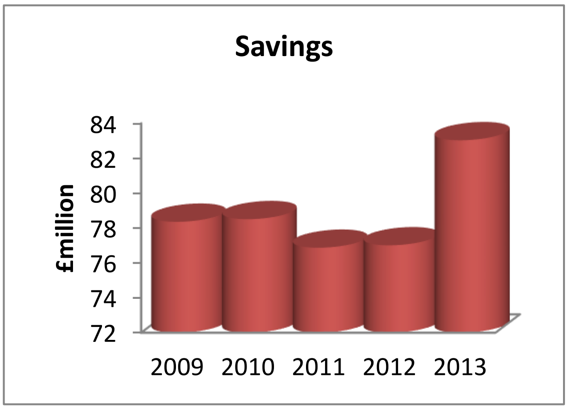

At 31st December 2013 there were three mortgages (2012: one) where the repayment of principal and interest was twelve or more months in arrears. The total amount of arrears on these cases was £16,088 (2012: £8,950) on balances totalling £191,231 (2012: £8,950). All cases have a low loan to value ratio. The Society has four properties in possession (2012: none) at the end of 2013.

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

**Savings**

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

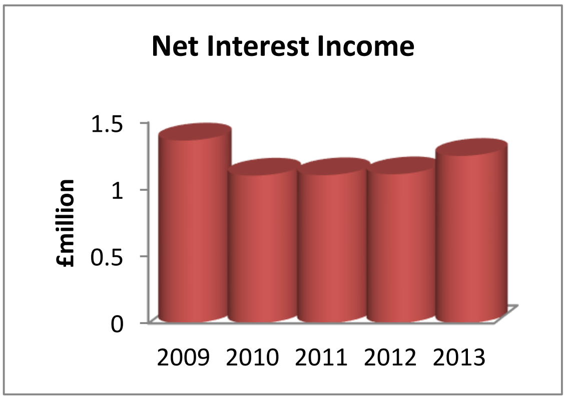
The Society reduced the rates on a number of savers accounts during the year to manage inflows and to remain in line with the market. However, our rates have remained higher than the average in the sector which has resulted in strong inflows throughout the year.



**SOCIETY PERFORMANCE OVER THE PAST 5 YEARS continued**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

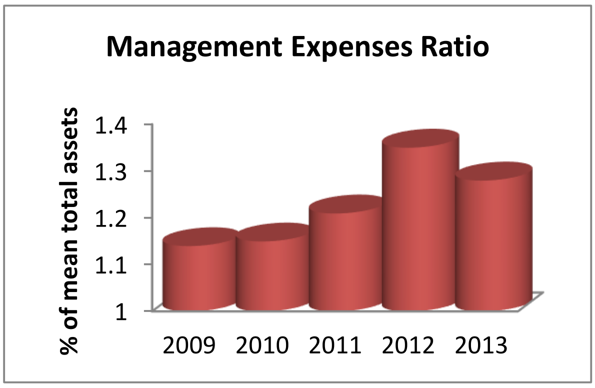
**Results for the year**

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




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

There has not been a requirement for additional mortgage provisioning this year and we have utilised a proportion of the specific provision we set aside last year. We continue to provide for the charge on all deposit taking firms imposed by the Financial Services Compensation Scheme (FSCS) levy, as a result of the failure of other financial services institutions in recent years. We have set aside£98,465 to cover our share this year (2012: £102,270).



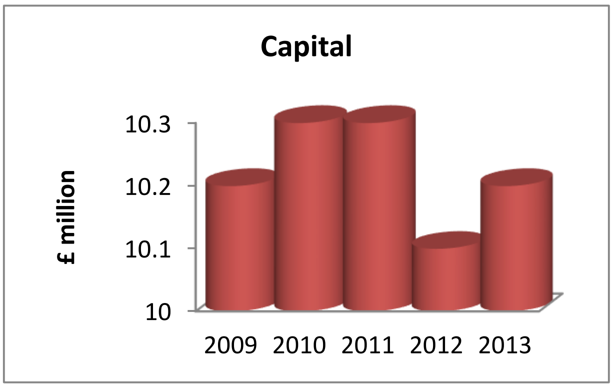

**Management Expenses**

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

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

**Capital**

At 31st December 2013, the Society's capital has increased to £10.16 million (2012: £10.10 million). A satisfactory level of capital must be maintained to ensure the Society is protected against any adverse changes in economic conditions in general or in circumstances particular to the Society.




The free capital ratio (the aggregate of General Reserve and general provision for bad and doubtful debts less tangible fixed assets) arising from this was 12.12% (2012 13.03%) of total shares and borrowings.

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

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

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

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

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31st December 2013.

**Business Review**

The principal business activity of the Society is the provision of long-term residential mortgages to borrowers, financed by personal savings from members, in keeping with traditional building society principles and values.

The Society in 2013 has consolidated its strengths, re-evaluated its strategy and built a vision of creating a business that will be nationally applauded for its simple great value products, backed by personal service and integrity. Our asset base has grown by 6.9% to a new record level of £93.38 million at the year end.

The economy began to show some positive signs in 2013 but the low interest rate environment continued to impact on the Society's margins. There were two key government initiatives last year that made their mark on the financial services sector. First, since its introduction in the latter part of 2012, the Funding for Lending Scheme has contributed to a reduction in funding costs for the larger banks and building societies. This in turn led to a reduction in borrowing costs and an increase in credit availability for UK businesses and households and is feeding through to more lending than there would have been in the absence of the scheme and a steady decline in savers' interest rates. The Society's small size and high costs associated with joining the scheme precluded us from taking advantage of these low rates and we are restricted again by our size in our ability to carry out more than a modest amount of fixed rate lending.

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

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

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

The Society uses a number of forbearance measures to assist those borrowers approaching or at the point of experiencing financial difficulties. Such measures include the acceptance of reduced or suspended payments for a concessionary period. Borrowers are expected to resume normal payments once any such concessionary period expires, providing they are able to do so. At the end of 2013 there was one account (2012: one) subject to forbearance measures. Where the Society considers there is a risk of loss in such cases, provisions are assessed as detailed in Note 1 to the accounts.

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

Our customers are extremely important to us and the reason we exist at all and so it is very pleasing to note that in 2013, the Society once again saw a net increase in its customer numbers over and above the year before. To add to that, the comments and letters we receive about the Society's staff, products and service continue to be overwhelmingly positive; each piece of feedback is assessed by a team which recommends any changes that it feels will enhance our service further. In 2013, we made a number of enhancements to our products and services as a result of constantly reviewing what we do and how we do it.

**DIRECTORS' REPORT, continued**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**Business Review, continued**

Looking at products, our successful Christmas Saver Account is now in its third year and is proving to be very popular and has brought many new customers to the Society. An important innovation last year was the launch of fixed interest rate products on both the savings and the mortgage side. For savers the limited edition Penrith Capital Bond was offered initially to existing customers only. For borrowers we launched a small tranche of a fixed rate mortgage that was taken up within three weeks from launch. We are restricted by regulation on the amount of fixed rate lending we can carry out but with a considerable slice of the mortgage market now made up of fixed rate lending and with the onset of further regulatory change moving the distribution of mortgages to mainly advice only, we feel that it is important to have the widest possible range of mortgage product options.

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

We have refreshed our brand during the year. This has seen us retain the traditional values of the Society in our continued use of the seal in our logo and at the same time reaffirms our commitment to our customers in that we view our relationships with them as being 'for life'. The work in planning the refreshed brand saw us engage with our stakeholders on what the brand meant to them and how financial products and services impact on them throughout their life. The design work was completed by individuals with local connections in the Eden Valley who again understood what Penrith Building Society means in the community.

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

This focus on costs has not been at the expense of continued financial support in the wider community. We were again a main sponsor of the Penrith Show in 2013 and participated in both flagship events of the Penrith calendar - the Food and Farming week and the Winter Festival. Each of these gave us an opportunity to engage directly with our customers and to receive feedback on what we are doing and how we could do things better. We continue to sponsor a number of other local organisations and charities and our charity window display always provides a colourful highlight as people pass the Society on their way into town reminding them of the work done in the last year, amongst others, by Eden Carers, Penrith and Patterdale Mountain Rescue teams and Eden Valley Hospice at Home. Our affinity partner, Pride of Penrith Lottery also provided a splash in the window as we moved into the summer months. These relationships are important to us and we will continue to support local and national partners.

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

**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 24 to the accounts.

**DIRECTORS' REPORT continued**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

## Principal Risks and Uncertainties

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

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

### 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 Responsible Lending Policy and existing mortgages are monitored regularly for potential default. With regard to investments 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 has a small tranche of fixed rate products and this risk arises from the exposure to fixed rate investments including Certificates of Deposits, Gilts and Treasury Bills. This risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society at 31st December 2013 is detailed in note 24 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.

### Concentration Risk

This is the risk of loss due to a large individual or connected exposure that could be affected by common factors and the risk to the Society of its geographical concentration in Cumbria. The Board sets maximum limits for exposures to individual borrowers and treasury counterparties. It also monitors lending both within the county and externally and has set targets to increase the national coverage to mitigate the local concentration risk.

### Conduct Risk

This is the risk of the Society not being fair to its customers in all dealings with them. The Board monitors the Society's response to this risk through the Conduct Risk Committee, which considers within its role new product development, the existing product base, customer feedback and complaints and overall trends in customer management information.

### 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, Risk and Compliance Committee.

### Reputational Risk

This is the risk of events arising which damage our reputation or lead to loss of public confidence. The Society has controls in place which are monitored by the Board with an aim to safeguard members funds at all times and periodically reviews risk and contingency funding strategies through disaster recovery tests.

## Staff

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

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

**DIRECTORS' REPORT continued**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**Land and Buildings**

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

**Donations**

During the year charitable donations totalling £7,693 (2012: £7,158) were made. No contributions were made for political purposes.

**Directors**

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

| | |
|---|---|
| **Non-Executive Directors** | |
| J S Hollins-Gibson | Chairman |
| G Silburn | Vice Chairman |
| D Driver | |
| A G Waterfield | Senior Independent Director |
| R J Cairns | (Appointed 1st May 2013) |
| G M Rigg | (Retired 30th September 2013) |
| P O'M Campbell | (Retired 30th April 2013) |
| **Executive Directors** | |
| A S Fazal | Chief Executive (Appointed 1st January 2013) |
| E L James | Finance Director (Appointed 1st January 2013) |

The Directors retiring in accordance with the Rules and offering themselves for re-election are Messrs Hollins-Gibson, Silburn and Driver having served on the Board for over 9 years and Mr Waterfield, having served on the Board for a 3 year period.

Miss James and Mr Cairns, having been appointed to the Board in 2013 are eligible for election in accordance with Rule 25(5).

During the 12 months ended 31st December 2013 Mr Fazal has been a non-executive director to Mutual Vision Technologies Limited, which provides IT services to the Society. There were no other associated bodies in which the Society or its Directors had an interest.

**Post Balance Sheet Events**

There are no post balance sheet events to report.

**Going Concern**

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

**Auditor**

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

**Approved and signed on behalf of the Board**

**A S Fazal (Director & Chief Executive)**
**27 February 2014**

**CORPORATE GOVERNANCE REPORT**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

The Society's Board views good corporate governance as an essential part of the Board's responsibility to the Society's members. The Society has regard to the UK Corporate Governance Code ('the Code') issued by the Financial Reporting Council in developing its policies and procedures, including the revisions effective from 1 October 2012, as set out below:

## Leadership

### 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 for its members. It is responsible for setting 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.

### Board Composition

The Board comprises two Executive Directors (the Chief Executive and Finance Director) and five Non-Executive Directors. The Executive Directors and are responsible for the day to day management of the Society within the 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 senior management, setting objectives, monitoring performance and determining remuneration of the Executive Directors.

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

## Effectiveness

### Board Independence

The Board considers that all of its Non-Executive Directors are independent. All reside in the county of Cumbria and are readily accessible either in person, by email, telephone or written correspondence. Mr Waterfield is Senior Independent Director and is available to members having any concerns which they consider would be inappropriate to discuss with the Executive Directors or senior management.

The Society's rules require all Directors to submit themselves for election by members within sixteen months of their appointment to the Board and for re-election every three years thereafter. The Board has agreed that any Non-Executive Director whose service exceeds nine years will volunteer themselves for re-election on an annual basis.

Three of the Society's Non-Executive Directors, Messrs Hollins-Gibson, Driver and Silburn 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.

### 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 Board Sub-Committee, including the Chairman, will be established to oversee the recruitment of all Directors.

A formal recruitment process will be employed and may include the advertising of the position in appropriate media, canvassing the Society membership or use of an external search agency. The most recent board appointment, Mr Cairns, was as a result of contact within the Building Society Sector during the search process.

The Chairman of the Board, where possible, is appointed from among the existing non-executive directors. Where there is no suitable candidate identified, an external search agency would be used.

The Board has regard to the Walker report on diversity.

It is necessary for Board appointments to be approved by the Society's regulators under the Approved Persons regime and this may include a personal interview with the FCA or PRA.

**CORPORATE GOVERNANCE REPORT continued**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**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 2013 the appraisal of the Chairman was carried out by the Chief Executive and the Senior Independent Director. The appraisal of the Chairman of Audit, Risk 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, Risk 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.

Appraisal of the Chief Executive was carried out by the Chairman and Senior Independent Director and the appraisal of the Finance Director was carried out by the Senior Independent Director and Chief Executive. Both these individuals were appraised on a six monthly basis.

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

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. 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 the Society and the building society sector as a whole.

**Accountability**

The Directors believe that these accounts provide a fair, balanced and understandable assessment of the Society's position at the year end and provide an indication of the future strategy of the Society for members.

The Executive Directors and senior management have created 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 reviews the risk strategy and policies on a continual basis as both internal and external factors impact on the day to day activities of the Society.

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

**Board and Committee meetings**

Main Board Meetings are held monthly. Additional meetings may be called as required.

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 outlined below and a table detailing meeting attendances is provided at the end of the section.

**Audit, Risk and Compliance Committee**

The Audit, Risk and Compliance Committee consists of Messrs Driver, Silburn and Cairns. Mr Driver is Chair of the Committee and is a retired Chartered Accountant. Mr Cairns was appointed to the Committee on 1st May 2013 and Mr Rigg stepped down from the Committee at 30th September 2013. 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 the 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 is also responsible for the review of the effectiveness of the compliance monitoring and internal audit functions, approval of their respective annual review plans and the monitoring of the External Auditors' independence, objectivity and effectiveness.

**CORPORATE GOVERNANCE REPORT continued**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**Board and Committee meetings, continued**

**Conduct Risk Committee**

The Conduct Risk Committee consists of Messrs Silburn, Driver, Fazal and Miss James. Mr Silburn is Chair of the Committee. Four members of the Society's staff also attend the meetings.

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.

**Remuneration Committee**

The Remuneration Committee is comprised of the Society's Non-Executive Directors. During the financial year ended 31st December 2013 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 2013 which were held as part of main Board meetings. All Non-Executive Directors were present at those meetings.

The Directors' Remuneration Report for 2013 is on page 10.

**Nominations Committee**

The Nominations Committee is comprised of the Society's Non-Executive Directors.

The Committee is responsible for making recommendations on appointments to the Board, ensuring that the Board has sufficient directors with appropriate skills sets, who are fit and proper and independent. The Committee has an annual responsibility to review the Society's Succession Plan and to ensure this remains appropriate to the on-going needs of the Society.

The following table details attendance of the Directors at the Board and Committee meetings held during 2013:

| | Board | Conduct Risk | Audit, Risk and Compliance | Remuneration | Nominations |
|---|---|---|---|---|---|
| J S Hollins-Gibson (Chairman) | 12 | - | - | 2 | 2 |
| G Silburn | 12 | 4 | 4 | 2 | 2 |
| D Driver | 11 | 4 | 4 | 2 | - |
| A G Waterfield | 12 | - | - | 2 | - |
| R J Cairns | 7 | - | 2 | 1 | - |
| G M Rigg | 8 | - | 3 | 1 | - |
| P O'M Campbell | 4 | - | - | 1 | - |
| A S Fazal | 12 | 4 | - | 2 | 2 |
| E L James | 12 | 4 | - | 2 | - |

The Society has recently established a separate Assets and Liabilities Committee. This is a management committee chaired by the Chief Executive which reports monthly to the Board. The committee meets monthly to monitor liquidity and treasury risk and to review product development for both savings and mortgages against the market. It reviews forward looking economic data and how the Society's cashflow forecasts and budget projections respond to market conditions.

**Relationship with Members**

The Society's on-going relationship with its members is an area of focus for the Directors. As outlined in the Business Review on pages 3 to 4, there have been a number of opportunities in 2013 to engage directly with members. These will continue into 2014, with the first being the Annual General Meeting of the Society on 30th April 2014.

**Approved and signed on behalf of the Board**

**J S Hollins-Gibson (Chairman)**
**27 February 2014**

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

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

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

**Executive Directors**

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

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

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

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

**Non-Executive Directors**

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

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

Details of Remuneration are set out in note 6 to the accounts.

**Approved and signed on behalf of the Remuneration Committee**

**J S Hollins-Gibson (Chairman)**
**27 February 2014**

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE ANNUAL BUSINESS STATEMENT, THE DIRECTORS' REPORT AND THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2013

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

The Building Societies Act 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 Conduct Authority and Prudential Regulation 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 annual accounts of Penrith Building Society for the year ended 31st December 2013 set out on pages 13 to 25. 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 11 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**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 2013 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
27 February 2014

**INCOME AND EXPENDITURE ACCOUNT**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

| | Notes | 2013 £ | 2012 £ |
|---|---|---|---|
| Interest receivable and similar income | 2 | 2,582,090 | 2,573,615 |
| Interest payable and similar charges | 3 | (1,329,785) | (1,460,351) |
| **Net interest receivable** | | 1,252,305 | 1,113,264 |
| Fees and commissions receivable | | 68,480 | 75,835 |
| Fees and commissions payable | | (50,687) | (51,515) |
| Other operating income | 4 | 9,049 | 9,049 |
| **Total income** | | 1,279,147 | 1,146,633 |
| Administrative expenses | 5 | (1,111,112) | (1,133,716) |
| Depreciation | | (46,822) | (44,237) |
| **Operating profit/(loss) before provisions** | | 121,213 | (31,320) |
| Provisions for bad and doubtful debts | 13 | 1,706 | (180,542) |
| Provisions for FSCS scheme levy | 20 | (55,800) | (54,530) |
| **Profit/ (loss) on ordinary activities before tax** | | 67,119 | (266,392) |
| Tax on profit/(loss) on ordinary activities | 9 | (14,379) | 47,857 |
| **Profit/ (loss) for the financial year** | | 52,740 | (218,535) |

There have been no recognised gains or losses.

The notes on pages 16 to 25 form part of these accounts.

All income and expenditure relates to continuing operations.

**BALANCE SHEET**
**AT 31ST DECEMBER 2013**

| | Notes | 2013 £ | 2012 £ |
|---|---|---|---|
| **Assets** | | | |
| Liquid Assets: | | | |
| Cash in hand | | 18,449 | 55,381 |
| Treasury bills | 11(a) | 4,002,920 | 3,597,416 |
| Loans and advances to credit institutions | 10 | 14,439,912 | 13,059,001 |
| Debt securities | 11(b) | 12,868,710 | 8,269,158 |
| | | 31,329,991 | 24,980,956 |
| **Loans and advances to customers** | | | |
| Loans fully secured on residential property | | 59,964,852 | 60,043,815 |
| Loans fully secured on land | | 1,382,918 | 1,641,158 |
| | 12 | 61,347,770 | 61,684,973 |
| **Investments** | | | |
| Other investments | 14 | 173,015 | 173,015 |
| Tangible fixed assets | 16 | 180,970 | 160,934 |
| Other assets | 14 | 187,897 | 206,054 |
| Prepayments and accrued income | | 161,985 | 142,366 |
| **Total Assets** | | 93,381,628 | 87,348,298 |
| | | | |
| **Liabilities** | | | |
| Shares | 17 | 81,712,790 | 76,069,447 |
| Amounts owed to other customers | 18 | 1,320,779 | 950,467 |
| Other liabilities | 19 | 72,592 | 93,516 |
| Accruals and deferred income | | 20,006 | 28,342 |
| Provisions for liabilities | 20 | 98,465 | 102,270 |
| | | 83,224,632 | 77,244,042 |
| **Reserves** | | | |
| General reserves | 22 | 10,156,996 | 10,104,256 |
| **Total Liabilities** | | 93,381,628 | 87,348,298 |

**Approved by the Board of Directors on 27 February 2014 and signed on its behalf by:**

**J S Hollins-Gibson (Chairman)** **D Driver (Director)** **A S Fazal (Director & Chief Executive)**

The notes on pages 16 to 25 form part of these accounts.

## CASHFLOW STATEMENT
## FOR THE YEAR ENDED 31ST DECEMBER 2013

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| **Net cash inflow/(outflow) from operating activities** | 4,365,334 | (5,577,048) |
| Taxation | - | (3,687) |
| **Capital expenditure and financial investment** | | |
| Purchase of financial fixed assets | (20,288,271) | (20,370,648) |
| Sale and maturity of financial fixed assets | 15,302,242 | 26,754,589 |
| Purchase of tangible fixed assets | (66,858) | (64,701) |
| Purchase of investments | - | (66,494) |
| (Decrease)/ increase in cash | (687,553) | 672,011 |

**Reconciliation of operating profit/(loss) to net cash flow from operating activities**

| | 2013 | 2012 |
|---|---|---|
| Operating profit/(loss) | 67,119 | (266,392) |
| Increase in prepayments and accrued income | (77,098) | (12,528) |
| Decrease in accruals and deferred income | (8,336) | (1,466) |
| Provisions for bad and doubtful debts | (1,706) | 180,542 |
| Depreciation and amortisation | 85,274 | 211,660 |
| (Decrease)/increase in provisions for liabilities | (3,805) | 23,804 |
| Net cash inflow from trading activities | 61,448 | 135,620 |
| | | |
| Loans and advances to customers | 338,909 | (9,870,849) |
| Shares | 5,643,343 | (17,502) |
| Amounts owed to other customers | 370,312 | 158,473 |
| Loans and advances to credit institutions | (2,031,532) | 4,019,128 |
| Other assets | 3,778 | (104) |
| Other liabilities | (20,924) | (1,814) |
| **Net cash inflow/(outflow) from operating activities** | 4,365,334 | (5,577,048) |

**Reconciliation of cash balances**

| | Opening | Net Increase/ (Decrease) | Closing |
|---|---|---|---|
| | £ | £ | £ |
| **Current year end** | | | |
| Cash in hand | 55,381 | (36,932) | 18,449 |
| Loans and advances to credit institutions repayable on demand | 2,990,319 | (650,621) | 2,339,698 |
| | 3,045,700 | (687,553) | 2,358,147 |
| **Prior year end** | | | |
| Cash in hand | 58,885 | (3,504) | 55,381 |
| Loans and advances to credit institutions repayable on demand | 2,314,804 | 675,515 | 2,990,319 |
| | 2,373,689 | 672,011 | 3,045,700 |

The notes on pages 16 to 25 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.

(ii) Basis of Preparation

The accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 ('the accounts regulations'), the Building Societies Act 1986 and applicable UK generally accepted accounting practice.

The Board has reviewed the future financial projections for the Society, with a focus on liquidity, profitability and capital. It is satisfied that the Society has adequate resources to continue to operate for the foreseeable future.

(iii) Interest Receivable and Fees and Commissions

Interest income and fees and commissions 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.

Marketable 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. Other securities are included in the accounts at cost.

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) Leases

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

**NOTES TO THE ACCOUNTS continued**

## 1. PRINCIPAL ACCOUNTING POLICIES, continued

(xi) 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 of the account had it not been subject to forbearance.

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.

## 2 Interest Receivable and Similar Income

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| On loans fully secured on residential property | 2,153,383 | 2,013,385 |
| On other loans | 60,179 | 85,890 |
| On debt securities: interest and other income | 171,209 | 179,223 |
| On other liquid assets: interest and other income | 197,319 | 295,117 |
| | 2,582,090 | 2,573,615 |

Total income from fixed income securities was £171,209 (2012: £179,223). Interest of £2,203 (2012: £2,203) is considered irrecoverable and has been suspended from the appropriate assets in the balance sheet.

## 3 Interest Payable and Similar Charges

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| On shares held by individuals | 1,312,537 | 1,446,482 |
| On other shares | 2,569 | 3,150 |
| On deposits and other borrowing | 14,679 | 10,719 |
| | 1,329,785 | 1,460,351 |

## 4 Other Operating Income

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| Rents received on shared ownership properties | 9,049 | 9,049 |

## 5 Employees

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

| | 2013 | 2012 |
|---|---|---|
| | No | No |
| Full Time | 11 | 12 |
| Part Time | 7 | 7 |
| Total | 18 | 19 |

**NOTES TO THE ACCOUNTS continued**

## 6 Administrative Expenses

| | 2013 | 2012 |
|---|---|---|
| Staff costs (including Executive Directors) | £ | £ |
| Wages and salaries | 453,851 | 435,167 |
| Social security costs | 79,155 | 76,497 |
| Other pension costs | 62,730 | 128,337 |
| | 595,736 | 640,001 |
| Other administrative expenses | 515,376 | 493,715 |
| | 1,111,112 | 1,133,716 |
| Other administrative expenses include: | | |
| Audit of annual accounts (excluding VAT) | 29,000 | 28,000 |

## 7 Directors' Emoluments

| | | 2013 | 2012 |
|---|---|---|---|
| **Fees for services as Non-Executive Directors** | | £ | £ |
| J S Hollins-Gibson | | 15,164 | 14,109 |
| G Silburn | | 11,786 | 10,454 |
| D Driver | | 11,786 | 11,122 |
| A G Waterfield | | 9,798 | 9,653 |
| R J Cairns (Appointed 1st May 2013) | | 6,532 | - |
| P O'M Campbell (Retired 30th April 2013) | | 3,266 | 10,975 |
| G M Rigg (Retired 30th September 2013) | | 7,348 | 9,653 |
| TOTAL FOR NON EXECUTIVE DIRECTORS | | 65,680 | 65,966 |
| | | | |
| **For services as Executive Directors** | | | |
| A S Fazal | Salary | 100,000 | 75,004 |
| | Pension Contributions | 10,000 | 8,000 |
| | | 110,000 | 83,004 |
| E L James | Salary | 70,000 | - |
| (Appointed 1st January 2013) | Pension Contributions | 7,000 | - |
| | | 77,000 | - |
| C Hayward | Salary | - | 76,167 |
| (Retired 31st December 2012) | Pension Contributions | - | 34,000 |
| | | - | 110,167 |
| TOTAL FOR EXECUTIVE DIRECTORS | | 187,000 | 193,171 |
| **GRAND TOTAL** | | **252,680** | **259,137** |

## 8 Directors' Loans and Related Party Transactions

The aggregate amount of loans outstanding at 31st December 2013 to three (2012: four) directors and connected persons was £823,507 (2012: £660,821). 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 transactions which require disclosure under FRS 8 (Related Party Disclosures).

**NOTES TO THE ACCOUNTS continued**

## 9 Taxation

| | 2013 | 2012 |
|---|---|---|
| **a) Analysis of (credit)/charge in year:** | **£** | **£** |
| Corporation Tax | | |
| Current tax on income for the year | - | (3,687) |
| | - | (3,687) |
| Deferred Tax (see note 22) | | |
| Origination/reversal of timing differences | (14,379) | (39,226) |
| Adjustment in respect of previous years | - | (4,944) |
| | (14,379) | (44,170) |
| Tax on ordinary activities | (14,379) | (47,857) |

| | 2013 | 2012 |
|---|---|---|
| **b) Factors affecting the tax charge for the year:** | | |
| Profit on ordinary activities before tax | 67,119 | (266,392) |
| Tax at 20% (2012: 20%) | 13,424 | (53,278) |
| Effects of: | | |
| Capital allowance in excess of depreciation | (5,932) | (3,528) |
| Expenses not deductible for tax purposes | 875 | 398 |
| Disallowed general provision for bad and doubtful debts | - | (3,837) |
| Unutilised losses carried forward | (8,367) | 56,558 |
| Current tax charge for year | - | (3,687) |

## 10 Loans and Advances to Credit Institutions

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

| | 2013 | 2012 |
|---|---|---|
| | **£** | **£** |
| Accrued interest | 67,998 | 67,276 |
| Repayable on demand | 2,339,698 | 2,990,319 |
| Other loans and advances by residual maturity payable: | | |
| in not more than 3 months | 6,500,000 | 2,000,000 |
| in more than 3 months, but not more than 1 year | 5,532,216 | 8,001,406 |
| | 14,439,912 | 13,059,001 |

## 11 Debt Securities and Treasury Bills

The Directors of the Society consider that the primary purpose of holding securities is prudential. In accordance with the PRA requirements the Society has invested a proportion of its liquid assets in UK Government issued Gilts (shown as issued by public bodies overleaf) and Treasury Bills.

Debt securities and Treasury Bills 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.

**(a) Treasury Bills**

| | 2013 | 2012 |
|---|---|---|
| Treasury Bills have remaining maturities as follows: | **£** | **£** |
| Accrued Interest | 1,881 | 1,968 |
| In not more than 1 year | 4,001,039 | 3,595,448 |
| | 4,002,920 | 3,597,416 |

Movements during the year of Treasury Bills held as financial fixed assets are analysed as follows:

| | | |
|---|---|---|
| Adjusted cost and net book value (excluding accrued interest): | | |
| At 1st January | 3,595,448 | - |
| Disposals and maturities | (10,686,348) | (4,094,999) |
| Acquisitions | 11,091,939 | 7,690,447 |
| At 31st December | 4,001,039 | 3,595,448 |

**NOTES TO THE ACCOUNTS continued**

## 11 Debt Securities and Treasury Bills, continued

| (b) Debt Securities | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| Issued by public bodies | 3,205,989 | 2,546,605 |
| Issued by other borrowers | 9,662,721 | 5,722,553 |
| | 12,868,710 | 8,269,158 |
| Debt securities have remaining maturities as follows: | | |
| Accrued Interest | 189,049 | 131,482 |
| In not more than 1 year | 9,506,905 | 4,623,211 |
| In more than 1 year | 3,172,756 | 3,514,465 |
| | 12,868,710 | 8,269,158 |
| Transferable debt securities comprise: | | |
| Listed on a recognised investment exchange | 3,173,414 | 2,518,003 |
| Unlisted | 9,506,247 | 5,619,673 |
| | 12,679,661 | 8,137,676 |
| Market value of listed transferable debts | 3,198,675 | 2,561,403 |
| Included in debt securities are: | | |
| Unamortised premiums | 173,414 | 18,003 |
| Unamortised discounts | - | 4,552 |

Movements during the year of Debt Securities held as financial fixed assets are analysed as follows:

| Adjusted cost and net book value (excluding accrued interest): | | |
|---|---|---|
| At 1st January | 8,137,676 | 18,284,488 |
| Premium amortisation during the year | (38,453) | (167,423) |
| Disposals and maturities | (4,615,894) | (22,659,591) |
| Acquisitions | 9,196,332 | 12,680,202 |
| At 31st December | 12,679,661 | 8,137,676 |

## 12 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:

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| On call and at short notice | - | - |
| In not more than three months | 833,903 | 813,617 |
| In more than three months but not more than one year | 1,925,673 | 1,860,527 |
| In more than one year but not more than five years | 13,095,252 | 13,131,741 |
| In more than five years | 45,713,217 | 46,169,088 |
| | 61,568,045 | 61,974,973 |
| Provisions (see note 13) | (220,275) | (290,000) |
| | 61,347,770 | 61,684,973 |

**NOTES TO THE ACCOUNTS continued**

## 13 Provisions for Bad and Doubtful Debts

| | Loans fully secured on land | Loans fully secured on residential property | Total |
|---|---|---|---|
| At 1st January | £ | £ | £ |
| General Provision | 13,382 | 76,893 | 90,275 |
| Specific Provision | 20,536 | 179,189 | 199,725 |
| | 33,918 | 256,082 | 290,000 |
| Amounts utilised during year | | | |
| General Provision | - | - | - |
| Specific Provision | (20,853) | (47,166) | (68,019) |
| | (20,853) | (47,166) | (68,019) |
| (Credit)/Charge for the year | | | |
| General Provision | - | - | - |
| Specific Provision | 85,376 | (87,082) | (1,706) |
| | 85,376 | (87,082) | (1,706) |
| At 31st December | | | |
| General Provision | 13,382 | 76,893 | 90,275 |
| Specific Provision | 85,059 | 44,941 | 130,000 |
| | 98,441 | 121,834 | 220,275 |

The Society has one mortgage case where forbearance has been exercised (2012: one). This has not been specifically provided for at the year end.

## 14 Other Investments

| Unlisted investments | Shares | Loans | Total |
|---|---|---|---|
| Cost | £ | £ | £ |
| At beginning and end of year | 6,914 | 166,101 | 173,015 |

The Society holds unlisted shares and an interest bearing loan in Mutual Vision Technologies Limited (MVT) which provides IT services to the Society.

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.

## 15 Other Assets

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| 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 | 144,875 |
| Other assets | 274 | 365 |
| Corporation tax debtor (see note 9) | - | 3,687 |
| Deferred tax (see note 21) | 42,748 | 57,127 |
| | 187,897 | 206,054 |

**NOTES TO THE ACCOUNTS continued**

**16 Tangible Fixed Assets**

| | Freehold land and buildings | Office and IT equipment fixtures and fittings | Total |
|---|---|---|---|
| **Cost** | **£** | **£** | **£** |
| At beginning of year | 40,000 | 580,309 | 620,309 |
| Additions | - | 66,858 | 66,858 |
| At end of year | 40,000 | 647,167 | 687,167 |
| | | | |
| Depreciation | | | |
| At beginning of year | 14,000 | 445,375 | 459,375 |
| Charge for the year | 400 | 46,422 | 46,822 |
| At end of year | 14,400 | 491,797 | 506,197 |
| | | | |
| Net book value | | | |
| At 31st December 2012 | 26,000 | 134,934 | 160,934 |
| At 31st December 2013 | 25,600 | 155,370 | 180,970 |

The net book value of the freehold premises occupied by the Society for its own activities is £25,600 (2012: £26,000).

**17 Shares**

| | 2013 | 2012 |
|---|---|---|
| | **£** | **£** |
| Held by individuals | 81,484,775 | 75,843,818 |
| Other shares | 228,015 | 225,629 |
| | 81,712,790 | 76,069,447 |

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

| | 2013 | 2012 |
|---|---|---|
| | **£** | **£** |
| Accrued interest | 380,602 | 420,351 |
| Repayable on demand | 79,572,001 | 73,950,182 |
| Other shares by residual maturity repayable: | | |
| In not more than three months | 1,760,187 | 1,698,914 |
| | 81,712,790 | 76,069,447 |

**18 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:

| | 2013 | 2012 |
|---|---|---|
| | **£** | **£** |
| Repayable on demand | 1,320,779 | 950,467 |

**19 Other Liabilities**

| | 2013 | 2012 |
|---|---|---|
| Other liabilities due within one year comprise: | **£** | **£** |
| Corporation tax | 69 | - |
| Income tax | 70,060 | 84,137 |
| Other creditors | 2,463 | 9,379 |
| | 72,592 | 93,516 |

**NOTES TO THE ACCOUNTS continued**

## 20 Provisions for Liabilities

| **FSCS Levy** | **2013** | **2012** |
|---|---|---|
| | **£** | **£** |
| At beginning of year | 102,270 | 78,466 |
| Levy paid in year | (59,605) | (30,726) |
| Charge for the year | 55,800 | 54,530 |
| At end of year | 98,465 | 102,270 |

In common with all regulated UK deposit takers, the Society pays levies to the 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. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members over this period.

The Society FSCS provision reflects market participation up to the reporting date. £66,545 of the provision relates to the estimated management expense levy for the scheme years 2013/14 and 2014/15. This amount was calculated on the basis of the Society's current share of protected deposits taking into account the FSCS's estimate of total management expense levies for each scheme year. The management expenses levy for scheme year 2013/14, which formed part of the provision at 31st December 2013, was calculated using the agreed funding rate being the higher of the relevant gilt rates and 12 month LIBOR + 100bp.

In addition to the management levies, from scheme year 2014/15, triggered by participation in the market at 31st December 2013, the FSCS is to levy over three years the current estimated shortfall on capital loans outstanding of £802m. In common with the management expenses levy, the capital loan repayment was calculated on the basis of the Society's current share of UK protected deposits. The Society has therefore recognised a provision of £31,920 related to the compensation levy.

## 21 Deferred Taxation

| | **2013** | **2012** |
|---|---|---|
| | **£** | **£** |
| At beginning of year | 57,127 | 12,957 |
| Charge to Income and Expenditure Account for year | (14,379) | 39,226 |
| Difference in respect of prior year | 69 | 4,944 |
| At end of year | 42,748 | 57,127 |
| The elements of deferred taxation are as follows: | | |
| Differences between accumulated depreciation and amortisation and capital allowances | (22,305) | (17,486) |
| Other timing differences | 18,055 | 18,055 |
| Tax losses | 46,998 | 56,558 |
| | 42,748 | 57,127 |

Deferred tax assets are recognised for tax losses only to the extent that the realisation of the related tax benefit in future years is probable.

**NOTES TO THE ACCOUNTS continued**

## 22 Reserves

| | 2013 |
|---|---|
| General reserves | £ |
| At beginning of year | 10,104,256 |
| Profit for financial year | 54,474 |
| At end of year | 10.158,730 |

## 23 Contingent Liabilities and Commitments

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

At 31st December 2013 the Society has annual commitments under non-cancellable operating leases as follows:

| | 2013 | 2012 |
|---|---|---|
| Office equipment leases which expire: | £ | £ |
| less than 2 years | - | - |
| within 2 – 5 years inclusive | 5,954 | 8,776 |
| over 5 years | - | - |

## 24 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, 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 rate mortgage or savings products that would give rise to a balance sheet exposure. The fixed rate mortgage products are internally matched by a fixed rate bond product. The Society does not enter into any financial instruments for trading or speculative purposes.

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 overleaf summarises these re-pricing mismatches at 31st December 2013. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing date and the maturity date.

**NOTES TO THE ACCOUNTS continued**

**24 Financial Instruments, continued**

| 31st December 2013 | 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 | 15,852,061 | 5,686,346 | 6,001,751 | 3,172,776 | 617,057 | 31,329,991 |
| Loans and advances to customers | 61,347,770 | - | - | - | - | 61,347,770 |
| Investments | - | - | - | - | 173,015 | 173,015 |
| Tangible fixed assets | - | - | - | - | 180,970 | 180,970 |
| Other assets | - | - | - | - | 187,897 | 187,897 |
| Prepayments and accrued interest | - | - | - | - | 161,985 | 161,985 |
| **TOTAL ASSETS** | 77,199,831 | 5,686,346 | 6,001,751 | 3,172,776 | 1,320,924 | 93,381,628 |
| | | | | | | |
| **LIABILITIES** | | | | | | |
| Shares | 81,332,188 | - | - | - | 380,602 | 81,712,790 |
| Amounts owed to other customers | 1,320,779 | - | - | - | - | 1,320,779 |
| Other liabilities | - | - | - | - | 72,592 | 72,592 |
| Accruals and deferred income | - | - | - | - | 20,006 | 20,006 |
| Provision for liabilities | - | - | - | - | 98,465 | 98,465 |
| Reserves | - | - | - | - | 10,156,996 | 10,156,996 |
| **TOTAL LIABILITIES** | 82,652,967 | - | - | - | 10,728,661 | 93,381,628 |
| | | | | | | |
| Interest rate sensitivity gap | (5,453,136) | 5,686,346 | 6,001,751 | 3,172,776 | (9,407,737) | - |
| Cumulative sensitivity gap | (5,453,136) | 233,210 | 6,234,961 | 9,407,737 | - | - |
| | | | | | | |
| **31st December 2012** | | | | | | |
| **ASSETS** | £ | £ | £ | £ | £ | £ |
| Liquid Assets | 7,870,482 | 6,960,588 | 5,533,226 | 3,572,032 | 1,044,628 | 24,980,956 |
| Loans and advances to customers | 61,684,973 | - | - | - | - | 61,684,973 |
| Investments | - | - | - | - | 173,015 | 173,015 |
| Tangible fixed assets | - | - | - | - | 160,934 | 160,934 |
| Other assets | - | - | - | - | 206,054 | 206,054 |
| Prepayments and accrued interest | - | - | - | - | 142,366 | 142,366 |
| **TOTAL ASSETS** | 69,555,455 | 6,960,588 | 5,533,226 | 3,572,032 | 1,726,997 | 87,348,298 |
| | | | | | | |
| **LIABILITIES** | | | | | | |
| Shares | 75,649,096 | - | - | - | 420,351 | 76,069,447 |
| Amounts owed to other customers | 950,467 | - | - | - | - | 950,467 |
| Other liabilities | - | - | - | - | 93,516 | 93,516 |
| Accruals and deferred income | - | - | - | - | 28,342 | 28,342 |
| Provision for liabilities | - | - | - | - | 102,270 | 102,270 |
| Reserves | - | - | - | - | 10,104,256 | 10,104,256 |
| **TOTAL LIABILITIES** | 76,599,563 | - | - | - | 10,748,735 | 87,348,298 |
| | | | | | | |
| Interest rate sensitivity gap | (7,044,108) | 6,960,588 | 5,533,226 | 3,572,032 | (9,021,738) | - |
| Cumulative sensitivity gap | (7,044,108) | (83,520) | 5,449,706 | 9,141,120 | - | - |

**ANNUAL BUSINESS STATEMENT**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

## 1. Statutory Percentages

| | 2013 | Statutory Limit |
|---|---|---|
| Lending Limit | 3.34% | 25.00% |
| Funding Limit | 1.87% | 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

| | 2013 % | 2012 % |
|---|---|---|
| As percentage of shares and borrowings: | | |
| Gross capital | 12.23 | 13.12 |
| Free capital | 12.12 | 13.03 |
| Liquid assets | 37.73 | 32.43 |
| Profit for the financial year after taxation as a percentage of mean total assets | 0.06 | (0.25) |
| Management expenses as a percentage of mean total assets | 1.28 | 1.35 |

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 2012 and 31st December 2013.

**ANNUAL BUSINESS STATEMENT, continued**
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**3 Information Relating to the Directors at 31st December 2013**

| **Name (Date of Birth)** | **Date of Appointment** | **Business Occupation** | **Other Directorships** |
|---|---|---|---|
| J S Hollins-Gibson<br>Chairman<br>(14/10/1946) | 10/09/1986 | Retired Chartered Accountant | Grasmere Sports Committee Limited |
| G Silburn<br>Vice Chairman<br>(20/11/1954) | 30/03/1988 | Managing Director, Pharmacy | Joseph Cowper Limited<br>Penrith Health Centre (PD) Consortium Limited |
| D Driver<br>(12/12/1945) | 01/03/2003 | Retired Chartered Accountant | Keld Energy Limited |
| A G Waterfield<br>(29/12/1970) | 01/07/2010 | Director | Alan Waterfield Consulting Limited |
| R J Cairns<br>(01/06/1951) | 01/05/2013 | Retired Chief Executive | Turnstone Consultancy Limited<br>Cumbria Special Events Company Limited<br>More Music In Morecambe Limited |
| A S Fazal<br>Chief Executive<br>(17/03/1958) | 01/01/2013 | Chief Executive | Mutual Vision Technologies Limited |
| E L James<br>Finance Director<br>(06/05/1974) | 01/01/2013 | Finance Director | |

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 Finance Director have contracts which can be terminated by either party giving not less than 12 and 6 months prior written notice respectively. These contracts were entered into on 1st March 2011 and 1st September 2012 respectively.