PENRITH BUILDING SOCIETY

Annual Report and Accounts

31st December 2014

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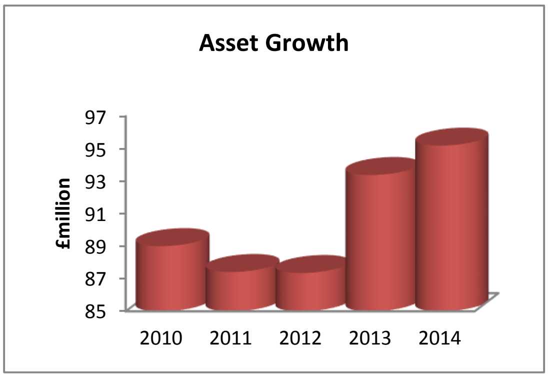
SOCIETY PERFORMANCE OVER THE PAST 5 YEARS
FOR THE YEAR ENDED 31ST DECEMBER 2014

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.

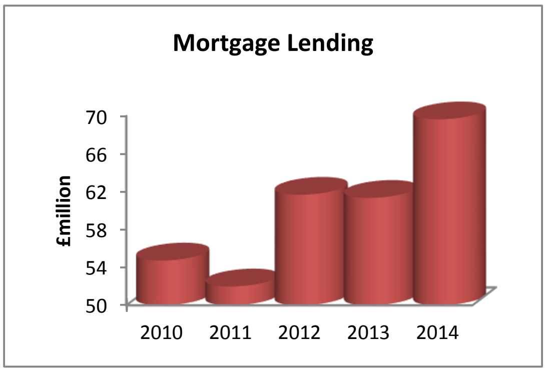
Total Assets

The Society has seen a continuing growth in its total assets in 2014 to a level of £95.19 million (2013: £93.38 million), building a strong balance sheet platform for the Society to operate on.

The focus in 2014 has been on reducing the liquid assets (being cash and treasury investments) which have been yielding decreasing returns and replacing these with good quality residential mortgages, to improve the margin. As a result, liquid assets have reduced to £24.83 million in 2014 (2013: £31.33 million) representing 26.09% of total assets (2013: 33.55%) and 29.30% of total shares and amounts owed to other customers (2013: 37.73%).



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 2014 totalled £23.13 million (2013: £9.19 million). There were 184 advances, including 19 further advances. As noted above this has been a strategic decision to improve the net interest income and has allowed net growth on the mortgage book since 2010 to exceed 20%. This has led to a significant increase in mortgage assets, now at £69.64 million (2013: £61.35 million). This has been achieved on the back of changes implemented from April 2014 in the way regulated mortgages are sold across the financial services industry.

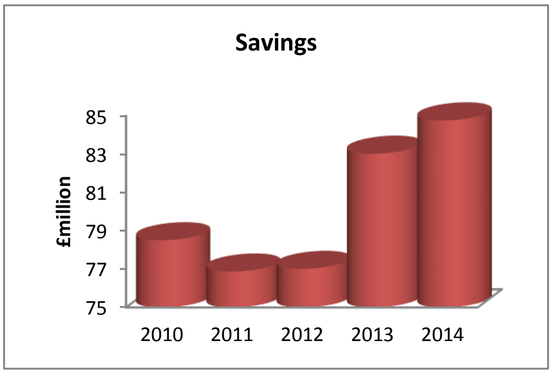
At 31st December 2014 there were three mortgages (2013: three) where the repayment of principal and interest was twelve or more months in arrears. The total amount of arrears on these cases was £20,332 (2013: £16,088) on balances totalling £231,512 (2013: £191,231). All cases have a low loan to value ratio, hence none are specifically provided against. This has confirmed a continuing trend of declining arrears cases over the last five years in the current low interest rate environment. The Society had four properties in possession (2013: four) at the end of 2014.

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

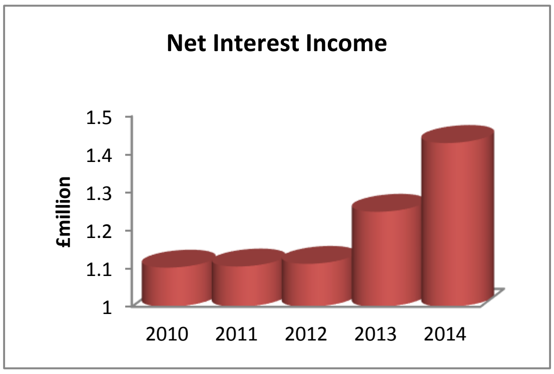
Shares and amounts owed to other customers have grown by 2.08% to a total of £84.76 million at the year end (2013: £83.03 million). As with mortgages, this has been a strategic decision to grow in the core areas of the business over recent years and since 2010, this growth has been 8%.

The Society closed a small number of savings products to new customers during the year to manage inflows. Rate changes were also made to some accounts in accordance with business requirements. The launching of ISA, regular saver and bond products brought in new monies and customers to the Society and further new product launches to refresh the range are planned for 2015 for the benefit of both existing and potential new customers.



SOCIETY PERFORMANCE OVER THE PAST 5 YEARS continued
FOR THE YEAR ENDED 31ST DECEMBER 2014

Results for the year



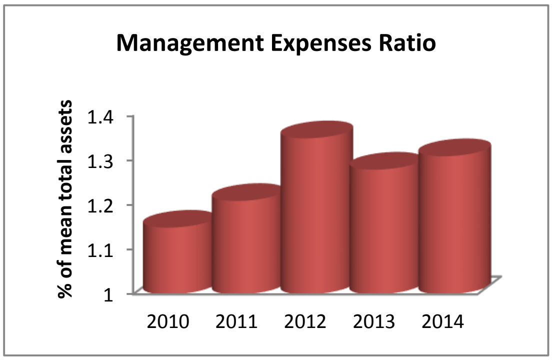
The Society made a profit for the year of £0.07 million (2013 £0.05 million) and continues to strengthen its financial position.

The increase in mortgage activity has contributed to the improvement in net interest income to £1.43 million (2013: £1.25 million). A number of the mortgage products were offered to borrowers with legal and valuation fees paid for by the Society, which has given rise to a small, but planned loss in other income for the year. However, the operating profit before provisions has still grown to £0.19 million (2013: £0.12 million).

As in 2013 there has not been a requirement for an additional general mortgage provision and the overall level of this provision has been reduced. An increased balance has been recognised in the specific provision to reflect the current market conditions on a small number of mortgages with the Society. We continue to provide for the charge on all deposit taking firms imposed by the Financial Services Compensation Scheme levy, as a result of the failure of other financial services institutions in recent years. We have set aside £94,983 to cover our share this year (2013: £98,465).

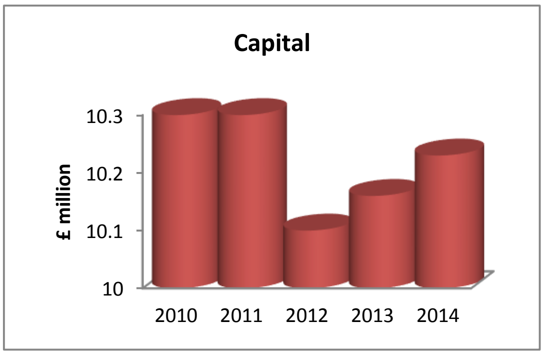
Management Expenses

Management expenses including depreciation were £1.23 million (2013: £1.16 million) an increase of 6.03%. As income has improved, the cost income ratio has fallen to 86.59% (2013: 90.52%).



Management expenses expressed as a ratio of mean total assets is 1.31% (2013: 1.28%). The rise in costs has been attributed to the investment required following the introduction of the Mortgage Market Review requirements. The Society has made significant changes to its mortgage department which now has three qualified mortgage advisers, compared to a single adviser at the start of the year, refreshed interview areas for customers and a dedicated area within the Society's King Street premises where the team are based.

Capital



At 31st December 2014, the Society's capital has increased to £10.23 million (2013: £10.16 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 11.92% (2013: 12.12%) of total shares and amounts owed to other customers.

Gross capital amounted to 12.07% (2013: 12.23%) of total shares and amounts owed to other customers. 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, together with the country by country disclosures required by the Capital Requirements Directive IV.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2014

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31st December 2014.

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 continues to make significant strides forward for savers and borrowers and the desire to balance the needs of both these sets of stakeholders has been at the forefront of our minds in 2014. As always, we also need to create sufficient value in order to invest in our business, our people and our technology and also to ensure that we set aside sufficient annual profits to build a healthy capital base for the future.

We are pleased to report another year of progress for the Society as it consolidates its position as the UK's best local Building Society as judged by *What Mortgage Magazine* in 2014. Our assets have grown by 1.94% to £95.19 million and our membership base is at the highest level in living memory having grown by the highest number in any single year. Our profits have increased by 43.79% which gives us the ability to increase our capital and reserves and allows us to build on the comfort this provides to help with any unwelcome surprises and future uncertainty in our markets which remain extremely challenging. Against a backdrop of far-reaching regulatory change in the mortgage market, our mortgage team coped remarkably well to deliver fine results and helped many people realise their home ownership dreams.

The UK economy has been recovering at a relatively strong rate compared to other G7 economies and we actually began to see some positive signs as early as 2013. Whilst there has been a slight slowdown in growth since the summer of 2014, we feel that a recovery is taking hold but potential problems in the Eurozone and global geopolitical risks could still affect us: no institution can be immune to these global movements. The obvious impact could be on interest rates and the Bank of England base rate has remained at historically low rates for over five years whilst talk of an interest rate rise has surfaced and receded with regularity over the year. An interest rate rise would clearly provide a helpful respite to savers but will affect affordability for some borrowers and may deter some from entering the market. The interest rate outlook at present looks uncertain although it would be prudent for households to prepare for an upward trend at least in the medium term.

Savers

We are delighted to report that the Society grew its membership base again in 2014 to record levels. There was considerable new account activity and the year saw us launching another fixed rate Capital Bond. We reissued our extremely popular Christmas Saver account and launched a Regular Savers account. We also entered into a partnership with the Shepherds Friendly Society and we are able to offer a product that allows savers to save in a tax efficient way for their children and their university education. The year saw us recording the highest number of new accounts since our electronic records began. This is tangible proof of our strength and of our relevance to the local economy. The whole team is constantly heartened by the very many compliments and letters of appreciation we get from our customers.

Mortgages

The year saw a major change in the way that mortgages are regulated and therefore sold in the UK. Whereas previously we only offered mortgages on a non-advised basis, since 26th April 2014, all customers applying for a mortgage on a property for their own residential use, or for that of a dependent have received advice and a recommendation for a mortgage product from the Society. The change meant that our mortgage team had to increase in size to cope with the additional time that would be taken to process each case. It also meant that individuals in the team had to acquire a professional qualification in order to give competent advice and recommendations to potential borrowers.

The way that all our teams, not just in the mortgage department, coped with this major change is a testament to the attitude, professionalism and dedication of our staff. In effect this was the equivalent of changing the engines while the plane continued flying. The mortgage team continued to process mortgage applications efficiently and at the same time worked through some demanding study documents to pass their exams and become fully qualified. In this task they were assisted by their colleagues from other parts of the business.

Despite this regulatory upheaval, our gross mortgage lending was the highest in any one year growing by 34.01% from the previous record and our net lending went up by 13.51% over the previous year.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2014

Business Review, continued

Our people

The Society's most valuable asset is its staff and in 2014 while we said goodbye to a couple of members of our established team, we added four new people to ensure that we continue to provide the levels of service that we are rightly renowned for. In a world where goods and services are becoming more homogenised, the fact that when you visit the office, call or write, you will encounter real people gives confidence to our customers. But we do recognise that we need to be available and accessible to our customers in whichever way that they would like to interact and our teams have readily grasped the new processes and technologies that we have introduced in the year.

Our community

The Society makes its contribution to the community in a variety of ways. First and foremost, as a flagship Penrith brand, we contribute to the local economy by being a thriving local business and our aim is to be nationally recognised for our values.

Second, our staff are involved in various ways by providing their expertise as charity trustees, school governors and as office holders in the local business community such as for the Chamber of Trade & Commerce, Eden Carers and Eden Arts.

Third, we have sponsored annual events such as the Penrith Agricultural Show and are contributors to a number of charities, sports clubs and educational bodies amongst others.

Looking Forward

The Society is one of the region's established businesses providing a home for savings and a way for people to borrow money to buy their homes. Our customers value openness, honesty and dealing with real people who care passionately about giving excellent service. It's values like these that have earned us press comment and awards. The future for us is about strengthening that business and making an even greater contribution to the local economy both through employment opportunities and the use of local services and businesses wherever possible. Our business cannot stand still and in 2015 and beyond we intend to invest further in technology and in the fabric of the building so that we truly stand out as one of the town's flagship businesses.

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 detailed below:

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 mortgage and savings products and this risk arises from the exposure to fixed rate investments including Certificates of Deposit, 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 2014 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.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2014

Principal Risks and Uncertainties, continued

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 review risks and contingency funding strategies through disaster recovery tests.

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.

Country by country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the Capital Reporting Directive IV (CRD IV). The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements as at 31 December 2014 will be published on the Society's website in due course at www.penrithbuildingsociety.co.uk.

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 £6,832 (2013: £7,693) were made. No contributions were made for political purposes.

Post Balance Sheet Events

There are no post balance sheet events to report.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2014

Directors

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

Non-Executive Directors	
R J Cairns	Chairman (with effect from 1st October 2014)
G Silburn	Vice Chairman
A G Waterfield	Senior Independent Director
D Driver	
J Lincoln	(Appointed 1st October 2014)
J S Hollins-Gibson	(Retired 30th September 2014)
Executive Directors	
A S Fazal	Chief Executive
E L James	Finance Director

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

Mrs Lincoln, having been appointed to the Board in 2014, is eligible for election in accordance with Rule 25(5) and offers herself for election.

During the 12 months ended 31st December 2014 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.

Staff

The Directors are pleased to record their appreciation to management and staff for their hard work and 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, qualifications and relevant skills to provide the standard of service required. Wherever appropriate, staff and management are sent on training courses and seminars.

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.

Approved and signed on behalf of the Board

A S Fazal (Director & Chief Executive)
26th February 2015

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2014

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 2014, as set out below:

Leadership

The Board

The Board of Directors provide 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 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. The majority reside in Cumbria and all 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.

Two of the Society's Non-Executive Directors, Messrs 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 skills which continue to serve the Society well. The Board considers that these Directors make valuable knowledge 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, Mrs Lincoln, 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 or both.

CORPORATE GOVERNANCE REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2014

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 2014 the appraisal of the Chairman was carried out by the Chief Executive and the Senior Independent Director. The other Non-Executive Directors' appraisals were carried out by the Chief Executive and Chairman. 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 are appraised on an annual 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 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 and provides 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 generally 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 (ARCC) consists of Messrs Driver, Silburn and Mrs Lincoln, the latter being appointed to the Committee on 1st October 2014. Mr Driver is Chair of the Committee and is a retired Chartered Accountant. Mr Cairns stepped down from the Committee at 30th September 2014. 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 Auditor's independence, objectivity and effectiveness.

CORPORATE GOVERNANCE REPORT continued
FOR THE YEAR ENDED 31ST DECEMBER 2014

Board and Committee Meetings, continued

Conduct Risk Committee

The Conduct Risk Committee (CRC) 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.

The Committee has oversight of the Society's policies and procedures in all areas having an 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 2014 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 and Non-Executive Directors Fees. The Committee also sets all other benefits and matters relevant to Executive Directors including contracts of employment with the Society.

The Directors' Remuneration Report for 2014 is on page 10.

Nominations Committee

The Nominations Committee is comprised of Messrs Cairns, Waterfield and Fazal. Mr Waterfield is Chair of the Committee. 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 2014:

	Board	CRC	ARCC	Remuneration	Nominations
Number of meetings in 2014	**11**	**4**	**4**	**2**	**5**
R J Cairns (Chairman)	11(11)	-	3(3)	2(2)	5(5)
G Silburn	10(11)	4(4)	3(4)	2(2)	-
D Driver	11(11)	4(4)	4(4)	2(2)	-
A G Waterfield	11(11)	-	-	2(2)	5(5)
J Lincoln	3(3)	-	-	1(1)	-
J S Hollins-Gibson (Chairman)	8(8)	-	-	1(1)	-
A S Fazal	11(11)	4(4)	-	2(2)	5(5)
E L James	11(11)	4(4)	-	2(2)	-

(Brackets denote the number of meetings an individual was eligible to attend)

Assets and Liabilities Committee

The Society has a separate Assets and Liabilities Committee (ALCO). 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 and adapt to market conditions.

Relationship with Members

The Society's on-going relationship with its members is an area of focus for the Directors. There have been a number of opportunities in 2014 to engage directly with members, including Super Saturday events in-branch and the Penrith Show. These will continue in 2015, with the first being the Annual General Meeting of the Society on 29th April 2015.

Approved and signed on behalf of the Board

R J Cairns (Chairman)
26th February 2015

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2014

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 7 to the accounts.

Approved and signed on behalf of the Remuneration Committee

R J Cairns (Chairman)
26th February 2015

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 2014

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 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 2014 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 2014 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 LLP, Statutory Auditor

Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
26th February 2015

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2014

	Notes	2014 £	2013 £
Interest receivable and similar income	2	2,608,017	2,582,090
Interest payable and similar charges	3	(1,175,156)	(1,329,785)
Net interest receivable		1,432,861	1,252,305
Fees and commissions receivable		134,683	68,480
Fees and commissions payable		(153,211)	(50,687)
Other operating income	4	9,049	9,049
Total income		1,423,382	1,279,147
Administrative expenses	5	(1,182,841)	(1,111,112)
Depreciation		(49,707)	(46,822)
Operating profit before provisions		190,834	121,213
Provisions for bad and doubtful debts	13	(36,676)	1,706
Provisions for FSCS scheme levy	20	(60,500)	(55,800)
Profit on ordinary activities before tax		93,658	67,119
Tax on profit on ordinary activities	9	(19,640)	(14,379)
Profit for the financial year		74,018	52,740

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 2014

	Notes	2014 £	2013 £
Assets			
Liquid Assets:			
Cash in hand		39,914	18,449
Treasury bills	11(a)	6,494,686	4,002,920
Loans and advances to credit institutions	10	9,103,672	14,439,912
Debt securities	11(b)	9,196,635	12,868,710
		24,834,907	31,329,991
Loans and advances to customers			
Loans fully secured on residential property		68,338,717	59,964,852
Loans fully secured on land		1,299,802	1,382,918
	12	69,638,519	61,347,770
Investments			
Other investments	14	173,015	173,015
Tangible fixed assets	16	197,436	180,970
Other assets	15	168,611	187,897
Prepayments and accrued income		173,100	161,985
Total Assets		95,185,588	93,381,628
Liabilities			
Shares	17	83,216,313	81,712,790
Amounts owed to other customers	18	1,539,655	1,320,779
Other liabilities	19	66,647	72,592
Accruals and deferred income		36,976	20,006
Provisions for liabilities	20	94,983	98,465
		84,954,574	83,224,632
Reserves			
General reserves	22	10,231,014	10,156,996
Total Liabilities		95,185,588	93,381,628

Approved by the Board of Directors on 26th February 2015 and signed on its behalf by:

R J Cairns (Chairman) **D Driver (Director)** **A S Fazal (Director & Chief Executive)**

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

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2014

	2014	2013
	£	£
Net cash inflow from operating activities	815,327	4,365,334
Taxation	-	-
Capital expenditure and financial investment		
Purchase of financial fixed assets	(18,424,096)	(20,288,271)
Sale and maturity of financial fixed assets	19,444,658	15,302,242
Purchase of tangible fixed assets	(66,173)	(66,858)
Purchase of investments	-	-
Increase/(decrease) in cash	1,769,716	(687,553)

Reconciliation of operating profit to net cash flow from operating activities

	2014	2013
Operating profit	93,658	67,119
Decrease/(increase) in prepayments and accrued income	83,017	(77,098)
Increase/(decrease) in accruals and deferred income	16,970	(8,336)
Provisions for bad and doubtful debts	39,676	(1,706)
Depreciation and amortisation	115,322	85,274
Decrease in provisions for liabilities	(3,482)	(3,805)
Net cash inflow from trading activities	345,161	61,448
(Increase)/ decrease in loans and advances to customers	(8,330,425)	338,909
Shares	1,503,523	5,643,343
Amounts owed to other customers	218,876	370,312
Increase/ (decrease) in loans and advances to credit institutions	7,084,491	(2,031,532)
(Decrease)/ increase in other assets	(354)	3,778
Increase in other liabilities	(5,945)	(20,924)
Net cash inflow from operating activities	815,327	4,365,334

Reconciliation of cash balances

	Opening	Net Increase/ (Decrease)	Closing
	£	£	£
Current year end			
Cash in hand	18,449	21,465	39,914
Loans and advances to credit institutions repayable on demand	2,339,698	1,748,251	4,087,949
	2,358,147	1,769,716	4,127,863
Prior 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

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.

(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

	2014	2013
	£	£
On loans fully secured on residential property	2,326,546	2,153,383
On other loans	55,412	60,179
On debt securities: interest and other income	138,975	171,209
On other liquid assets: interest and other income	87,084	197,319
	2,608,017	2,582,090

Total income from fixed income securities was £138,975 (2013: £171,209). Interest of £2,203 (2013: £2,203) is considered irrecoverable and has been suspended from the appropriate assets in the balance sheet.

3 Interest Payable and Similar Charges

	2014	2013
	£	£
On shares held by individuals	1,156,690	1,312,537
On other shares	2,073	2,569
On deposits and other borrowing	16,393	14,679
	1,175,156	1,329,785

4 Other Operating Income

	2014	2013
	£	£
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:

	2014	2013
	No	No
Full Time	13	11
Part Time	8	8
Total	21	19

NOTES TO THE ACCOUNTS continued

6 Administrative Expenses

	2014	2013
Staff costs (including Executive Directors)	£	£
Wages and salaries	503,963	453,851
Social security costs	81,628	79,155
Other pension costs	57,150	62,730
	642,741	595,736
Other administrative expenses	540,100	515,376
	1,182,841	1,111,112
Other administrative expenses include:		
Audit of annual accounts (excluding VAT)	30,500	29,000

7 Directors' Emoluments

		2014	2013
Fees for services as Non-Executive Directors		**£**	**£**
R J Cairns (Appointed 1st May 2013)		11,362	6,532
G Silburn		12,022	11,786
D Driver		12,022	11,786
A G Waterfield		9,994	9,798
J Lincoln (Appointed 1st October 2014)		2,498	-
J S Hollins-Gibson (Retired 30th September 2014)		11,601	15,164
G Rigg (Retired 30th September 2013)		-	7,348
P O'M Campbell (Retired 30th April 2013)		-	3,266
TOTAL FOR NON EXECUTIVE DIRECTORS		59,499	65,680
For services as Executive Directors			
A S Fazal	Salary	105,000	100,000
	Pension Contributions	10,500	10,000
		115,500	110,000
E L James	Salary	73,500	70,000
	Pension Contributions	7,350	7,000
		80,850	77,000
TOTAL FOR EXECUTIVE DIRECTORS		196,350	187,000
GRAND TOTAL		**255,849**	**252,680**

8 Directors' Loans and Related Party Transactions

The aggregate amount of loans outstanding at 31st December 2014 to one (2013: three) director(s) and connected person(s) was £197,364 (2013: £823,507). 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

	2014	2013
a) Analysis of credit in year:	**£**	**£**
Corporation Tax		
Current tax on income for the year	-	-
Deferred Tax (see note 22)		
Origination/reversal of timing differences	(19,640)	(14,379)
Tax on ordinary activities	(19,640)	(14,379)
b) Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax	93,658	67,119
Tax at 20% (2013: 20%)	18,732	13,424
Effects of:		
Capital allowance in excess of depreciation	(4,872)	(5,932)
Expenses not deductible for tax purposes	829	875
Disallowed general provision for bad and doubtful debts	4,000	-
Unutilised losses carried forward	(10,689)	(8,367)
Current tax charge for year	-	-

10 Loans and Advances to Credit Institutions

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

	2014	2013
	£	**£**
Accrued interest	15,723	67,998
Repayable on demand	4,087,949	2,339,698
Other loans and advances by residual maturity payable:		
in not more than 3 months	2,500,000	6,500,000
in more than 3 months, but not more than 1 year	2,500,000	5,532,216
	9,103,672	14,439,912

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

	2014	2013
Treasury Bills have remaining maturities as follows:	**£**	**£**
Accrued Interest	10,280	1,881
In not more than 1 year	6,484,406	4,001,039
	6,494,686	4,002,920

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	4,001,039	3,595,448
Disposals and maturities	(10,839,389)	(10,686,348)
Acquisitions	13,322,756	11,091,939
At 31st December	6,484,406	4,001,039

The unamortised discount on the Treasury Bills above was £15,594 (2013: £3,161).

NOTES TO THE ACCOUNTS continued

11 Debt Securities and Treasury Bills, continued

(b) Debt Securities

	2014	2013
	£	£
Issued by public bodies	2,133,224	3,205,989
Issued by other borrowers	7,063,411	9,662,721
	9,196,635	12,868,710
Debt securities have remaining maturities as follows:		
Accrued Interest	86,518	189,049
In not more than 1 year	7,002,318	9,506,905
In more than 1 year	2,107,799	3,172,756
	9,196,635	12,868,710
Transferable debt securities comprise:		
Listed on a recognised investment exchange	2,107,799	3,173,414
Unlisted	7,002,318	9,506,247
	9,110,117	12,679,661
Market value of listed transferable debts	2,144,625	3,198,675

The unamortised premium on the Debt Securities above was £107,799 (2013: £173,414).

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):	2014	2013
	£	£
At 1st January	12,679,661	8,137,676
Premium amortisation during the year	(65,615)	(38,453)
Disposals and maturities	(9,505,268)	(4,615,894)
Acquisitions	6,001,339	9,196,332
At 31st December	9,110,117	12,679,661

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:

	2014	2013
	£	£
On call and at short notice	-	-
In not more than three months	967,459	833,903
In more than three months but not more than one year	2,473,080	1,925,673
In more than one year but not more than five years	13,517,713	13,095,252
In more than five years	52,925,904	45,713,217
	69,884,156	61,568,045
Provisions (see note 13)	(245,637)	(220,275)
	69,638,519	61,347,770

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	85,059	44,941	130,000
	98,441	121,834	220,275
Amounts utilised during year			
General Provision	-	-	-
Specific Provision	-	(11,314)	(11,314)
	-	(11,314)	(11,314)
Charge/(Credit) for the year			
General Provision	-	(20,000)	(20,000)
Specific Provision	30,000	26,676	56,676
	30,000	6,676	36,676
At 31st December			
General Provision	13,382	56,893	70,275
Specific Provision	115,059	60,303	175,362
	128,441	117,196	245,637

The Society has one mortgage case where forbearance has been exercised (2013: 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

	2014	2013
	£	£
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	628	274
Deferred tax (see note 21)	23,108	42,748
	168,611	187,897

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	647,167	687,167
Additions	-	66,173	66,173
At end of year	40,000	713,340	753,340
Depreciation			
At beginning of year	14,400	491,797	506,197
Charge for the year	400	49,307	49,707
At end of year	14,800	541,104	555,904
Net book value			
At 31st December 2013	25,600	155,370	180,970
At 31st December 2014	25,200	172,236	197,436

The net book value of the freehold premises occupied by the Society for its own activities is £25,200 (2013: £25,600).

17 Shares

	2014	2013
	£	£
Held by individuals	82,986,908	81,484,775
Other shares	229,405	228,015
	83,216,313	81,712,790

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

	2014	2013
	£	£
Accrued interest	339,981	380,602
Repayable on demand	81,314,914	79,572,001
Other shares by residual maturity repayable:		
In not more than three months	1,561,418	1,760,187
	83,216,313	81,712,790

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:

	2014	2013
	£	£
Repayable on demand	1,539,655	1,320,779

19 Other Liabilities

	2014	2013
Other liabilities due within one year comprise:	£	£
Income tax	61,962	70,060
Other creditors	4,685	2,532
	66,647	72,592

NOTES TO THE ACCOUNTS continued

20 Provisions for Liabilities

FSCS Levy	2014	2013
	£	£
At beginning of year	98,465	102,270
Levy paid in year	(63,982)	(59,605)
Charge for the year	60,500	55,800
At end of year	94,983	98,465

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. £67,022 of the provision relates to the estimated management expense levy for the scheme years 2014/15 and 2015/16. 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, the non-Bradford & Bingley Plc loans will be repaid by a levy on the deposit taking sector in three roughly equal instalments, the first instalment having been paid in September 2013 with two instalments remaining payable in September 2014 and 2015 respectively. In respect of Dunfermline Building Society an interim levy was raised in relation to the scheme year 2014/15 payable in September 2014 with the remainder to be levied in two equal instalments in the scheme years 2015/16 and 2016/17 payable in September 2015 and 2016 respectively. 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 £27,961 related to the compensation levy.

21 Deferred Taxation

	2014	2013
	£	£
At beginning of year	42,748	57,127
Charge to Income and Expenditure Account for year	(19,640)	(14,379)
At end of year	23,108	42,748
The elements of deferred taxation are as follows:		
Differences between accumulated depreciation and amortisation and capital allowances	(27,256)	(22,305)
Other timing differences	14,055	18,055
Tax losses	36,309	46,998
	23,108	42,748

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

	2014
General reserves	£
At beginning of year	10,156,996
Profit for financial year	74,018
At end of year	10,231,104

23 Contingent Liabilities and Commitments

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

At 31st December 2014 the Society has annual commitments under non-cancellable operating leases as follows:

	2014	2013
Office equipment leases which expire:	£	£
within 2 – 5 years inclusive	13,580	5,954

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, as the Society does not currently offer any capped rate mortgage or savings products that would give rise to a balance sheet exposure and all fixed rate mortgage term products are internally matched by fixed rate term deposits. 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 customers or counterparties to transactions. Appropriate credit limits have been established by the Board for mortgage customers and other 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 2014. 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 2014	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	15,396,225	4,998,159	2,000,445	2,107,877	332,201	24,834,907
Loans and advances to customers	66,829,055	-	965,960	1,843,504	-	69,638,519
Investments	-	-	-	-	173,015	173,015
Tangible fixed assets	-	-	-	-	197,436	197,436
Other assets	-	-	-	-	168,611	168,611
Prepayments and accrued interest	-	-	-	-	173,100	173,100
TOTAL ASSETS	82,225,280	4,998,159	2,966,405	3,951,381	1,044,363	95,185,588
LIABILITIES						
Shares	79,785,874	-	1,026,985	2,063,473	339,981	83,216,313
Amounts owed to other customers	1,539,655	-	-	-	-	1,539,655
Other liabilities	-	-	-	-	66,647	66,647
Accruals and deferred income	-	-	-	-	36,976	36,976
Provision for liabilities	-	-	-	-	94,983	94,983
Reserves	-	-	-	-	10,231,014	10,231,014
TOTAL LIABILITIES	81,325,529	-	1,026,985	2,063,473	10,769,601	95,185,588
Interest rate sensitivity gap	899,751	4,998,159	1,939,420	1,887,908	(9,725,238)	-
Cumulative sensitivity gap	899,751	5,897,910	7,837,330	9,725,238	-	-
31st December 2013						
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	-	-

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2014

1. Statutory Percentages

	2014	Statutory Limit
Lending Limit	2.82%	25.00%
Funding Limit	2.09%	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 amounts owed to other customers not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and amounts owed to other customers, 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

	2014 %	2013 %
As percentage of shares and amounts owed to other customers:		
Gross capital	12.07	12.23
Free capital	11.92	12.12
Liquid assets	29.30	37.73
Profit for the financial year after taxation as a percentage of mean total assets	0.08	0.06
Management expenses as a percentage of mean total assets	1.31	1.28

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

"Shares and amounts owed to other customers" 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 2013 and 31st December 2014.

ANNUAL BUSINESS STATEMENT, continued
FOR THE YEAR ENDED 31ST DECEMBER 2014

3 Information Relating to the Directors at 31st December 2014

Name (Date of Birth)	Date of Appointment	Business Occupation	Other Directorships
R J Cairns Chairman (01/06/1951)	01/05/2013	Retired Chief Executive	Barrow & District Credit Union Limited Cumbria Special Events Company Limited More Music In Morecambe Limited
G Silburn Vice Chairman (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 G Waterfield (29/12/1970)	01/07/2010	Director	Alan Waterfield Consulting Limited
J Lincoln (08/02/1957)	01/10/2014	Finance Director, Building Society	Darlington Building Society Darlington Direct Limited Darlington Estate Agents Limited Darlington Homes Limited Darlington Investment Planning Limited Darlington Mortgage Services Limited DBS Services (No 3) Limited Malthouse Management Alnwick Limited Sentinel Homes Limited
A S Fazal Chief Executive (17/03/1958)	01/01/2013	Chief Executive	Mutual Vision Technologies Limited Eden Arts Limited
E L James Finance Director (06/05/1974)	01/01/2013	Finance Director	

Documents may be served on the above named Directors c/o KPMG LLP 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 specific contracts were entered into on 1st January 2013 and 1st September 2012 respectively.