



ESTABLISHED 1877

Summary Financial Statement
for the
year ended 31st December 2009

PENRITH BUILDING SOCIETY

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



ESTABLISHED 1877

Directors

P O'M Campbell, BVM & S, MRCVS (Chairman), J S Hollins-Gibson, FCA,
D Driver, FCA, C Hayward, BSc, ACIB, Lord Hothfield, DL, MA, MICE,
P Richardson, MBA, G M Rigg, BSc, G Silburn, BSc, MRPharmS

Solicitors

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

Auditors

O'Reilly, Ullswater House, Penrith

Bankers: National Westminster Bank plc

Chief Executive: C Hayward, BSc, ACIB

Secretary: P Richardson, MBA

Branch Manager: Mrs S J Askew

PENRITH BUILDING SOCIETY

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

SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2009

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at Penrith Building Society from 12th March 2010.

SUMMARY DIRECTORS' REPORT

The Society performed reasonably well in difficult market conditions.

There were significant inflows into the Society's savings accounts in the first half of the year. This was seen as a consequence of the competitive rates being offered at the time and also of the continuation of the process begun in the second half of 2008 where savers priority became the safety of their deposits rather than the rate of return. Competition for retail funds has however been intense as those lenders who had previously relied extensively on the wholesale markets found funds from that source still restricted. Other institutions introduced premium rated accounts, some with onerous conditions attached, and this undoubtedly had an effect on the Society in the second part of the year. The Directors do however consider that on a like for like basis the products offered by the Society remain competitive but are aware of the need constantly to monitor the rates payable and available products to continue to meet members' needs.

After 2008's record figure of £15.66m lending in 2009 was a disappointing £5.91m. This reflected the subdued nature of the housing and mortgage markets throughout the year. Also statistics show that with interest rates being at record low levels borrowers are choosing to use the increase in disposable income to reduce outstanding debt. These two factors have combined so that this Society and many others have seen an overall reduction in mortgage balances in the year. The temptation to increase mortgage lending by relaxing lending criteria was resisted. The extension of lending by this practice often leads to future problems and the Directors consider it essential that the quality of the Society's mortgage book is maintained so that the potential for loss through mortgage default is minimised.

The Society's Lending Policy seeks to ensure that borrowers do not take on more than they can afford and one result of continuing to follow proven underwriting procedures is to be seen in the Society's arrears position. There were again no repossessions in the year and there were only 3 mortgages over 12 months in arrear. All of those mortgages have low loan to value ratios and there are arrangements in place to assist the borrowers in overcoming their financial problems. Overall the number of cases over 3 months in arrear remained stable over the year and there does not appear to be any underlying trend which will lead to an increase in the coming year. The majority of the Society's arrears cases relate to owner occupied residential properties and there are no arrears cases in the Society's commercial mortgage book.

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

The Society was able to finance its activities from the inflow of retail funds and mortgage repayments already referred to and had no need of recourse to the wholesale markets.

Bank base rate reduced to 0.5% in March and remained at that level for the remainder of the year. In response to this the Society reduced the rate payable on savers accounts and

that charged on mortgages from April 2009. There have been no other changes to interest rates from that date. The Directors continue to try to balance the needs of borrowers and savers in as fair a way as possible whilst maintaining the financial stability of the Society.

As outlined in last years report the Society is required to pay interest on loans made by the Government to the Financial Services Compensation Scheme (FSCS) in respect of bank defaults. This remains a source of irritation. However because of the low level of interest rates the actual amount which the Society is expected to have to contribute in the next two years has reduced. The Society has already paid an amount of £29,359 and the latest estimate is that further amounts totalling £73,767 will need to be paid in 2010 and 2011. The provision made last year to cover all of these payments was £130,400. The latest information from the FSCS indicates that the Society will be expected to contribute further sums to this scheme after 2011, either for the repayment of the capital element of the Government loans or continuing interest payments on those loans. There has been no data made available to estimate the amounts of those contributions and therefore provision to cover those sums cannot be made. Accordingly the accounts show a reduction in the provision of £27,274.

The Society experienced growth of 4.60% during 2009 with total assets increasing from £84,973,927 to £88,884,985.

Administrative expenses including depreciation rose to £986,890 an increase of 3.22%.

Administrative expenses expressed as a ratio of mean total assets stood at 1.14% (2008 – 1.17%).

The Society transferred £336,981 to General Reserve, which now totals £10,211,366. At a time of increasing scrutiny of the capital positions of financial institutions by regulators and the markets and the problems some of those institutions are having in maintaining capital adequacy it is reassuring to note that the ratio of the Society's capital to savings, deposits and loan balances remains over 13% which is well above the industry average.

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

The Society will continue to concentrate on the provision of traditional products and services.

The Directors consider that there have been no events which have occurred since the year end that have had an important effect on the Society.

CORPORATE GOVERNANCE

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

THE BOARD

The Board of Directors provides leadership and direction in achieving the Society's Objectives and Activities.

The Board currently comprises two executive Directors and six non-executive Directors. The Chief Executive and Secretary are executive Directors and are responsible for the management of the Society within guidelines set by the Board. The Chairman is elected annually by the Board from the complement of non-executive Directors.

The Board considers that all of its non-executive directors are independent. All members of the Board reside within the Penrith area and are all well known within the community; all are readily accessible either in person, by telephone or by correspondence. In accordance with good practice the Board has appointed Mr G Silburn to the role of Senior Independent Director.

Four of the Society's non-executive directors have served on the Board for periods over nine years. In addition to having extensive local knowledge those Directors have developed a thorough understanding of the practise of building societies and each have individual talents which continue to serve the Society well. The Board considers that those Directors make valuable contributions to the Society and continue to maintain their independence.

The Society's Rules require that one third of the Board must retire by rotation each year. In practice as there are only eight members of the Board this means that three members of the Board must stand for re-election each year and therefore within any period of 8 years a Director must have stood for re-election at least 3 times.

A formal process exists to evaluate, on an annual basis, the performance and effectiveness of individual directors and of the Board as a whole. All Directors must meet the fitness and propriety requirements under the "Approved Person" regulations.

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

Directors

There were thirteen meetings of the full Board in 2009

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

	NUMBER OF MAIN BOARD MEETINGS ATTENDED
P O'M Campbell, BVM & S, MRCVS (Chairman)	13
J S Hollins-Gibson, FCA (Vice Chairman)	12
G M Rigg, BSc	13
Lord Hothfield, DL, MA, MICE	12
G Silburn, BSc, MRPharmS	10
D Driver, FCA	12
C Hayward, BSc, ACIB	13
P Richardson, MBA	13

Lord Hothfield having reached the retirement age specified retires under Rule 24(1)(j). The other members of the Board wish to record their appreciation for the service and contribution he has provided to the Society since his appointment in 1999.

Messrs Rigg, Driver and Richardson retire under Rule 26(1) and being eligible offer themselves for re-election under Rule 26(3).

During the 12 months ended 31st December 2009 there were no associated bodies in which the Society or its Directors had an interest.

In adhering to the principles of good corporate governance the Board have established certain committees to advise on various issues. The committees in question are:

Audit & Compliance Committee

The Audit and Compliance Committee consists of Messrs J S Hollins-Gibson, G Silburn, D Driver and Lord Hothfield.

Mr Hollins-Gibson was Chairman of the committee for the whole of the financial year ending 31st December 2009. Four meetings were held within the year and these were attended as follows:

	NUMBER OF MEETINGS ATTENDED
J S Hollins-Gibson	4
G Silburn	4
D Driver	4
Lord Hothfield	3

The principal purpose of this committee is to ensure that the Society complies with all regulatory and prudential requirements which may affect the Society.

Remuneration Committee

This is comprised of the Society's non-executive Directors. During the financial year ending 31st December 2009 the Chairman of the Remuneration Committee is 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.

Treating Customers Fairly Committee

This committee is comprised of Messrs Silburn and Richardson and two members of the Society's staff. This committee reviews the Society's policies and procedures and makes recommendations to the Board and management.

DIRECTORS' REMUNERATION POLICY AND REPORT

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

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

Executive Directors

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

Executive Directors' remuneration comprises basic salary and pension benefits. The Society does not have bonus or share option schemes.

Executive salaries are considered by the Remuneration Committee which meets at least once yearly. Salary levels are set having regard to job content and responsibilities, the performance of the individual and salaries in similar organisations.

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

The Chief Executive's contract of employment requires a 12 month notice period.

Non-Executive Directors

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

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

Details of Remuneration

	2009	2008	
For Services as Non-Executive Directors:			
P O'M Campbell (Chairman)	13,808	13,341	
J S Hollins-Gibson (Vice Chairman and Chairman of Audit and Compliance Committee)	10,735	10,372	
D Driver	8,919	8,617	
Lord Hothfield	8,919	8,617	
G M Rigg	8,919	8,617	
G Silburn	<u>8,919</u>	<u>8,617</u>	
Total Non Executive Directors	<u>60,219</u>	<u>58,181</u>	
For Services as Executive Directors:			
C Hayward	Salary	70,047	67,443
	Pension Contributions	<u>84,000</u>	<u>84,000</u>
		<u>154,047</u>	<u>151,443</u>
P Richardson	Salary	61,942	59,391
	Pension Contributions	6,220	6,130
	Subsistence Allowance	<u>0</u>	<u>1,907</u>
		<u>68,162</u>	<u>67,428</u>
Total Executive Directors		<u>222,209</u>	<u>218,871</u>
Grand Total		<u>282,428</u>	<u>277,052</u>

SUMMARY FINANCIAL STATEMENT
For the year ended 31st December 2009

RESULTS FOR THE YEAR	2009	2008
	£	£
Net Interest Receivable	1,365,371	1,238,021
Other Income and Charges	30,216	34,313
Administrative Expenses	(986,890)	(956,074)
Provisions	<u>26,218</u>	<u>(130,400)</u>
Profit for the Year before Taxation	434,915	185,860
Taxation	<u>(97,934)</u>	<u>(38,161)</u>
Profit for the Year	<u><u>336,981</u></u>	<u><u>147,699</u></u>

FINANCIAL POSITION AT END OF YEAR	2009	2008
	£	£

Assets

Liquid Assets	32,351,882	25,012,782
Mortgages	56,141,815	59,563,926
Fixed and Other Assets	<u>391,288</u>	<u>397,219</u>
Total Assets	<u><u>88,884,985</u></u>	<u><u>84,973,927</u></u>

Liabilities

Shares	77,617,542	74,071,258
Borrowings	754,122	545,967
Other Liabilities	301,955	482,317
Reserves	<u>10,211,366</u>	<u>9,874,385</u>
Total Liabilities	<u><u>88,884,985</u></u>	<u><u>84,973,927</u></u>

Approved by the Board of Directors on 17th February 2010 and signed on its behalf by:-

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

SUMMARY OF KEY FINANCIAL RATIOS

		2009	2008
Gross capital as a percentage of shares and borrowings (Note 1) 		13.03%	13.23%
Liquid assets as a percentage of shares and borrowings (Note 2) 		41.28%	33.52%
Profit for the year as a percentage of mean total assets (Note 3) 		0.39%	0.18%
Management expenses as a percentage of mean total assets (Note 4) 		1.14%	1.17%

NOTES TO THE SUMMARY FINANCIAL STATEMENT

1. The gross capital ratio measures the proportion which the Society's capital bears to the Society's shares and borrowings. The Society's gross capital consists of reserves, which are the Society's profits accumulated over many years.
Capital provides a financial cushion against difficulties which might arise in the Society's business and therefore protects investors.

2. The liquid assets ratio measures the proportion which the liquid assets held in the form of cash, short term deposits and government securities bears to the Society's shares and borrowings. Liquid assets are utilised by the Society in its cash management enabling the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

3. The ratio of profit for the year as a percentage of mean total assets measures the proportion which the profit after taxation for the year bears to the average of the total assets at the beginning and end of the financial year. The ratio is similar to a company's return on assets. Profit is transferred to reserves, thus forming the capital which is essential in order to protect investors.

4. The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses as reported in this document (which include depreciation) bear to the mean of total assets in accordance with the Accounts Regulations.

**INDEPENDENT AUDITORS' STATEMENT TO THE MEMBERS
AND DEPOSITORS OF PENRITH BUILDING SOCIETY
FOR THE YEAR ENDED 31st DECEMBER 2009**

Pursuant to Section 76 of the Building Societies Act 1986 we have examined the Summary Financial Statement of Penrith Building Society set out in the preceding pages.

This auditors' statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with Section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body and the Society's depositors as a body, for our work for this statement, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Summary Financial Statement in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on its consistency with the full Annual Accounts, Annual Business Statement and Directors' Report and its conformity with the requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

Basis of Opinion

We conducted our audit work in accordance with Bulletin 2008/3 "The Auditors' Statement on the Summary Financial Statement" issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Society's full Annual Accounts describes the basis of our opinions on those Annual Accounts, the Annual Business Statement and the Directors' Report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, Annual Business Statement and Directors' Report of Penrith Building Society for the year ended 31st December 2009 and conforms with the requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Gary Ritzema (Senior Statutory Auditor) for and on behalf of O'Reilly
Statutory Auditor & Chartered Accountants
Ullswater House
Duke Street
Penrith
Cumbria
CA11 7LY
17th February 2010

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