# PENRITH BUILDING SOCIETY

# Annual Report and Accounts

# 31 December 2023

**Head Office and Branch**
7 King Street, Penrith, Cumbria, CA11 7AR
Tel: (01768 863675) ¦ Email: enquiries@penrithbs.co.uk

**CONTENTS**

## CHIEF EXECUTIVE'S BUSINESS REVIEW
## FOR THE YEAR ENDED 31 DECEMBER 2023

I am delighted to have joined Penrith Building Society ('the Society') as the new Chief Executive and I aim to be able to continue the good work of my predecessor Tim Bowen. I am committed to ensuring we continue as a financially strong and independent mutual business, operating solely for the benefit of our current and future members.

### Supporting our Members

Whilst many of us enjoyed less disruption in our lives this year as the impact of the pandemic receded, the year brought many new challenges for members. The high levels of inflation and rising interest rates increased pressure on household budgets and, for some, created difficulties in keeping up to date with their financial commitments.

The Society recognised the challenges and was pro-active in helping both our mortgage and saving members.

We have been making considerable effort to contact and support those who may be experiencing some difficulties in meeting their mortgage payments and we offer a wide range of options to them to help manage their finances.

For members with mortgages whose initial or latest product offer period is coming to an end, we are making contact in advance and offering new deals at preferential rates to those we offer new members on like for like mortgage products. This has ensured that very few members have moved on to the standard variable mortgage rate, helping to reduce the level of increase in mortgage payments that they would otherwise incur.

Our saving members have benefited from rising interest rates and we are pleased that our savings rates continue to be higher than the average paid in the wider UK savings market. We are always delighted to welcome new saving members and expect we can pay new members higher rates of interest on their savings than they are currently receiving, particularly if they hold their savings with one of the main high street banks, such as Lloyds, Barclays, Natwest or HSBC.

At a time when other financial institutions in Penrith are announcing plans to close their branches, we remain fully committed to our branch service and maintaining our current opening hours. We understand the value our members place on being able to access face to face services and to be able to deposit and withdraw money safely and securely. We continue to offer mortgage advice on our range of mortgage products through our partnership with Mortgage Advice Bureau and we can do this face to face, by phone or video call.

Whilst our service satisfaction scores are very positive, we are always striving to improve our service and we spent a lot of time in 2023 reviewing our communications and literature to ensure they are clear and easily understandable. This work, and a number of other actions underway to improve our service is being managed as part of the Consumer Duty initiative, an industry wide programme to improve outcomes for financial services customers.

### A financially strong and secure Society

Whilst we strive to give the best possible rates on our savings and mortgage products, it is important that we remain financially strong and secure. I am pleased to report that this continues to be the case with us recording an appropriate level of profit in 2023 and maintaining exceptionally strong capital reserves.

Our profit was £432,801, which is 4.1% below our 2022 profit of £451,507.

Whilst the primary use of the savings our members deposit with us is for mortgage lending, we also hold a high level of deposits in liquid assets, so members can be sure that their money is available, as and when they need it.

Although many mortgage members have found the higher interest rate environment challenging, the importance of keeping up to date with payments and the pro-active work our Operations Team has undertaken to support those in difficulty has meant that our level of mortgage arrears remains very low. Arrears cases, being three or more months overdue, are four cases in total (compared to three in 2022) and represent 0.8% of our total mortgage book.

### Investing in our People

The vast majority of our colleagues live in and around the Penrith area and we strive to be a good employer, offering colleagues secure employment and the opportunity to develop their skills and capabilities. Training courses are made available to all colleagues and this year we were delighted to welcome two new apprentices – Ollie and Josiah – who work with us four days a week and spend their fifth day at Carlisle College. The apprenticeship scheme is a great option for young people who do not wish to be a full-time student but are seeking to continue their academic development whilst developing real-life work skills. Josiah and Ollie (along with Lucy, our original apprentice) are making a fantastic contribution to our business and we are committed to offering further apprenticeships in the future.

I'd like to take the opportunity to say a huge thank you to all my colleagues for the very warm welcome they have given me and for their ongoing support to the Society. It is a great achievement to be able to run a complex and highly regulated business with so few people and it is the commitment of the whole team and the willingness to go the extra mile that helps ensure our continued success.

**CHIEF EXECUTIVE'S BUSINESS REVIEW continued**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

**Supporting our community**

In 2023 we supported a number of local charities, causes and community groups. These included Eden Carers, Eden Valley Hospice and Jigsaw, The Salvation Army Foodbank, Greener Every Day, Penrith Lions Club, Penrith & District Red Squirrel Group, Penrith Lottery and Sunbeams Music Trust. We also supported Penrith AFC Ladies and Penrith RUFC Juniors from a sporting perspective and were main sponsors again for Penrith Show . In total we donated £22,364 in 2023 to local charities, community groups and good causes.

All of our colleagues are given two volunteering days a year to support the local causes closest to their hearts. In 2023, colleagues supported a range of community groups including Sunbeams Music Trust, Alzheimers Society, Riding for the Disabled, Penrith Lottery and The Salvation Army,  and we participated in the 'BrightStars' initiative with High Hesket School.

Our Charity of the Year in 2024 is Cumbria Action for Sustainability (CAfS), whose Cozy Homes initiatives offer practical help to local people in need of help to reduce the energy usage in their homes and bring down energy bills.

In addition to our Charity of the Year, every month our colleagues select one or more good cause to receive support. So far in 2024 we have donated 'sweet treats' to Penrith Mountain Rescue, the Great North Air Ambulance and the police, fire and ambulance services locally.

**Looking ahead**

Whilst continuing to serve our existing members, we are keen to grow our Society and increase the number of both savings and mortgage members. The strong financial performance of the last few years provides us with the opportunity to invest more into our products and services and give greater choice to new and existing members.

One of the ways we will be doing this will be to introduce online savings, so members can open and manage their savings accounts digitally, and offers an additional channel to visiting or contacting our branch. We will also be investing in our underlying systems to help ensure they remain fit for purpose and capable of supporting our growth ambitions.

We are not immune to the pressures of inflation, and we see the impact of that in all parts of our business. Whilst we strive to always seek more efficient ways of working that can help to mitigate the impact of this, we will see some inflationary impact in our cost base in 2024. Combined with the investment we are making in our systems, products and services, we are likely to see a reduced level of profitability in 2024, whilst still maintaining a very strong and healthy level of capital reserves.

As has become the norm, the outlook for the UK economy is uncertain, with the additional political risk that an election year brings. 2024 is unusual in that not only will we see a general election in the UK, but we will also see a presidential election in the US and a number of important elections elsewhere around the world, which have the potential to bring a degree of volatility to the world economy.

Whilst recognising the potential disruption we may see to our economy and the markets we operate in, when thinking about the future direction of interest rates, we consider the most likely scenario for 2024 is that the Bank of England starts to reduce rates, and that this continues into 2025. If this does happen it is likely we will see the reverse of the trends of the last two years, with savings and mortgage rates falling, rather than rising. Whilst this will bring challenges for savers, it will offer some respite to mortgage members, particularly those who have a fixed term deal that will end in 2024 or 2025.

Z Hocking

**Zack Hocking (Chief Executive)**
**29 February 2024**

# DIRECTORS' REPORT
# FOR THE YEAR ENDED 31 DECEMBER 2023

The Directors have pleasure in presenting their Annual Report, together with the Group and Society Accounts (the Annual Accounts) and Annual Business Statement, for the year ended 31 December 2023.

Penrith Building Society and its 100% owned subsidiary, Cumbria Mortgage Centre Limited report consolidated Group results. The principal activity of the subsidiary is detailed in Note 17 on page 33 of the Annual Report and Accounts. As the activity of the subsidiary is aligned with that of the Society, references and results reported throughout the Annual Report and Accounts include the consolidated performance and position of the subsidiary, unless specifically noted otherwise.

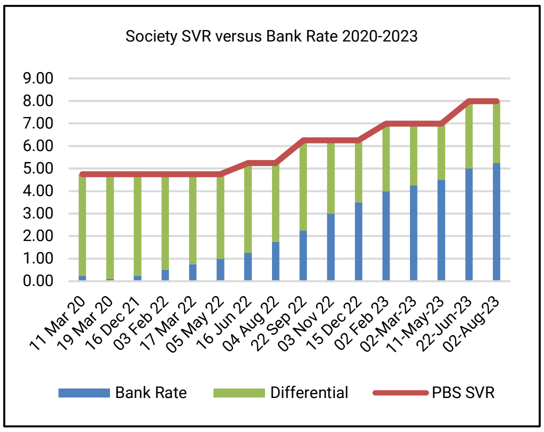
## Strategic Business Review 2023

We finished 2023 with a level of profitability consistent with 2022, however our balance sheet contracted as a result of savings outflows throughout the year. We saw a reduction in mortgage lending in the second half of the year, but maintained our mortgage balance sheet position year on year as a result of strong retention activity across the book. The increase in bank base rate and the uncertain economic conditions gave rise to a challenging year for us, and our cost base was hit by higher inflation, putting costs cross all areas up significantly. Therefore to report the results we have seen, particularly around our key performance indicators in profitability, liquidity and capital, has been a positive outcome.

We recognised the impact that inflation and a rising bank base rate was having on our members, and increased our rates payable on savings accounts as far as possible throughout the year, across the entire range.

As can be seen from the graph, we have moved our Standard Variable Rate (SVR) up by 3.24% since 2020, in comparison to the bank base rate rises of 5.00% in that same period, to help, as far as possible, our mortgage members struggling with rising costs.

We will face into a difficult trading period in 2024 as a result of the contraction to our balance sheet in 2023. Our cost base will increase as we invest in our technology, to remain relevant for the future and ourcolleagues, who are our most important asset for that personal service we know our members value. As the bank base rate starts to fall from the peak we believe it has reached, we will see compression in our net interest margin, and we are forecasting a dip in profitability in 2024, which we will absorb through our strong capital position.




We consider our reason for being as part of our strategy discussions each year, and have retained our purpose and values in 2023 as follows:

**Our purpose** - confirms that we are proud to be here for our members and community. We offer a safe place to build your savings, which in turn helps others to buy their home.

**Our values** - which support the purpose, are summarised as follows:

We are trustworthy    We are relevant    We are straightforward    We listen to you    We care about you

**Our objectives** – which support the achievement of our purpose and delivery of our long-term strategy to grow in a controlled manner, are as follows:

- To remain confident that we will identify areas of the mortgage market within our risk appetite, that we can be competitive in, wish to compete in and develop and leverage our intermediary relationships.
- To ensure that we fund our mortgage business in a sustainable and controlled manner that preserves our net interest margin and profitability.
- To commit to being an independent, profitable and operationally resilient mutual, whilst fulfilling the social aspect of our purpose within the community in which we are based.
- To maximise the value of our brand, by engaging with and supporting the financial education of our members and our communities. We will work with local businesses and government to connect and promote us further within our local community.
- To continue to invest in improving our people, processes, systems and controls.
- To agree about the requirement to focus on creating an environment that supports our inclusive and diverse culture and the wellbeing of our people.
- To identify the right strategic partners, to maximise value in all areas of the business.
- To comply with the regulatory agenda and adapt to changes in an agile and proportionate manner.

Achieving the above will continue to see us generate stronger returns, withstand financial stress and operate credibly and competitively in the financial services environment.

Our principal business objectives are the provision of mortgage finance for residential property, savings products for private individuals and local businesses and related services.

**DIRECTORS' REPORT, continued**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

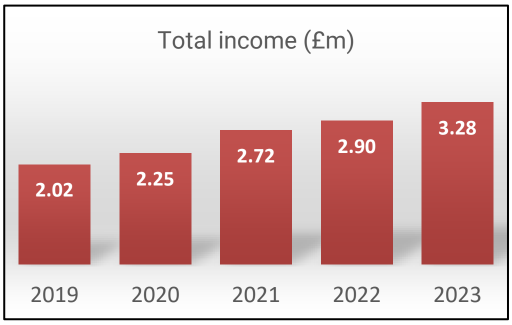
## Key Performance Indicators

We use a number of key performance indicators to measure and monitor our progress on an ongoing basis. These have been summarised and explained below, with associated graphs showing the trend in these metrics over the past five years.

### *Income and Expenditure*

We made a profit for the year after taxation of £0.43m (2022: £0.45m).

Total income is £3.28m, compared to £2.90m in 2022. The net interest margin increased from 2.16% to 2.43%, but remains an area of focus to ensure we remain fair to our members with both savings and mortgage rates as we move into a more stable outlook in the bank base rate environment. We monitor our competitor activity, particularly with savings products, to ensure we are pricing with the market.




We charge fees for mortgage products, but keep these as low as possible and pay legal and valuation fees on certain products on behalf of mortgage members. Introducer fees are paid to intermediaries, through whom we source a significant amount of new lending.

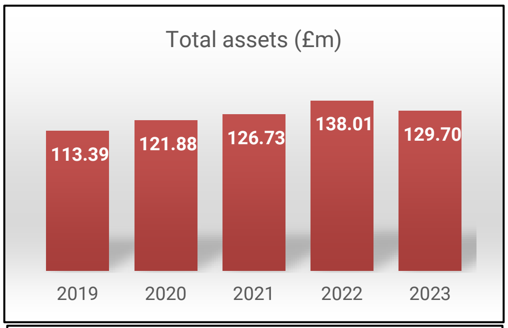
Management expenses including depreciation are £2.70m (2022: £2.34m), an increase of 15.38%. Management expenses expressed as a ratio of mean total assets are 2.02% (2022: 1.77%). The increasing trend in management expenses reflects our investment in our technology infrastructure this year, to position us for the strategic move into online savings in early 2024 and the evolution of our digital presence. A number of changes made to support our data and cyber security management will also benefit our operational resilience environment, an area of focus by the regulator as we move towards 2025.

Investment in our people remains key and 2023 saw a number of new colleagues in our Risk, Savings and Mortgage teams. We also employed two further apprentices as part of our commitment to develop our own talent and we had continued success in academic qualifications achieved across the business.

We also took positive steps to widen our focus in our local community, forging new links with a local charity whose vision is that of improving sustainability in our heartland mirroring our goals to further develop our own economic, social and governance strategy.

### *Total assets*

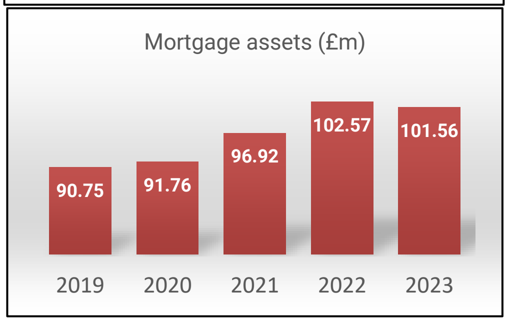
Competition in the savings market increased due to the rising interest rates, and we saw the impact of this in lost members in the first half of 2023, when our rates in ISA and Notice accounts fell below the 'Best Buy' peaks we had seen in late 2022.




We had a fall in asset growth of 6.02% (2022: 8.90% increase), as a result.

We are seeing a move to fixed rate savings, as members look to try and lock in higher rates before the bank base rate starts to fall again, and we are responding to this with new ISA products in early 2024. We actively monitor savings rates in the market and adjust our pricing to remain in line with the market as far as possible across our entire savings range.

Mortgage activity saw strong retentions of existing mortgage members, however new lending was more challenging as the market rates continued to rise and discounted variable rates, on which our main mortgage business is based, became less attractive in the market.




Despite this trend, our mortgage assets reduced by just 0.98% (2022: 5.83% increase) and as the bank base rate starts to reduce we expect some increase in the demand for non-fixed rate mortgages where mortgage members are prepared to speculate on improving discounts compared to the fixed rate environment.

We advanced 127 (2022: 157) new loans at a total value of £15.98m (2022: £22.17m), of which 17 were further advances (2022: 24).

Our subsidiary continues to allow us to provide direct mortgage advice to mortgage members, many of whom are based in our heartland. These cases represented 23.00% of our new mortgage business in 2023 (2022: 25.70%).

The bank base rate increases, introduced by the Bank of England to control inflation, saw us increase our rates on both sides of the balance sheet. We consciously have not moved our mortgage rates with each bank rate increase, but considered where our product range needs to be to both attract new borrowing members, and importantly retain our existing mortgage members.

The outlook for 2024 presents new opportunities as rates appear to have stabilised and the market anticipates a reduction from mid year. Falling inflation and energy prices expected this spring should assist with easing pressures seen on household spending and saving. Additionally, reductions in house prices are now forecast to be minimal, which in turn should lead to an increase in mortgage activity as mortgage members may view the improving economic shift as a good time to move or buy their first home.

We will review where we are positioned in the mortgage market, reacting where necessary to keep pace, but we will also consider the importance of our saving members to fund our mortgage growth, responding to their needs accordingly to ensure their continued loyalty.

Liquid assets fell to lower levels towards the end of 2023 and allowed us to finish the year on a good liquidity ratio of 22.84% of total shares and borrowings (2022: 27.02%).

**DIRECTORS' REPORT, continued**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

**Key Performance Indicators, continued**

***Arrears performance***

At the end of 2023, the arrears over three months on our mortgage book were four cases (2022: three cases), of which one case was more than twelve months in arrears (2022: zero cases). One case (2022: four cases) had forbearance measures in place at the year end. We had no properties in possession in 2023 (2022: none). As a result of the strong arrears management, we have kept our loan loss provisioning unchanged from 2022, at £0.19m.

We remain cautious as to the potential for some over inflation in the housing market and have continued to apply a 10% reduction in the House Price Indices used to estimate the current value of properties in our risk based loan loss provisioning model.

We take all reasonable steps to minimise loss through ensuring that the criteria of our Responsible Lending Policy is followed through our individual underwriting and is being appropriately updated to take account of the prevailing economic conditions.

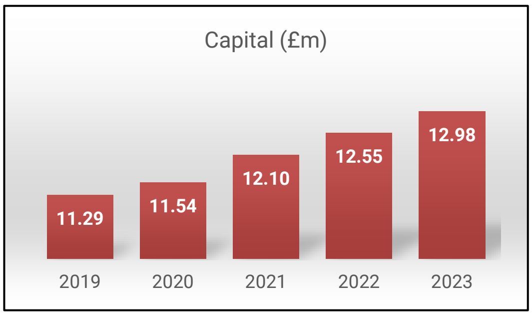
In particular, we are vigilant to the financial stresses which may arise for mortgage members and are aware that for some the full impact of rising bank base rates has yet to materialise. We offer constructive assistance and forbearance to mortgage members in financial difficulty and maintain a personal approach, which our mortgage members prefer, allowing us to develop a better understanding of their needs and individual circumstances.

***Capital***

At 31 December 2023, our total capital is £12.98m (2022: £12.55m). A strong level of capital is maintained to ensure we are protected against any adverse changes in economic conditions or circumstances particular to us.

The free capital ratio (the aggregate of general reserve and collective impairment for losses on loans and advances less tangible and intangible assets) has increased to 10.76% of total shares and borrowings (2022: 9.64%). Additionally, the gross capital ratio (being general reserves) amounted to 11.16% of total shares and borrowings (2022: 10.03%).

The increases arising due to the strong profitability on a contracted asset base.




Both capital ratios remain strong for the building society sector overall.

To meet regulatory requirements, a risk assessment of our capital policies and procedures (the Internal Capital Adequacy Assessment Process) is carried out and approved by the Board at least annually.

The table here summarises the Core Tier 1 Ratio, being Tier 1 Capital (reserves less a deduction for intangible assets) as a percentage of risk weighted assets and the Leverage Ratio, being Tier 1 Capital as a percentage of total assets plus mortgage impairments plus a proportion of mortgage pipeline commitments.

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Tier 1 capital (after regulatory deductions) | 12.86 | 12.42 |
| Tier 2 capital | 0.17 | 0.18 |
| Total capital | 13.03 | 12.60 |
| **Risk weighted assets:** | | |
| Liquid assets | 4.95 | 6.58 |
| Loans and advances | 36.90 | 37.82 |
| Other assets | 1.56 | 1.62 |
| Operational risk | 4.89 | 4.33 |
| Total risk weighted assets | 48.30 | 50.35 |
| Capital ratios: | | |
| Core tier 1 | 26.62% | 24.67% |
| Leverage | 9.85% | 8.80% |

These aspects are expanded on further in our Basel IV disclosures for Pillar 3, available on the website, www.penrithbs.co.uk

**Country by Country Reporting**

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 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 our income and the location of our operations.

The annual reporting requirements as at 31 December 2023 are included in Note 3 on page 29.

**Principal Risks and Uncertainties**

We adopt the approach of a low exposure to risk so as to maintain member confidence and to allow the achievement of our corporate objectives. There is a formal structure for risk management which includes fully documented control procedures in addition to risk limits, mandates and reporting lines.

In 2023 we have continued our work to embed an operational resilience framework, being the ability to withstand stress across all areas of the business, along side other priority projects including our implementation of the Consumer Duty regulation, which has seen a focus on our Operational and Conduct risks and their impact on our products and services to members.

We monitor all our Core risk areas through the Board and sub-committee structure. Dashboards for all risk areas are presented at least quarterly to relevant Risk committee, which include details on the sub-risks and controls for each risk area, and monitoring metrics where appropriate to ensure the risks are being managed within the risk appetites set by the Board.

| Area of risk | Description |
|---|---|
| Cyber | The risk of loss due to a cyber related event. We invest in our technology infrastructure and controls to limit the exposure to a potential loss due to a cyber-attack. Penetration tests are carried out periodically on our systems and access to the key areas is restricted by both physical and non-physical measures. |
| Data | The risk of loss due to a data breach event. We monitor how we control and process the data we hold on members, colleagues and other stakeholders, to ensure this remains relevant to the processing activity we undertake in line with the General Data Protection Regulations. We have a Data Protection Officer who has oversight responsibilities in this area. |

**Principal Risks and Uncertainties, continued**

| Area of risk | Description |
|---|---|
| Credit | The risk of a mortgage member 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.<br>With regard to counterparty 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 and are monitored on a regular basis. Exposures to this risk are set out in Note 29 on page 38.<br>For counterparty risk, there is the risk of loss due to a large individual or connected exposure and for mortgage credit, the risk of a geographical concentration in Cumbria. The Board sets maximum limits for exposures to individual mortgage members and treasury counterparties and monitors lending both within the county and externally. |
| Operational | The risk of loss through inadequate or failed systems, human error or other external factors. We have controls in place which are monitored by the Board with an aim to safeguard members' funds at all times and periodically reviews risks and contingency funding strategies through disaster recovery tests.<br>All areas have appropriate Board approved systems of control and policies and adherence to these is monitored through risk management software, with formal attestation processes in place for each operational team.<br>As a small business, we are reliant on key personnel to manage the business day to day. We maintain Blind Handover documents, in line with the Senior Managers and Certification Regime and have a formal succession plan in place for key roles, managed through the Nominations Committee. |
| Conduct | The risk we are not being fair to members in all dealings with them. The work to embed Consumer Duty is enhancing our controls in this area, which includes the monitoring of new product development, existing product performance, member feedback, complaints and other associated areas in line with the pillars underpinning Consumer Duty. |
| Liquidity | The risk we are unable to meet our 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, member confidence is maintained and we can meet calls on funds when they fall due, in line with the Individual Liquidity Adequacy Assessment Process undertaken annually and Recovery Plan options. |
| Funding | The risk we are unable to fund our balance sheet. We are a retailer of financial instruments in the form of mortgage and savings products and also a user of wholesale financial instruments to invest in liquid assets. Managing how we fund both sides of the balance sheet as a result is a priority for us and we maintain a Board approved Funding Policy. This is further discussed in the Liquidity Risk section of Note 29 on page 40.<br>Within funding we also consider interest rate risk, being the risk of exposure to movements in interest rates. We have a small tranche of fixed rate mortgage and savings products and fixed rate investments including Certificates of Deposit, Gilts and Treasury Bills. This risk is managed through the Funding and Liquidity policies approved by the Board.<br>Our interest rate sensitivity at 31 December 2023 is detailed in the Market Risk section of Note 29 on page 38. |
| Fraud and Financial Crime | The risk of a loss due to a fraudulent transaction or money laundering related activities. Formal processes are in place to identify all members from their initial contact with us and at other points in their relationship cycle. Ongoing transactions are monitored for unusual activity based on our knowledge of the members and other third-party relationships. We have a Money Laundering Reporting Officer who has oversight responsibilities in this area. |
| Climate Change | The risk due to the changes in the climate and is split into physical and transitional risk areas. Physical risks could create a direct impact, such as properties over which we hold a mortgage becoming uninhabitable or unsaleable due to increased risk of flooding. Transition risks could include developments such as potential disruption to certain sectors of the economy as the world moves from higher to lower levels of carbon production in energy generation.<br>In recent years we have seen increased risks due to floods and other factors for properties in the mortgage book and are assessing the risk of modern methods of construction when considering how a loan can be underwritten.<br>We have combined this risk with other risk areas from a policy perspective and report as a sub-set of a number of the other risks above, rather than as a separate risk area.<br>Further disclosure on our Climate Change activity is set out on page 9. |
| Model | The risk that we make a financial loss due to decisions that could be principally based on the output of models, due to errors in the development, implementation, or use of such models.<br>It could arise if we do not effectively operate and control the models, we have developed to support the delivery of our strategic objectives, both financially and non-financially. This risk is the responsibility of the management team with oversight from the Board, monitored by the Technology & Security Risk Committee (TSRC) |

**DIRECTORS' REPORT, continued**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

**Key Performance Indicators, continued**

**Directors**

The following persons were Directors during the year:

**Non-Executive Directors**

| | |
|---|---|
| Will Lindsay | Board Chair |
| Rod Ashley | Senior Independent Director |
| David Billinge (appointed 1 February 2024) | |
| Richard Drinkwater | |
| Janice Lincoln | |
| Nikki Marsh (appointed 1 March 2023) | |
| Fiona Smith (appointed 1 September 2023) | |

**Executive Directors**

| | |
|---|---|
| Zack Hocking (appointed 4 December 2023) | Chief Executive |
| Tim Bowen (resigned 22 November 2023) | Chief Executive |
| Elspeth James | Finance Director |

All Directors retire on an annual basis and offer themselves for re-election. Janice Lincoln has served on the Board for a period in excess of nine years, however we have satisfied ourselves that she remains independent within her role at the Society.

None of the Directors had any beneficial interest in any connected undertaking at any time during the year. Tim Bowen re-joined the Board of Mutual Vision Technologies Limited, who provide our core banking platform under a managed service arrangement, on 13 January 2023 from which he received fees amounting to £14,209 up until his date of resignation. No fees were provided to us.

We maintain liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986. There are no Directors' indemnities.

**Colleagues**

The Directors are pleased to record their appreciation to all colleagues for their hard work and loyal service during what has been a further challenging year.

The Board encourages the personal development and training of all colleagues to ensure that they have the opportunities to gain sufficient expertise, qualifications, and relevant skills to provide the standard of service required. Wherever appropriate our colleagues attend suitable training courses and seminars to support their personal development.

**Land and Buildings**

The Head Office premises were valued during 2023 following completion of the refurbishment works in the prior year and confirmed the Directors opinion that the overall market value is in excess of the book value.

**Donations**

During the year charitable donations totalling £22,364 (2022: £24,853) were made. No contributions were made for political purposes.

**Creditor Payment Policy**

Our policy is to agree the terms of payment at the commencement of trading with each supplier, to ensure that they are aware of those terms and to abide by them. Where terms of payment have not been agreed we settle the supplier's invoice on being satisfied that the supplier has fully conformed with the terms and conditions of purchase. Creditor days were 10 at 31 December 2023 (2022: 12 days).

**Going Concern**

Forecasts of the financial position for the period ending at least twelve months from the date of the signing of these accounts have been prepared. In making this assessment, the risks that could impact on our capital, financial and liquidity positions over that period have been considered and stressed as appropriate. Additionally, our operational resilience continues to be reviewed and tested, with the key requirement being to maintain an essential branch service for the local community, with other colleagues working at home and to ensure no loss of service to members as a result of the changes made.

These forecasts and other reviews have satisfied the Directors that we have adequate resources to continue in business for the foreseeable future. For this reason, it is appropriate for the accounts to continue to be prepared on the going concern basis.

**Post Balance Sheet Events**

On the 5 January 2024 one mortgaged property was taken into possession. (2022: zero) The Directors do not consider that this event since the year end has a material effect on the financial position as disclosed in the Annual Report and Accounts.

**Approved and signed on behalf of the Board on 29 February 2024**

Z Hocking

**Zack Hocking**
**(Chief Executive)**

W. Lindsay

**Will Lindsay**
**(Chair)**

## CLIMATE CHANGE REPORTING

## FOR THE YEAR ENDED 31 DECEMBER 2023

In 2022 we set out our initial view on our work in the area of climate change. This included information on how we are approaching climate change, focusing on mitigation of climate-related risks that are facing us now and into the future. This work has continued in 2023. The Board has oversight of the risks in this area, and we also included scenario analysis in our capital reviews, based on data provided by an expert third party. In the current financial year, our focus has been to incorporate climate change considerations into our existing risk policies and development of internal management information to monitor the emerging risks within our mortgage book as the basis for measurement of this risk moving forward.

**Internal impact**

In 2022, we undertook an extensive programme of refurbishment of our Head Office building incorporating ways we could make our traditional building more efficient and energy saving including insulation, ventilation and water/ electric works. This has resulted in us seeing a reduction in our electricity and gas usage within the Head Office and branch which for the current year had a $CO_2$ impact of 16,850kg (2022: 17,460kg $CO_2$).

**Carbon offsetting initiatives**

We partner with two local charities, Greener Every Day, who plant oak and other British woodland trees, and more recently, Cumbria Action for Sustainability (CAfS) whose vision is a zero carbon Cumbria that they hope to achieve by promoting and facilitating low carbon living schemes which we are promoting within our branch. CAfS are our charity of the year for 2024 and will speak about their work at our AGM in April.

**External impact**

As a mortgage lender, we lend on property across the UK which is subject to climate change risks. These are categorised as both physical and transition in nature. We partnered with a third party, Landmark, to assist us in understanding our exposure to these risks within the mortgage book and intend on refreshing the data they provide bi-annually. Our valuation reports, now include details on climate related impacts of the properties which are being taken into security, in addition to the EPC ratings already captured, to allow us to continue to understand how our mortgage book is placed from a climate perspective. This review considered the following current and future risks:

- **Flood risk:** wetter winters and more concentrated rainfall events to increased frequency and severity flooding
- **Subsidence:** drier summers and extreme weather events, to increase subsidence on shrink/swell clay
- **Coastal erosion:** increased storm surge and rising sea levels will increase rates of erosion
- **Energy efficiency policy change:** F and G rated properties may be required to undergo expensive remediation

We have summarised below, based on the position at end of 2022, the impact of climate change by 2060 in a High-Emissions Scenario*: We will refresh this data again at the end of 2024.

| £ | Physical (inevitable) | | | Transitional (potential) |
|---|---|---|---|---|
| | Flood | Subsidence | Coastal erosion | Energy Efficiency Remediation |
| **Value Impact**: reduction in property value due to climate change over and above current level | 631,132 | 43,001 | - | 19,111,871 |
| **Value at Risk:** reduction in property value due to climate change that would result in a loss if property were repossessed | 111,139 | 139 | - | 1,462,024 |
| **Value at risk in downturn:** reduction in property value due to climate change that would result in a loss if property were repossessed and property market in downturn | 156,862 | 507 | - | 2,598,258 |
| **Realised loss in downturn:** the value at risk in downturn multiplied by the probability of possession | 7,843 | 25 | - | 129,913 |

*High-Emission scenario considers impacts of temperature increases in the range 3.2-5.4 degrees

The outcomes of this review are taken into consideration in our capital planning requirements. The most significant impact to us arising from EPC ratings, which we closely monitor for our existing and new business mortgage books.

**Next steps and further initiatives**

Review of management information will assist in the development of our future lending policy in this area and allow us to consider whether any form of 'green' mortgages, which allow our members to improve the energy efficiency and carbon impact of their homes, would be appropriate.

## CORPORATE GOVERNANCE REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2023

The Board views good corporate governance as an essential part of it's responsibility to our members. We have regard to the UK Corporate Governance Code (2018 version) issued by the Financial Reporting Council in developing our policies and procedures as set out below:

### Leadership

#### *The Board*

The Board provides leadership and direction in achieving our objectives and is responsible for our continued success. It sets the strategy, formulates policies and provides guidance on how we are managed. It regularly reviews financial performance and ensures that there are effective risk management controls and procedures in place. It reviews and updates the Corporate Plan on an annual basis ensuring the strategic objectives are fit for purpose and are aligned to our purpose and values.

#### *Board Composition*

The Board comprises two Executive Directors (the Chief Executive and Finance Director) and six Non-Executive Directors. The Executive Directors are responsible for day to day management within the guidelines set by the Board. Non-Executive Directors are essential for governance providing, amongst other things, challenge to the Executive Directors and senior management, setting objectives, monitoring performance and determining remuneration of the Executive Directors.

The Chair, a Non-Executive Director, is elected annually by the Board. The main role of the Chair 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. Our Senior Independent Director is available to members having any concerns which they consider would be inappropriate to discuss with the Executive Directors or other management.

Our rules state that all Directors submit themselves for election by members within sixteen months of their appointment to the Board and the Board have agreed that all Directors stand for re-election annually thereafter. No Non-Executive Director should serve on the Board for a period of more than nine years and if this situation was to arise it would be disclosed in the Annual Report and Accounts.

#### *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. This is approved by the Nominations Committee.

The Board recognises the importance that diversity and inclusion has on enhancing culture which directly impacts on attracting and retaining Directors. We continue to be committed to attracting a broad set of qualities, education, skills and behaviours when recruiting Directors to the Board. In order to support the assessment of the skills and competencies of the Board and identify any gaps and development needs, all Board members contribute to a Board skills matrix. The skills matrix provides a holistic understanding of the Board's capabilities and experiences, strengthens succession planning and ensures that any Director recruitment improves the Board composition by facilitating a broader range of views, experience, background and values. All candidates, irrespective of gender or background, are always treated respectfully and inclusively.

The Nominations Committee, which includes the Chair, oversees the recruitment of all Directors.

A formal recruitment process will be employed and may include the advertising of the position in appropriate media, canvassing our membership or use of an external search agency.

The Chair, 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.

It is necessary for Board appointments to be notified to our Regulators. Where an Executive Director or an Approved Non-Executive Director is to be appointed this must be formally approved by the Regulators under the Senior Managers and Certification Regime and this may include a personal interview with the Prudential Regulation Authority or Financial Conduct Authority or both.

#### *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 2023, the appraisal of the Chair was carried out by the Chief Executive and Senior Independent Director. The other Non-Executive Directors' appraisals were carried out by the Chief Executive and Chair, except for that of the Senior Independent Director, which was completed by the Chair and Chair of the Audit, Risk and Compliance Committee (ARCC). 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 Chair and Chair of the ARCC and the appraisal of the Finance Director was carried out by the Chair and Chief Executive. Both these individuals are appraised on an annual basis.

The appraisal of the Chair includes specific requirements to review how they lead the Board, promoting a culture of openness and debate, ensuring all Directors contribute to discussions and that they receive accurate, timely and clear information to allow them to discharge their Board responsibilities.

The effectiveness of the Board as a whole and its committees is reviewed annually by the Board. This includes a review of terms of reference for the Board and committees and confirmation that information, training, time and resources have been made available to all members of the Board or committees to allow them to participate in the relevant meetings.

**CORPORATE GOVERNANCE REPORT, continued**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

**Accountability**

We have created a Risk Management Framework to identify, quantify (if possible) and manage risks. The sub-risks within this framework are linked to underlying day to day controls, to ensure risk is being appropriately managed. 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 our day to day activities. 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 ARCC that these controls are adequate and effective.

**Fitness and Propriety**

All Directors must meet the fitness and propriety requirements under the Senior Managers and Certification Regime and must complete a questionnaire annually 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 and have access to the advice of the Secretary. In addition, Directors may take independent professional advice at our expense should this be necessary.

There are ever increasing burdens on Non-Executive Directors. They must devote considerable time to the business. 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 us and the building society sector as a whole.

**Strategic Direction**

The Board holds an annual Strategy Event to review current and future strategic plans. From this event, the Executive Directors and senior management create the Corporate Plan on an annual basis, which is agreed and approved by the Board. From the Corporate Plan an Operational Plan for the business is created to allow each strategic objective to be managed and monitored by both management and the Board, the latter reviewing progress on at least a quarterly basis.

**Culture**

We recognise the importance of colleagues and other critical third party relationship input into our strategic direction and ensure that their views are obtained at appropriate points in any decisions taken.

To facilitate this, the Board reviews the cultural behaviour of the Board and colleagues at least annually, considering the alignment of business performance and behaviours. This normally takes the form of a survey, with the results being used to develop future strategy in this area as part of our people objective in the Corporate Plan.

The Board has appointed a Non-Executive Director as a workforce champion to allow colleagues to express their views outwith the Executive Directors. All Non-Executive Directors are encouraged to attend internal 'coffee break' sessions where strategy updates are provided, to allow additional colleague engagement and to outline their role on the Board.

Separately, we have a Whistleblowing champion within the Non-Executive Directors. This allows our colleagues to raise concerns in confidence and anonymously if they wish. There is a formal agenda item each Board meeting to review any whistleblowing reports arising and to ensure arrangements are in place to undertake an independent investigation and follow up on matters that are raised.

**Relationship with Members**

Our on-going relationship with our members is an important area of focus and we strived to engage with members face to face, continuing as lead sponsor to the Penrith Show and attending other local events over the summer. The 2023 Annual General Meeting returned to a physical format on 26 April 2023, hosted locally. Questionnaires are provided to members based on their different interactions with us and we respond to member feedback received directly on an individual basis. We encourage all members to contact us if they have any concerns or views, positive or negative, at any time to allow us to support our members where we can.

**Board and Committee Meetings**

Main Board Meetings are held at least twice in every quarter. Additional meetings may be called as required.

Following the principles of good corporate governance, the Board has established certain committees to advise on various areas.

The composition and purpose of each of these committees is summarised as follows. Full terms of reference for each committee can be obtained from our Secretary:

| Committee | Members | Purpose |
|---|---|---|
| Audit, Risk and Compliance (ARCC) | Janice Lincoln (Chair)<br>Rod Ashley<br>Richard Drinkwater | • To ensure we comply with all regulatory and prudential requirements.<br>• To review our internal controls and management systems against the risk management environment.<br>• To take responsibility for the review of the effectiveness of the internal compliance and internal audit functions and approval of their respective annual review plans.<br>• To monitor the External Auditor's independence, objectivity and effectiveness.<br>Members of the committee should have accountancy and audit experience, through the sector or other roles and bring recent relevant financial experience.<br>In addition, representatives of Internal and External Audit and Internal Compliance and the Executive Directors attend most of these meetings by invitation.<br>The ARCC Report for 2023 is on pages 13 and 14. |

**CORPORATE GOVERNANCE REPORT, continued**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

| Committee | Members | Purpose |
|---|---|---|
| Nominations (NomCo) | Richard Drinkwater (Chair)<br>Will Lindsay<br>Janice Lincoln<br>Zack Hocking | • To make recommendations on appointments to the Board, including the annual review of our Succession Plan, ensuring that the Board has sufficient Directors with appropriate skill sets, who are fit and proper and independent.<br>• To consider diversity and inclusivity, and how this relates to our strategy and our Board and colleagues.<br>The matters under the heading of Board Appointments and Performance Evaluation, on page 10, are also overseen by the Nominations Committee. |
| Remuneration (RemCo) | Richard Drinkwater (Chair)<br>All other Non-Executive Directors | • To set the Remuneration Policy for Executive Directors and Non-Executive Directors' Fees and to agree annual pay increase percentages and any bonus provisions for the wider colleague base.<br>• To set all other benefits and matters relevant to the Executive Directors including contracts of employment.<br>The Executive Directors attend most of these meetings by invitation.<br>The Directors' Remuneration Report for 2023 is on page 15. |
| Executive Risk (ERC) | Elspeth James (Chair)<br>Zack Hocking<br>Other Executive Team members<br>Janice Lincoln (Risk Champion) | • To provide oversight of the key risks (as set out on pages 6 and 7), and to ensure that these are being managed effectively.<br>• To monitor the activities of the sub-risk committees, which consider these key risks and their associated monitoring metrics in more detail.<br>• To report to ARCC on any risk areas where additional focus and reviews may be required.<br>• To provide assurance to the Board on a quarterly basis that all risks are being appropriately controlled and actioned.<br>The Risk Champion is encouraged to attend these meetings at least quarterly. |
| Assets & Liabilities (ALCO) | Zack Hocking (Chair)<br>Elspeth James<br>Other Executive Team members<br>Financial Controller<br>Financial Operations Manager<br>Heads of Products & Distribution | • To monitor liquidity and funding and other treasury risk.<br>• To undertake balance sheet management activities.<br>• To agree product pricing for savings and mortgages against the market and to propose these to Board when outside of strategic limits set.<br>• To consider forward looking economic data and how our cash flow forecasts and budget projections respond and adapt to market conditions.<br>Non-Executive Directors are individually encouraged to attend ALCO periodically. |

Attendance at these committees is summarised as follows for 2023:

| | Board | ARCC | RemCo | NomCo | ERC | ALCO |
|---|---|---|---|---|---|---|
| **Number of meetings** | **10** | **4** | **3** | **7** | **11** | **12** |
| Rod Ashley | 9 (10) | 4 (4) | 2 (3) | - | - | 1* (1*) |
| Richard Drinkwater | 10 (10) | 4 (4) | 3 (3) | 7 (7) | - | 0 (1*) |
| Janice Lincoln | 10 (10) | 4 (4) | 3 (3) | 7 (7) | 3* (4*) | 1* (1*) |
| Will Lindsay | 10 (10) | 1* (1*) | 3 (3) | 7 (7) | - | 1*(1*) |
| Nikki Marsh | 9 (9) | 1* (1*) | 2 (2) | - | 1* (1*) | 2* (2*) |
| Fiona Smith | 5 (5) | 2* (2*) | 2 (2) | - | - | - |
| Zack Hocking | 1 (1) | 1* (1*) | 1* (1*) | - | 1 (1) | 1 (1) |
| Tim Bowen | 7 (9) | 3* (3*) | - | 3*(3*) | 8 (10) | 9 (11) |
| Elspeth James | 9 (10) | 4* (4*) | 1* (1*) | - | 11 (11) | 12 (12) |

( ) denote number of meetings an individual was eligible to attend and * denotes the individual attended a meeting by invitation only.

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

**Will Lindsay (Chair)**
**29 February 2024**

## AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2023

The ARCC is an essential part of our governance framework, to which the Board has delegated oversight of financial reporting, internal controls, risk management, internal audit and external audit. This report provides an overview of the ARCC's work and details how it has discharged its responsibilities during the year.

The responsibilities of the ARCC are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees. The main function of the ARCC is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- The integrity of the Annual Report and Accounts, any formal announcements relating to financial performance and significant financial reporting judgements contained therein;
- The effectiveness of the system of internal control processes;
- The internal and external audit processes;
- The appointment, re-appointment and removal of the external auditors and the periodic review of their performance and independence; and
- The policy on the use of external auditors for non-audit work.

Following each ARCC meeting, the minutes of the meeting are distributed to the Board, and the ARCC Chair provides an update to the Board on key matters discussed.

The composition of the ARCC is detailed on page 11. The Chief Executive, Finance Director and senior management attend the meeting by invitation. Representatives of PwC (internal auditor), and Mazars (external auditor), are also invited to each meeting. At least twice a year, the ARCC has a discussion with the external and internal auditor and internal compliance without management being present.

**Key areas reviewed**

The ARCC meet at least four times a year and focuses on the following matters:

***Financial Reporting***

The primary role in relation to financial reporting is to review and assess with management and the external auditor the integrity and appropriateness of the Annual Report and Accounts concentrating on amongst other matters:

- The quality and acceptability of accounting policies and practices;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including advising the Board on whether the Annual Report and Accounts, when taken as a whole are fair, balanced and understandable and provide information sufficient for members to assess our performance, business model and strategy; and
- The material areas in which significant judgements have been applied.

The primary areas of judgement considered by the Committee in relation to the 2023 Annual Report and Accounts were:

- Loan loss provisions: Review of judgements used to determine timing of recognition and valuation of loan loss provisions in line with Financial Reporting Standard 102, specifically House Price Index application, forced sale discounts and selling costs and the current and potential impact of the UK economic position on the provisioning requirements;
- Interest income recognition: Review of the design, implementation and effectiveness of controls around the calculation of interest income and charges, including the timing of applicable fees and commission recognition, and behavioural life under effective interest rate methodologies; and
- Going concern: Review our response to risk assessments completed to address the key operational and strategic risks we face, and second and third line reviews of key risk areas during 2023, as agreed by the ARCC. From a financial perspective, assessments were made as to the appropriateness of financial forecasts and capital adequacy, with reference to the Corporate Plan and stress testing undertaken within this, considering potential sensitivities to market conditions.

The ARCC considered whether the 2023 Annual Report and Accounts were fair, balanced and understandable by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency.

The ARCC fully discharged its responsibilities in relation to financial reporting of the Annual Report and Accounts for 2023.

***Internal Audit***

The ARCC is responsible for monitoring internal audit activities and effectiveness and ensuring that sufficient resources are in place. In order to provide the scalability and flexibility of specialist resources required within internal audit, we continue to outsource this role to PwC.

Key reviews were completed through their agreed work programme during the year including areas of internal control significance (being reviews of: Recovery Planning, Savings, Cyber Security, Data Security and Treasury). Internal audit findings and thematic issues identified were considered by the ARCC, as well as management's response and the tracking and completion of resultant actions.

The ARCC considers the guidance from the Chartered Institute of Internal Auditors entitled 'Effective Internal Audit in the Financial Services Sector' when ensuring that the internal auditors and the ARCC were fulfilling their obligations in a robust manner.

The ARCC also approved the fee for the internal audit work for the year having reviewed the scope of the work programme in detail.

PwC operate in accordance with an Internal Audit Charter. The ARCC is satisfied PwC satisfies the required skills and resource requirements to fulfil the role.

**AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT, continued**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

***Systems of Internal Controls***

The Board recognises the importance of sound systems of internal control in the achievement of its objectives and the safeguarding of members' and our assets. Internal control also facilitates the effectiveness and efficiency of operations, helps to ensure the reliability of internal and external reporting and assists in compliance with applicable laws and regulations.

We operate in an evolving business environment and, as a result, the risks we face are continually changing. The internal control framework has been designed to ensure thorough and regular evaluation of the nature and extent of risk and our ability to react accordingly. It is the role of management to implement the Board's policies on risk and control. It is also recognised that all colleagues have responsibility for internal control as part of their accountability for achieving objectives.Training and induction is designed to ensure that they are clear on their accountabilities in this area and are competent to operate and monitor the internal control framework.

The internal audit function provided independent assurance to the Board on the effectiveness of the internal control framework through the ARCC. The ARCC reviewed this aspect through regular reporting from management, internal audit and external audit. The main internal control matters which were reviewed by the ARCC in 2023 were:

- Conduct related issues;
- Prudential related issues;
- Internal audit plans;
- Control reports from the external auditor in relation to the financial reporting process arising from the external audit. During the year Mazars did not highlight any material control weaknesses; and
- The status of issues raised in control reports which were tracked closely. During the year, the volume and age profile of issues raised remained within appropriate parameters.

The information received and considered by the ARCC provided reasonable assurance that during 2023 there were no material breaches of control or regulatory standards and that, overall, we maintained an adequate internal control framework that met the principles of the Code.

***External Audit***

Mazars LLP are appointed as external auditor.

The effectiveness of the external audit process is dependent on appropriate audit risk identification and at the start of the audit cycle the ARCC receives from Mazars a detailed audit plan, identifying its assessment of the key risks.

The ARCC or the ARCC Chair, on behalf of the ARCC holds regular private meetings with the external auditor. This provides the opportunity for open dialogue and feedback from the ARCC and the auditor without management being present. Matters typically discussed include the auditor's assessment of business risks and management's activity in relation to these risks, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management and the independence of their audit.

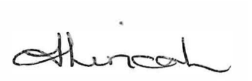
The ARCC considers the reappointment of the external auditor, including rotation of the audit partner, each year and also assesses its independence on an ongoing basis. The external auditor is required to rotate the audit partner responsible for the audit at least every five years. The audit in relation to the 2023 results was the fifth for the current audit partner and firm, after they were appointed in 2019, following a robust selection process. Mazars have confirmed the appointment of a new audit partner for the 2024 year end.

The ARCC approved the fees for audit services for 2023 after a review of the level and nature of the work to be performed and being satisfied that the fees were appropriate for the scope of the work required.

***ARCC Effectiveness***

The ARCC conducted a self-assessment review to monitor its effectiveness which concluded that the ARCC had operated effectively and in accordance with its Terms of Reference. The Terms of Reference were reviewed during the year and found to be fit for purpose.

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



**Janice Lincoln (Director)**
**29 February 2024**

**DIRECTORS' REMUNERATION REPORT**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

The 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 Remuneration Policy follows the 'Remuneration Code' guidelines put in place by the Financial Conduct Authority (FCA), which sets out the standards and policies that we are required to meet when setting pay for Directors. We do not have bonus or share option schemes and therefore no element of variable remuneration. In addition, due to our size, we do not have any material risk takers who meet the proportionality thresholds set by the FCA on the implementation of the Remuneration Code and therefore no separate additional disclosures are required.

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

**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 Chair and Chair of the ARCC receive higher fees than other Non-Executive Directors in recognition of the additional workload and responsibilities incumbent on those positions.

**Executive Directors**

Our policy is to set remuneration at levels sufficient to attract and retain Executives of sufficient calibre and expertise.

Executive Directors' remuneration comprises basic salary, discretionary bonus and pension benefits, the latter is based on a fixed percentage of salary. Their remuneration level and structure are considered by the Remuneration Committee which meets at least twice a year, with reference to job content and responsibilities, the performance of the individual and salaries in similar organisations.

Additionally, the Remuneration Committee considers the achievement of the strategic objectives within the Corporate Plan and the ongoing delivery of the longer-term strategy when considering any inflationary increases to Executive Directors' salaries.

There are no incentive schemes in place for the Executive Directors. The Remuneration Committee has the discretion to add a bonus payment to the remuneration of the Executive Directors annually if they feel there are aspects of their performance that would support an additional reward. This is aligned with the approach taken for all colleagues and is as a result of the appraisal process completed each year when achievement of objectives, aligned to the strategic goals, are reviewed.

We do not have a defined benefit final salary pension scheme. We make contributions to the private pension arrangements of the Executive Directors, the contributions being at the same level in line with that available to all colleagues.

The Chief Executive's and Finance Director's contracts of employment require a 6 month and 9 month notice period respectively.

Remuneration detail is set out in Note 9 on page 30.

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

**Richard Drinkwater (Director)**
**29 February 2024**

**DIRECTORS' RESPONSIBILITIES**
**IN RESPECT OF THE ANNUAL REPORT, THE ANNUAL BUSINESS STATEMENT,**
**THE DIRECTORS' REPORT AND THE ANNUAL ACCOUNTS**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

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), including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Annual Accounts are required by law to give a true and fair view of the state of affairs of the Group and Society as at the end of the financial year and of the income and expenditure of the Group and 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;
- assess the ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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 Group and Society.

**Directors' responsibilities for accounting records and internal controls**

The Directors are responsible for ensuring that the Group and Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position, 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 the Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal controls as they determine are necessary to enable the preparation of Annual Accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets 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 website. Legislation in the UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

The Directors who held office at the date of approval of this Directors' report confirm that:

- so far as they are each aware, there is no relevant audit information of which the external auditor is unaware; and
- each Director has taken all the steps that should be taken by a Director in order to be aware of any relevant audit information and to establish that the external auditor is aware of that information.

The Board is recommending that Mazars LLP is re-appointed as external auditor for the financial year ending 31 December 2024. A resolution for its re-appointment will be proposed at the forthcoming Annual General Meeting.

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

**Will Lindsay (Chair)**
**29 February 2024**

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

**Opinion**

We have audited the Annual Accounts of Penrith Building Society (the 'Society') and its subsidiary (the 'Group') for the year ended 31 December 2023 which comprise the Group and Society Income Statement (including Statement of Comprehensive Income), Group and Society Statement of Financial Position, Group and Society Cash Flow Statement, Group and Society Statement of Change in Members' Interests, and notes to the Annual Accounts, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Annual Accounts:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2023 and of the Group's and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the Annual Accounts" section of our report. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the Annual Accounts in the UK, including the Financial Reporting Council's ("FRC") Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

In auditing the Annual Accounts, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Annual Accounts is appropriate.

Our audit procedures to evaluate the Directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and Society's ability to continue as a going concern;
- Making enquiries of the Directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Society's future financial performance;

Challenging the appropriateness of the Directors' key assumptions in their cash flow forecasts by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the Directors' consideration of severe but plausible scenarios. This included reviewing the Group's and Society's 3-year Corporate Plan, latest Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP) and its reverse stress testing;

- Assessing the historical accuracy of forecasts prepared by the Directors;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the current economic situation, including but not limited to, the 'cost of living crisis', inflation, levels and interest rates;
- Performing sensitivity analysis by incorporating various stress scenarios to assess the impact on the capital and liquidity position of the Society;
- Considering the consistency of the Directors' forecasts with other areas of the Annual Accounts and our audit; and
- Evaluating the appropriateness of the Directors' disclosures in the Annual Accounts on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the Annual Accounts are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

**Key audit matter**

The key audit matter is that matter that, in our professional judgement, is of most significance in our audit of the Annual Accounts of the current period and includes the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including that which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the Annual Accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

We summarise below the key audit matter in forming our audit opinion above, together with an overview of the principal audit procedures performed to address the matter and our key observations arising from those procedures.

This matter, together with our findings, was communicated to those charged with governance through our Audit Completion Report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND DEPOSITORS OF PENRITH BUILDING SOCIETY, continued**

**Key audit matters, continued**

| Key audit matter | How our scope addressed this matter |
|---|---|
| **Credit Risk – Impairment of Loans and Advances to Customers**<br>**Group and Society: £194,000 (2022: £194,000)**<br><br>*Refer to note 1.8(a), for the associated accounting policy, note 2.1 for management's accounting estimates and judgements in applying the accounting policy, and note 16 of the Annual Accounts.*<br><br>A loan loss provision should be recognised when there is objective evidence of impairment. The total impairment provision of the Group and Society consists of individual provisions on loans with default indicators and a collective provision on the performing portfolio.<br><br>**Collective Impairment**<br>The Group and Society has little to no history of actual loss experience on which to base its impairment assessment on the loan portfolio, resulting in management judgement being required in determining assumptions to be applied in its assessment.<br><br>The impairment model is most sensitive to movements in the house price index ('HPI'), the forced sale discount ('FSD') applied to collateral values, estimate of future house price movement and the probability of default ('PD') of the loans.<br><br>**Specific Impairment**<br>Management judgement is applied in estimating the individual provisions. In particular, an adjustment is made to the probability of default to reflect the risk associated with loans in arrears by at least three months, or collateral that has been repossessed by the Group and Society. | Our audit procedures included, but were not limited to:<br>• Evaluating the design and implementation and testing the operating effectiveness of the key controls operating at the Group and Society in relation to the credit processes (loan origination and approval, loan redemptions and arrears monitoring);<br>• Testing the completeness and accuracy of loans that are subject to individual provision including recalculating the provision charge;<br>• Assessing the relevance and accuracy of external data used in the provisioning model (HPI and PD) based on our understanding of the Group's portfolio.<br>• Comparing the Group's and Society's key assumptions (PD and FSD) with similar lenders and loan portfolios with similar characteristics and considering whether these assumptions are consistent with industry benchmarks.<br>• Challenging the reasonableness of the future house price movement overlay applied in determining the present value of the future cash flows from defaulted loans.<br>• Testing the integrity of the spreadsheet model used to calculate the impairment provision. This includes testing of input data (HPI and PD) used in the model;<br>• Developing an auditor's range estimate of the collective provision using reasonable alternative assumptions relevant to the Group's and Society's portfolio;<br>• Performing a sensitivity analysis over the key assumptions on PD, FSD and HPI; and<br>• Assessing the adequacy of the Group's and Society's disclosures in relation to the estimation and uncertainty involved in arriving at the provision for impairment losses on loans and advances to customers.<br><br>**Our observations**<br>Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision as at 31 December 2023 to be reasonable and in compliance with the requirements of FRS 102. |

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND DEPOSITORS OF PENRITH BUILDING SOCIETY, continued**

**Our application of materiality and an overview of the scope of our audit**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual Annual Account line items and disclosures and in evaluating the effect of misstatements, both individually and on the Annual Accounts as a whole. Based on our professional judgement, we determined materiality for the Annual Accounts as a whole as follows:

| | |
|---|---|
| Overall materiality | Group: £129,300 (2022: £125,000)<br>Society: £129,300 (2022: £125,000) |
| How we determined it | 1% of reserves |
| Rationale for benchmark applied | We consider that reserves is the most appropriate benchmark to use for the Group and Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation as its primary objective.<br>Further, reserves as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where reserves is an approximation of regulatory capital resources. |
| Performance materiality | Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the Annual Accounts exceeds materiality for the Annual Accounts as a whole.<br>We set performance materiality at £90,500 (2022: £93,800) which was applied in the audit based on 70% (2022: 75%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount towards the upper end of our normal range was appropriate. |
| Reporting threshold | We agreed with the Directors that we would report to them misstatements identified during our audit above £6,400 (2022: £6,200) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. |

As part of designing our audit, we assessed the risk of material misstatement in the Annual Accounts, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the Directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the Annual Accounts as a whole. We used the outputs of a risk assessment, our understanding of the Group and Society, their environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all Annual Accounts line items.

Our Group audit scope included an audit of the Group's and the Society's Annual Accounts. Based on our risk assessment, the group audit team undertook a full scope audit of the Group, the Society and its trading subsidiary.

| | **2023** | **2022** |
|---|---|---|
| Number of reporting entities subject to full audit scope | 2 | 2 |
| % Group net interest income | 100% | 100% |
| % Group profit before tax | 100% | 100% |
| % Group total assets | 100% | 100% |

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

**Other information**

The other information comprises the information included in the Annual Report and Accounts other than the Annual Accounts and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the Annual Accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Annual Accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual Accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Annual Accounts or a material misstatement of the other information.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND DEPOSITORS OF PENRITH BUILDING SOCIETY, continued**

**Other information, continued**

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on the Annual Business Statement and the Directors' Report**

In our opinion, based on the work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the Building Societies Act 1986;
- the information in the Directors' Report for the financial year is consistent with the accounting records and the Annual Accounts; and
- the information given in the Annual Business Statement (other than the information on which we are not required to report) gives a true representation of the matters in respect of which it is given.

In light of the knowledge and understanding of the Group and Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the Group and Society; or
- the Group and Society's individual 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.

**Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the Directors are responsible for the preparation of the Annual Accounts and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Annual Accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Annual Accounts, the Directors are responsible for assessing the Group's and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or Society or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the Annual Accounts**

Our objectives are to obtain reasonable assurance about whether the Annual Accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Annual Accounts.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Group and Society and their industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') and anti-money laundering regulations. and we considered the extent to which non-compliance with these laws and regulations might have a material effect on the Annual Accounts.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance with laws and regulations, our procedures included but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and Society, the industry in which they operate and the structure of the Group and Society, and considering the risk of acts by the Group and Society which were contrary to the applicable laws and regulations including fraud;
- Inquiring of the Directors, management and, where appropriate, those charged with governance, as to whether the Group and Society are in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities, including the PRA and FCA;
- Reviewing minutes of Directors' meetings in the year;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- Focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the Annual Accounts from our general commercial and sector experience and through discussions with the Risk and Compliance Executive, from inspection of the Group's and Society's regulatory and legal correspondence and review of minutes of the Board of Directors and ARCC during the period.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND DEPOSITORS OF PENRITH BUILDING SOCIETY, continued**

**Auditor's responsibilities for the audit of the Annual Accounts, continued**

We also considered those other laws and regulations that have a direct impact on the preparation of Annual Accounts, such as the Building Societies Act 1986 and UK Tax Legislation.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the Annual Accounts, including the risk of management override of controls, and determined that the principal risks related to posting journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Being skeptical to the potential of management bias through judgement and assumptions in significant accounting estimates, in particular in relation to loan loss provisions, and performing the procedures described in the "Key audit matters" section of our report.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Other matters which we are required to address**

Following the recommendation of the ARCC, we were appointed by the Directors on 1 November 2019 to audit the Annual Accounts for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2019 to 31 December 2023.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or Society and we remain independent of the Group and Society in conducting our audit.

Our audit opinion is consistent with our additional report to the ARCC

**Use of the audit report**

This report is made solely to the Group's and Society's members as a body and the Group's and Society's depositors 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 Group's and Society's members and depositors 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 Group's and Society's members as a body and the Group's and Society's depositors as a body for our audit work, for this report, or for the opinions we have formed.

Tim Hudson

**Tim Hudson (Senior Statutory Auditor)**
**for and on behalf of Mazars LLP**
**Chartered Accountants and Statutory Auditor**

**One St Peter's Square**
**Manchester**
**M2 3DE**

**1 March 2024**

**INCOME STATEMENT (INCLUDING STATEMENT OF COMPREHENSIVE INCOME)**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

| | Notes | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|---|
| Interest receivable and similar income | 4 | 6,905,676 | 4,215,784 | 6,905,676 | 4,215,784 |
| Interest payable and similar charges | 5 | (3,703,244) | (1,384,445) | (3,703,244) | (1,384,445) |
| **Net interest receivable** | | **3,202,432** | **2,831,339** | **3,202,432** | **2,831,339** |
| Fees and commissions receivable | | 47,107 | 46,223 | 36,675 | 31,658 |
| Fees and commissions payable | | (9,882) | (6,488) | (9,882) | (6,488) |
| Fair value adjustment on investment properties | 21 | 31,348 | 22,934 | 31,348 | 22,934 |
| Other operating income | 6 | 6,760 | 9,195 | 6,760 | 9,195 |
| **Total income** | | **3,277,765** | **2,903,203** | **3,267,333** | **2,888,638** |
| Administrative expenses | 8 | (2,568,390) | (2,242,033) | (2,571,521) | (2,236,233) |
| Depreciation and amortisation | 19/20 | (134,912) | (96,255) | (134,912) | (96,255) |
| Disposal of fixed assets | 19/20 | (1,566) | (2,048) | (1,566) | (2,048) |
| **Operating profit before impairment losses and provisions** | | **572,897** | **562,867** | **559,334** | **554,102** |
| Impairment losses on loans and advances | 16 | - | (13,000) | - | (13,000) |
| **Profit on ordinary activities before tax** | | **572,897** | **549,867** | **559,334** | **541,102** |
| Tax on profit on ordinary activities | 11 | (140,096) | (98,360) | (137,519) | (96,694) |
| **Profit for the financial year** | | **432,801** | **451,507** | **421,815** | **444,408** |

Profit for the financial year arises from continuing operations and is attributable to members.

The notes on pages 25 to 40 form part of these accounts.

## STATEMENT OF FINANCIAL POSITION
## AT 31 DECEMBER 2023

| | Notes | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Liquid assets: | | | | | |
| Cash in hand | 12 | 56,553 | 55,676 | 56,553 | 55,676 |
| Treasury bills | 13 | 10,847,374 | 12,885,154 | 10,847,374 | 12,885,154 |
| Loans and advances to credit institutions | 14 | 11,617,844 | 16,338,123 | 11,560,246 | 16,286,544 |
| Debt securities | 13 | 4,054,834 | 4,536,261 | 4,054,834 | 4,536,261 |
| | | 26,576,605 | 33,815,214 | 26,519,007 | 33,763,635 |
| **Loans and advances to customers** | | | | | |
| Loans fully secured on residential properties | | 101,337,586 | 102,055,910 | 101,337,586 | 102,055,910 |
| Loans fully secured on land | | 226,621 | 518,613 | 226,621 | 518,613 |
| | 15 | 101,564,207 | 102,574,523 | 101,564,207 | 102,574,523 |
| Investment in subsidiary | 17 | - | - | 102 | 102 |
| Other investments | 18 | 144,933 | 144,933 | 144,933 | 144,933 |
| Tangible fixed assets | 19 | 565,027 | 572,718 | 565,027 | 572,718 |
| Intangible fixed assets | 20 | 78,785 | 89,875 | 78,785 | 89,875 |
| Investment properties | 21 | 229,600 | 281,600 | 229,600 | 281,600 |
| Prepayments and accrued income | 22 | 543,436 | 527,818 | 542,545 | 527,483 |
| **Total assets** | | **129,702,593** | **138,006,681** | **129,644,206** | **137,954,869** |
| **Liabilities** | | | | | |
| Shares | 23 | 112,788,736 | 121,761,352 | 112,788,736 | 121,761,352 |
| Amounts owed to credit institutions | 24 | 507,018 | 504,701 | 507,018 | 504,701 |
| Amounts owed to other customers | 25 | 3,039,159 | 2,881,776 | 3,039,159 | 2,881,776 |
| | | 116,334,913 | 125,147,829 | 116,334,913 | 125,147,829 |
| Other liabilities | 26 | 143,141 | 63,754 | 140,564 | 62,088 |
| Accruals and deferred income | | 194,843 | 196,932 | 188,952 | 185,718 |
| Deferred tax liability | 27 | 45,636 | 46,908 | 45,636 | 46,908 |
| **Total liabilities** | | **116,718,533** | **125,455,423** | **116,710,065** | **125,442,543** |
| **Reserves** | | | | | |
| Total reserves attributed to ourmembers | | 12,984,060 | 12,551,258 | 12,934,141 | 12,512,326 |
| **Total reserves and liabilities** | | **129,702,593** | **138,006,681** | **129,644,206** | **137,954,869** |

**Approved by the Board of Directors on 29 February 2024 and signed on its behalf by:**

**Will Lindsay (Chair)** **Janice Lincoln (Director)** **Zack Hocking (Chief Executive)**

The notes on page 25 to 40 form part of these accounts.

Penrith building society
Listening and Supporting, Since 1877

## CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2023

| | Notes | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit on ordinary activities before tax | | 572,897 | 549,867 | 559,334 | 541,102 |
| Adjustment to fair value of investment properties | 21 | (31,348) | (22,934) | (31,348) | (22,934) |
| Depreciation and amortisation | 19/20 | 134,912 | 96,255 | 134,912 | 96,255 |
| Increase in impairment of loans and advances | 16 | - | 13,000 | - | 13,000 |
| Movement in accrued interest on debt securities | 13 | (75,784) | (113,099) | (75,784) | (113,099) |
| | | **600,677** | **523,089** | **587,114** | **514,324** |
| **Changes in operating assets and liabilities** | | | | | |
| Increase in prepayments, accrued income and other assets | 22 | (15,618) | (147,504) | (15,062) | (147,169) |
| (Decrease)/ increase in accruals, deferred income and other liabilities | | (1,954) | 33,351 | 3,368 | 30,668 |
| Decrease/ (increase) in loans and advances to customers | 15 | 1,010,316 | (5,664,227) | 1,010,316 | (5,664,227) |
| (Decrease)/ increase in shares | 23 | (8,972,616) | 10,056,491 | (8,972,616) | 10,056,491 |
| Increase in amounts owed to credit institutions and other customers | 24/25 | 159,700 | 792,440 | 159,700 | 792,440 |
| Decrease/ (increase) in loans and advances to credit institutions | | 4,934,893 | (4,039,319) | 4,934,893 | (4,039,319) |
| Taxation paid | 11 | (62,116) | (156,426) | (60,450) | (153,125) |
| **Net cash inflow/ (outflow) from operating activities** | | **(2,947,395)** | **874,806** | **(2,939,851)** | **875,759** |
| **Cash flows from investing activities** | | | | | |
| Purchase of debt securities | 13 | (25,470,315) | (28,257,812) | (25,470,315) | (28,257,812) |
| Disposal of debt securities | 13 | 28,065,306 | 25,134,134 | 28,065,306 | 25,134,134 |
| Purchase of tangible and intangible fixed assets | 19/20 | (117,697) | (559,131) | (117,697) | (559,131) |
| Disposal of tangible and intangible fixed assets | 19 | 1,566 | 2,048 | 1,566 | 2,048 |
| Disposal of investment property | 21 | 83,348 | 76,934 | 83,348 | 76,934 |
| **Net cash used in investing activities** | | **2,562,208** | **(3,603,827)** | **2,562,208** | **(3,603,827)** |
| **Net increase/ (decrease) in cash and cash equivalents** | | **215,490** | **(2,205,932)** | **209,471** | **(2,213,744)** |
| **Cash and cash equivalents at the start of the year** | 12 | **6,851,713** | **9,057,645** | **6,800,134** | **9,013,878** |
| **Cash and cash equivalents at the end of the year** | 12 | **7,067,203** | **6,851,713** | **7,009,605** | **6,800,134** |

## STATEMENT OF CHANGE IN MEMBERS' INTERESTS
## FOR THE YEAR ENDED 31 DECEMBER 2023

**General reserves**

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| Balance as at 1 January | 12,551,258 | 12,099,751 | 12,512,326 | 12,067,918 |
| Total comprehensive income for the year | 432,801 | 451,507 | 421,815 | 444,408 |
| **Balance as at 31 December** | 12,984,059 | 12,551,258 | 12,934,141 | 12,512,326 |

The notes on page 25 to 40 form part of these accounts.

## NOTES TO THE ACCOUNTS

### 1. Principal accounting policies

#### 1.1. Basis of preparation

We have prepared the Annual Accounts, comprising the individual accounts of the Society and consolidated accounts for the Group, in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 ('the accounts regulations') and Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) as issued in March 2018.

In preparing the Annual Accounts under FRS 102, the use of certain critical account estimates and judgments has been required. The areas involving a higher degree of judgement or areas where assumptions and estimates are significant to the Annual Accounts are set out in Note 2, on page 28.

#### 1.2. Basis of accounting

The Annual Accounts have been prepared under the historical cost convention. This is except for Investment Properties, which are measured at fair value.

The Annual Accounts have been prepared on a going concern basis. This is discussed in the Directors' Report on page 8, under the heading 'Going Concern'.

The presentation currency of the Annual Accounts is sterling and all amounts have been rounded to the nearest pound.

#### 1.3. Basis of consolidation

The Group accounts consolidate the accounts of the Society and its subsidiary undertaking, and exclude any profits or losses on intra group transactions. These accounts are made up to 31 December 2023. Unless otherwise stated, the acquisition method of accounting has been adopted. In the Society's accounts, investments in subsidiary undertakings are stated at the lower of cost and recoverable amount. Uniform accounting policies are applied throughout the Group.

#### 1.4. Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments are recognised in 'interest receivable and similar income' or 'interest payable and similar charges' using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability.

Fees receivable and payable on mortgage assets are generally recognised when all contractual obligations have been fulfilled and are spread over the expected life of the mortgage, as part of the effective interest rate model outlined in 1.6 below.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by an allowance for impairment.

#### 1.5. Fees and commissions

Fees and commissions receivable and payable that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.6). Other fees and commission, including account servicing fees, sales commission and other fees are recognised as the related services are performed.

#### 1.6. Financial assets

In accordance with FRS 102 (sections 11 and 12), we initially recognise loans and advances, deposits and debt securities on the date on which they originated. All other financial instruments are recognised on the trade date, being the date on which we became a party to the contractual provision of the instrument.

**a) Loans and Receivables**

The loans and advances to customers are classified as loans and receivables. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

We measure our loans and advances at amortised cost less impairment provisions. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The initial value may, if applicable, include certain fees such as application, product, legal, valuation or higher lending charges, which are recognised over the expected scheme life of mortgage assets, as noted in 1.4 above.

Discounted rates on mortgages are recognised over the expected scheme life of mortgage assets and for certain schemes, will form part of the effective interest rate model.

Throughout the year and at each year end, the mortgage life assumptions for each scheme are reviewed for appropriateness.

Any changes to the expected life assumptions of the mortgage assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets in loans and advances to customers.

**b) Debt instruments**

Debt instruments are non-derivative assets with fixed or determinable payments and fixed maturity that we have the positive intent and ability to hold to maturity, and which are not designated as at fair value through the income statement.

Debt instruments are carried at amortised cost using the effective interest rate method (see above), less any impairment losses.

We derecognise a financial asset when its contractual rights to a cash flow are discharged or cancelled, or expire or substantially all the risk and rewards of ownership have been transferred.

**NOTES TO THE ACCOUNTS, continued**

**1. Principal accounting policies, continued**

**1.7 Financial liabilities measured at amortised costs**

In accordance with FRS 102 (sections 11 and 12), we classify financial liabilities, other than financial guarantees and loans and receivables, as measured at amortised cost.

We derecognise a financial liability when its contractual obligations are discharged or cancelled, or expire.

**1.8. Impairment of financial assets**

**a) Assets carried at amortised cost**

A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Throughout the year and at each year end individual assessments are made of all loans and advances against land and properties which are in possession or in arrears by three months or more and/or are subject to forbearance activities. Individual impairment provisions are made against those loans and advances where there is objective evidence of impairment.

Objective evidence of impairment may include:

- Significant financial difficulty of the borrower/issuer;
- Deterioration in payment status;
- Renegotiation of the terms of an asset due to financial difficulty of the borrower or issuer, including granting a concession/forbearance to the borrower or issuer;
- Becoming probable that the borrower or issuer will enter bankruptcy or other financial reorganisation; and
- Any other information discovered during regular review suggesting that a loss is likely in the short to medium term.

We consider evidence of impairment for assets carried at amortised cost at both an individual asset and a collective level. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified by grouping together loans and advances and held to maturity investments with similar risk characteristics.

In assessing collective impairment, we use external market data to build a risk weighted model of historical trends of the probability of default, the timing of recoveries and the amount of loss that may be incurred. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

In considering expected future cash flows, account is taken of any discount which may be needed against the value of the property at the statement of financial position date thought necessary to achieve a sale and anticipated realisation costs.

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, the Board may elect to apply an overlay to the impairment provision.

The amount of impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of provisions.

**b) Forbearance strategies and renegotiated loans**

A range of forbearance options are available to support mortgage members who are experiencing financial difficulty. The purpose of forbearance is to support mortgage members who have temporary financial difficulties and help them get back to normal payments.

The main options offered include:

- Reduced or suspended monthly payments (concessions);
- An arrangement to clear outstanding arrears; and
- Extension of mortgage term.

Mortgage members requesting a forbearance option will need to provide information to support the request which is likely to include an income and expenditure form, statement of assets and liabilities, bank/credit card statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our Borrowers Experiencing Repayment Difficulties Policy and associated procedures. At the appropriate time, the forbearance option that has been implemented is cancelled and the borrower's normal contractual payment is restored.

**1.9. Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity at the date of the statement of financial position, including cash and loans and advances to credit institutions.

**1.10. Investment properties**

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Investment properties are recognised initially at cost.

Subsequent to initial recognition, investment properties are held at fair value. An annual independent desktop valuation is completed by a RICS qualified surveyor to obtain a current market (fair) value of the investment properties, which considers their rental yield and ownership structure. Any gains or losses arising from changes in the fair value are recognised in the income statement in the period that they arise and no depreciation is provided in respect of investment properties applying the fair value model.

Rental income from investment properties is accounted for on an accruals basis.

**NOTES TO THE ACCOUNTS, continued**

**1. Principal accounting policies, continued**

**1.11. Tangible assets – property, plant and equipment**

Additions and improvements to office premises and equipment, including costs directly attributable to the acquisition of the asset, are capitalised at cost. In the statement of financial position, the value of property, plant and equipment represents the original cost, less cumulative depreciation.

The costs, less estimated residual values of assets, are depreciated on a straight-line basis over their estimated useful economic lives as follows:

- Freehold buildings - over 100 years
- Office and IT, fixtures and fittings - over 5-10 years
- Refurbishment costs -over 20 years
- No depreciation is provided on freehold land.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

**1.12. Intangible assets – computer software**

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by us which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Intangible assets are stated at cost less cumulative amortisation and impairment losses.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is 3-5 years. The amortisation period used is reviewed annually.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

**1.13. Investments in non-financial assets**

Investments in non-financial assets are recognised initially at cost. The carrying value of investments in non-financial assets other than investment properties are reviewed each year end to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in the income statement, if the carrying amount of an asset exceeds its estimated recoverable amount. An impairment loss is reversed if, and only if, the reasons for the impairment have ceased to apply. Impairment losses recognised in prior years are assessed at each year end for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

**1.14. Employee benefits**

We operate a defined contribution pension scheme, the assets of which are held separately. For this scheme, the cost is charged to the income statement as contributions become due.

**1.15. Taxation**

Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the date of the statement of financial position, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the Annual Accounts. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense. Deferred tax balances are not discounted.

Both current and deferred taxes are determined using the rates enacted or substantively enacted at the statement of financial position date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities and other future taxable profits.

**1.16. Contingent liabilities**

Contingent liabilities are potential obligations from past events which shall be confirmed by future events. Contingent liabilities are not recognised in the statement of financial position.

**NOTES TO THE ACCOUNTS, continued**

**1. Principal accounting policies, continued**

**1.17. Leases**

Leases in which we assume substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases, are classified as operating leases. Rental payments (including costs for services and insurance) made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives are recognised in the income statement over the term of the lease as an integral part of the total lease expense.

**2. Accounting estimates and judgements**

We make estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

**2.1. Impairment losses on loans and advances to customers**

We review the mortgage book on at least a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, we are required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows.

In determining impairment losses at 31 December 2023 we continued to consider the possibility of inflated house prices and increased propensity to default. These factors are monitored throughout the year and we continue to adjust the impairment provisioning model by discounting the HPI position by a 10% factor to reflect the indications of an inflated market therefore all assumptions in the loan loss provisioning model remain unchanged from the 2022 position.

Estimates are applied in the impairment provisioning model to determine prevailing market conditions (e.g. interest rates and house prices), mortgage member's behaviour (e.g. default rates) and forced sales discounts, reflecting the reduction in market value and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions. The impairment provisions are sensitive to changes in the underlying assumptions, with the HPI being the most critical. If the reduction in the HPI was to increase from 10% to 15% then the closing impairment provisions would increase by £49,164 (2022: £61,368). Default rates have an immaterial impact on the impairment provisions. A 0.10% increase to the default rates increase the closing impairment provisions by £8,677.

**2.2. Effective interest rate (EIR)**

We recognise interest on loans and advances to customers on the basis of their Effective Interest Rate. This is a constant rate that averages out the effect of interest, fees and incentives across the expected behavioural life of mortgage assets. The behavioural life is a critical assumption based on historic and forecast redemption data as well as management judgement.

At regular intervals throughout the year, the behavioural life of mortgage assets is reassessed for reasonableness. Any variation in the behavioural life of mortgage assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

Decreasing the period from the date of maturity of a mortgage product to the point at which the mortgage member switches to either another product or redeems the mortgage by 5%, increases the net EIR asset on the statement of financial position by £6,599 however an increase of 5% increases the net EIR asset by £53,077. The EIR asset increases and decreases accordingly.

**2.3. Fair value of investment properties**

We review the fair value of our investment properties on an annual basis, via either a desktop or physical valuation. The fair value is then adjusted to reflect any uplift or impairment in the market value arising from the valuation.

These properties are residential shared ownership properties where we own 50% of the property and the underlying freehold. Our intention is to sell our share in the investment properties collectively when an appropriate buyer can be found. However, we are open to selling the individual properties rather than collectively if an opportunity presents. In 2023 we were able to sell our share of one of the investment properties (2022: one) on that basis.

In reviewing the valuation at 31 December 2023, we believe that the current market (fair) value of the properties, which is based on the market value of individual sales for each property, reflects the remaining tenure of the freehold leases underlying these properties.

The impact on the fair value at 31 December 2023 is disclosed in more detail in Note 21 on page 34.

NOTES TO THE ACCOUNTS, continued

## 3. Country by country reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulation 2013. The purpose of these regulations is to provide clarity on our income and the location of our operations.

The Society's principal activities are mortgage lender and provider of savings accounts. The subsidiary's principal activity, as detailed in Note 17 on page 33, is that of a tied mortgage broker. All of the consolidated entities were incorporated in the UK.

The consolidated Annual Accounts of the Group include the audited results of the Society and its subsidiary company.

For the year ended 31 December 2023:

- The Group's turnover (being net interest receivable) was £3.20m (2022: £2.83m). Profit before tax £0.57m (2022: £0.55m) all of which arose from UK based activity.
- The average number of full time equivalent employees for the Group and Society was 28 (2022: 23).
- Group corporation tax of £62,114 (2022: £156,426) was paid in the year and is within the UK tax jurisdiction.
- Public subsidies were received in the year of £0 (2022: £0).

## 4. Interest receivable and similar income

| | Group and Society | |
|---|---|---|
| | **2023** | **2022** |
| | **£** | **£** |
| On loans fully secured on residential property | 5,907,671 | 3,944,038 |
| On other loans | 29,191 | 28,642 |
| On debt securities | 191,228 | 36,663 |
| On treasury bills | 493,041 | 129,681 |
| On liquid assets | 284,545 | 76,760 |
| | 6,905,676 | 4,215,784 |

Interest on debt securities includes £191,228 (2022: £36,633) arising from fixed income investment securities.

## 5. Interest payable and similar charges

| | Group and Society | |
|---|---|---|
| | **2023** | **2022** |
| | **£** | **£** |
| On shares held by individuals | 3,638,062 | 1,354,493 |
| On other shares | 330 | 856 |
| On deposits and other borrowings | 64,852 | 29,096 |
| | 3,703,244 | 1,384,445 |

## 6. Other operating income

| | Group and Society | |
|---|---|---|
| | **2023** | **2022** |
| | **£** | **£** |
| Rental income | 6,760 | 9,195 |

## 7. Employees

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

| | Full time 2023 No. | Part time 2023 No. | Full time 2022 No. | Part time 2022 No. |
|---|---|---|---|---|
| Head Office | 19 | 4 | 15 | 5 |
| Branch | 4 | 1 | 4 | 2 |
| Total | 23 | 5 | 19 | 7 |

**NOTES TO THE ACCOUNTS, continued**

## 8. Administrative expenses

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| Staff costs | | | | |
| Wages and salaries | 1,137,922 | 1,074,483 | 1,137,922 | 1,074,483 |
| Social security costs | 116,570 | 109,812 | 116,570 | 109,812 |
| Other pension costs | 48,777 | 46,243 | 48,777 | 46,243 |
| | 1,303,269 | 1,230,538 | 1,303,269 | 1,230,538 |
| Other admin expenses | 1,265,121 | 1,011,495 | 1,268,252 | 1,005,695 |
| | 2,568,390 | 2,242,033 | 2,571,521 | 2,236,233 |

| | | |
|---|---|---|
| Other admin expenses include: | | |
| Audit of these Annual Accounts* (excluding VAT) | 92,000 | 81,000 |
| Operating lease costs | 35,443 | 32,832 |

*The audit fee for the subsidiary company of £3,780 (2022: £3,000) is included above. No non-audit services were provided.

## 9. Directors' emoluments

Key management personnel comprises solely the Non-Executive and Executive Directors

| | Group and Society 2023 £ | Group and Society 2022 £ |
|---|---|---|
| **Fees for services as Non-Executive Directors:** | | |
| Rod Ashley | 18,058 | 17,077 |
| Richard Drinkwater | 18,058 | 17,077 |
| Janice Lincoln | 18,661 | 17,647 |
| Will Lindsay | 22,416 | 21,197 |
| Nicki Marsh (appointed 1 March 2023) | 15,157 | - |
| Kevin Parr (resigned 31 October 2022) | - | 14,176 |
| Fiona Smith (appointed 1 September 2023) | 6,092 | - |
| **Total for Non-Executive Directors** | 98,442 | 87,174 |
| | | |
| **For services as Executive Directors:** | | |
| Zack Hocking (appointed 4 December 2023) | | |
| Salary | 9,615 | - |
| Bonus | - | - |
| Benefits and allowances | 500 | - |
| Pension contributions | 481 | - |
| | 10,596 | - |
| Tim Bowen (resigned 22 November 2023) | | |
| Salary | 110,865 | 117,584 |
| Bonus | - | 7,157 |
| Benefits and allowances | 7,388 | 6,164 |
| Pension contributions | 5,529 | 5,879 |
| | 123,782 | 136,784 |
| Elspeth James** | | |
| Salary | 80,977 | 75,688 |
| Bonus | 4,918 | 4,607 |
| Benefits and allowances | 858 | 2,783 |
| Pension contributions | 3,983 | 3,784 |
| | 90,736 | 86,862 |
| **Total for Executive Directors** | 225,114 | 223,646 |
| | | |
| **Total for Directors' emoluments** | 323,556 | 310,820 |

**Elspeth James works on a four-day contract.

**NOTES TO THE ACCOUNTS, continued**

**10. Directors' loans and related party transactions**

The aggregate amount of loans outstanding at 31 December 2023 to one (2022: one) Director and connected persons was £106,980 (2022: £134,549). This loan was 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 our Head Office. This is available for inspection during normal office hours over the period of 15 days prior to the Annual General Meeting and at the Annual General Meeting itself.

We hold unlisted shares in Mutual Vision Technologies Limited which provides IT services to the business, as detailed in Note 18 on page 33. Amounts paid to Mutual Vision Technologies Limited for IT services were £405,929 (2022: £315,871) of which £71,474 (2022: £56,177) was capitalised, see Note 20 on page 34. Tim Bowen was re-appointed as a director of this company on 13 January 2023 until his resignation on 22 November 2023 and received personal fees of £14,209 (2022: £nil).

**11. Taxation**

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| **Current tax** | | | | |
| Current tax on income for the period | 142,577 | 63,325 | 140,000 | 61,659 |
| Adjustment in respect of previous periods | (1,209) | (444) | (1,209) | (444) |
| **Total current tax** | 141,368 | 62,881 | 138,791 | 61,215 |
| | | | | |
| **Deferred tax (see Note 27)** | | | | |
| Origination and reversal of timing differences | (8,304) | 26,963 | (8,304) | 26,963 |
| Effect of changes in tax rates | 7,553 | 8,516 | 7,553 | 8,516 |
| Impact of change of rate on deferred tax balances | (521) | - | (521) | - |
| Total deferred tax | (1,272) | 35,479 | (1,272) | 35,479 |
| | | | | |
| **Total tax expense** | 140,096 | 98,360 | 137,519 | 96,694 |

The standard rate of corporation tax in the UK changed on 1 April 2023 to 25%.There are two effective tax rates in operation for the period of these accounts, 1 January 2023 to 31 March 2023:19% and 1 April to 31 December: 25% (2022: 19%)

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| **Reconciliation of effective tax rate:** | | | | |
| Profit for the year | 572,897 | 549,867 | 559,334 | 541,102 |
| Total effective tax Group 23.41%, Society 23.52% (2022: 19%) | 134,132 | 104,475 | 131,555 | 102,809 |
| | | | | |
| **Effects of:** | | | | |
| Non-deductible expenses | 1,704 | 97 | 1,704 | 97 |
| Adjustments from previous periods | 6,344 | (444) | 6,344 | (444) |
| Income not taxable | (1,467) | (14,019) | (1,467) | (14,019) |
| Gains/rollover relief | (96) | 5,539 | (96) | 5,539 |
| Change of rate on deferred tax balances | (521) | 8,531 | (521) | 8,531 |
| Revaluations | - | (5,819) | - | (5,819) |
| Total tax expense included in income statement | 140,096 | 98,360 | 137,519 | 96,694 |

The standard rate of tax applied to reported profit changed on 1 April 2023 to 25% (2022: 19% per cent). The applicable tax rate has changed following the substantive enactment of the Finance Act 2021. The deferred tax liability is calculated using the tax rate enacted from 1 April 2023 at 25%.

**12. Cash and cash equivalents**

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| Cash in hand | 56,553 | 55,676 | 56,553 | 55,676 |
| Loans and advances to credit institutions (Note 14) | 7,010,650 | 6,796,037 | 6,953,052 | 6,744,458 |
| | 7,067,203 | 6,851,713 | 7,009,605 | 6,800,134 |

## 13. Debt securities

| | Group and Society 2023 £ | Group and Society 2022 £ |
|---|---|---|
| Treasury bills | 10,847,374 | 12,885,154 |
| Certificates of deposit | 4,054,834 | 4,536,261 |
| | 14,902,208 | 17,421,415 |
| Debt securities have remaining maturities as follows: | | |
| In not more than one year | 14,902,208 | 17,421,415 |
| Transferrable debt securities (excluding accrued interest) comprise: | | |
| Unlisted | 4,001,135 | 4,501,263 |

Movement in debt securities (excluding accrued interest) during the year can be summarised as follows:

| | Group and Society 2023 | Group and Society 2022 |
|---|---|---|
| At 1 January | 17,421,415 | 14,184,638 |
| Disposals and maturities | (28,065,306) | (25,134,134) |
| Acquisitions | 25,470,315 | 28,257,812 |
| Movement in accrued interest | 75,784 | 113,099 |
| At 31 December | 14,902,208 | 17,421,415 |

## 14. Loans and advances to credit institutions

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| Accrued interest | 45,332 | 42,086 | 45,332 | 42,086 |
| Repayable on demand | 7,010,650 | 6,796,037 | 6,953,052 | 6,744,458 |
| Other loans and advances by residual maturity payable: | | | | |
| In not more than 3 months | 2,561,862 | 6,000,000 | 2,561,862 | 6,000,000 |
| In not more than 1 year | 2,000,000 | 3,500,000 | 2,000,000 | 3,500,000 |
| | 11,617,844 | 16,338,123 | 11,560,246 | 16,286,544 |

## 15. Loans and advances to customers

| | Group and Society 2023 £ | Group and Society 2022 £ |
|---|---|---|
| Loans fully secured on residential property | 101,337,586 | 102,055,910 |
| Loans fully secured on land | 226,621 | 518,613 |
| | 101,564,207 | 102,574,523 |

The remaining maturity of loans and advances to customers from the date of the statement of financial position is as follows:

| | Group and Society 2023 £ | Group and Society 2022 £ |
|---|---|---|
| In not more than three months | 789,742 | 1,099,460 |
| In more than three months but not more than one year | 2,477,826 | 3,022,424 |
| In more than one year but not more than five years | 15,949,385 | 17,491,410 |
| In more than five years | 82,541,254 | 81,155,229 |
| | 101,758,207 | 102,768,523 |
| Impairment (see Note 16) | (194,000) | (194,000) |
| | 101,564,207 | 102,574,523 |

The maturity analysis above is based on contractual maturity not expected redemption timings.

NOTES TO THE ACCOUNTS, continued

## 16. Allowance for impairment

| | Group and Society | | |
|---|---|---|---|
| | Loans fully secured on land | Loans fully secured on residential property | Total |
| At 1 January | £ | £ | £ |
| Individual provision | - | 18,000 | 18,000 |
| Collective provision | 16,000 | 160,000 | 176,000 |
| | 16,000 | 178,000 | 194,000 |
| Income statement | | | |
| Individual provision | | 2,000 | 2,000 |
| Collective provision | (16,000) | 14,000 | (2,000) |
| | (16,000) | 16,000 | - |
| At 31 December | | | |
| Individual provision | - | 20,000 | 20,000 |
| Collective provision | - | 174,000 | 174,000 |
| | - | 194,000 | 194,000 |

We have one mortgage case where forbearance has been exercised (2022: four). ,

## 17. Investment in subsidiary

| | Shares | Loans | Total |
|---|---|---|---|
| **Cost** | £ | £ | £ |
| At 1 January 2023 and 31 December 2023 | 2 | 100 | 102 |

The Society directly holds 100% of the issued ordinary share capital of the following company which is registered in England and Wales:

| | **Principal Activity** |
|---|---|
| Cumbria Mortgage Centre Limited | Tied Mortgage Broker |

The subsidiary operates within the United Kingdom and is included in the Group's accounts. No Director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

## 18. Other investments

We hold unlisted shares in Mutual Vision Technologies Limited which provides IT services, as follows:

**Unlisted investments**

| | Total |
|---|---|
| **Cost** | £ |
| At 1 January 2023 and 31 December 2023 | 144,933 |

The above investment is held with the intention of use on a continuing basis in our activities. As the fair value of the shares in Mutual Vision Technologies Limited are not readily available on an on-going basis, the investment is recognised at cost less accumulated impairment losses and is classified as a financial fixed asset.

## 19. Tangible fixed asset

| | Group and Society | | | |
|---|---|---|---|---|
| | Freehold land and buildings | Office and IT, fixtures and fittings | Refurbishment costs | Total |
| **Cost** | £ | £ | £ | £ |
| At beginning of year | 40,000 | 316,979 | 392,572 | 749,551 |
| Additions | - | 21,795 | 24,428 | 46,223 |
| Disposals | - | (3,722) | | (3,722) |
| At end of year | 40,000 | 335,052 | 417,000 | 792,052 |
| | | | | |
| **Depreciation** | | | | |
| At beginning of year | 18,000 | 151,908 | 6,925 | 176,833 |
| Charge for the year | 400 | 31,506 | 20,442 | 52,348 |
| Elimination in respect of disposals | - | (2,156) | - | (2,156) |
| At end of year | 18,400 | 181,258 | 27,367 | 227,025 |
| | | | | |
| **Net book value** | | | | |
| 31 December 2023 | 21,600 | 153,794 | 389,633 | 565,027 |
| 31 December 2022 | 22,000 | 165,071 | 385,647 | 572,718 |

The net book value of the freehold premises occupied by the Group for its own activities is £21,600 (2022: £22,000).

## 20. Intangible fixed assets

| | Group and Society IT software and development costs |
|---|---|
| **Cost** | £ |
| At beginning of year | 386,369 |
| Additions | 71,474 |
| At end of year | 457,843 |
| | |
| **Depreciation** | |
| At beginning of year | 296,494 |
| Charge for the year | 82,564 |
| At end of year | 379,058 |
| | |
| **Net book value** | |
| 31 December 2023 | 78,785 |
| 31 December 2022 | 89,875 |

## 21. Investment properties

| | Group and Society | |
|---|---|---|
| | 2023 | 2022 |
| **Fair value** | £ | £ |
| At 1 January | 281,600 | 335,600 |
| Gain from fair value adjustment | 31,348 | 22,934 |
| Disposal of property | (83,348) | (76,934) |
| At 31 December 2023 | 229,600 | 281,600 |

We own residential investment properties at Mardale Close and Greystoke Park, Penrith, which are freehold, under a shared ownership arrangement. Our share being 50% of the property value. During the year one property was sold in the open market (2022: one).

A physical valuation was completed at 31 December 2023 to support managements estimate of a current market (fair) value of £663,000. The valuation was completed by an external, independent valuer from SWH Surveyors Limited, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued. The fair value is estimated using the market valuation approach which uses prices and other relevant information generated by market transactions involving comparable properties. The basis of the fair value of these investment properties also reflects the remaining tenure of the freehold leases underlying the properties. Any gains or losses arising from a change in fair value are recognised in the income statement. Rental income from investment property is accounted for on an accruals basis, as set out in Note 1.10 on page 26 and disclosed in Note 6 on page 29.

## 22. Prepayments and accrued income

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| Prepayments | 543,436 | 527,818 | 542,545 | 527,483 |

## 23. Shares

| | Group and Society 2023 £ | 2022 £ |
|---|---|---|
| Held by individuals | 112,788,736 | 121,709,896 |
| Other shares | - | 51,456 |
| | 112,788,736 | 121,761,352 |

Shares are repayable with remaining maturities from the date of the statement of financial position as follows:

| | Group and Society 2023 £ | 2022 £ |
|---|---|---|
| Accrued interest | 1,176,624 | 582,743 |
| Repayable on demand | 74,448,761 | 92,864,434 |
| In not more than 3 months | 37,163,351 | 28,314,175 |
| | 112,788,736 | 121,761,352 |

## 24. Amounts owed to credit institutions

| | Group and Society 2023 £ | 2022 £ |
|---|---|---|
| Accrued interest | 7,018 | 4,701 |
| Repayable with agreed maturity dates of periods of notice: | | |
| In not more than 3 months | 500,000 | 500,000 |
| | 507,018 | 504,701 |

## 25. Amounts owed to other customers

Amounts owed to other customers are repayable with the remaining maturity from the date of the statement of financial position as follows:

| | Group and Society 2023 £ | 2022 £ |
|---|---|---|
| Repayable on demand | 3,039,159 | 2,881,776 |

## 26. Other liabilities

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| Other liabilities due within one year comprise: | | | | |
| Corporation tax | 142,577 | 63,325 | 140,000 | 61,659 |
| Other creditors | 564 | 429 | 564 | 429 |
| | 143,141 | 63,754 | 140,564 | 62,088 |

## 27. Deferred tax liability

| | Group and Society 2023 £ | Group and Society 2022 £ |
|---|---|---|
| At beginning of year | 46,908 | 11,429 |
| (Credit)/ charge to statement of income for year | (1,272) | 35,479 |
| At end of year | 45,636 | 46,908 |
| | | |
| The elements of deferred taxation are as follows: | | |
| Differences between accumulated depreciation and amortisation and capital allowances | 79,684 | 86,267 |
| Revaluation of investment properties | 9,593 | 4,748 |
| Timing differences | (43,641) | (44,107) |
| | 45,636 | 46,908 |

The net reversal of deferred tax assets and liabilities expected to occur in the next reporting period is a credit of £12,300 (2022: credit of £6,579), being the impact of the revaluation of the investment properties and changes to the future tax rates from 2023.

## 28. Commitments

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

Detail on future mortgage commitments is in Note 29 on page 38.

At 31 December 2023 we had future minimum lease payments under non-cancellable operating leases as follows:

| | Group and Society 2023 £ | Group and Society 2022 £ |
|---|---|---|
| Office equipment leases which expire: | | |
| Within 1 year | 31,615 | 33,099 |
| Within 2-5 years inclusive | 93,953 | 57,186 |
| Over 5 years | - | - |

NOTES TO THE ACCOUNTS, continued

## 29. Financial instruments

We are a retailer of financial instruments in the form of mortgage and savings products, we also use wholesale financial instruments to invest in liquid assets and may raise funds from wholesale money markets to support our retail savings operations.

These instruments also allow us to manage the risks arising from these business markets. We have 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.

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.

We do not use any derivative financial instruments, as we do not currently offer any capped rate mortgage or savings products that would give rise to a balance sheet exposure and all fixed rate mortgage products are internally matched by fixed rate deposits.

We do not enter into any financial instruments for trading or speculative purposes.

**Categories of financial assets and liabilities**

Financial assets and liabilities are measured on an on-going basis at amortised cost. Notes 1.6 and 1.7, on page 25 and 26, describe how classes of financial instrument are measured and how income and expenses are recognised.

The tables below analyse the assets and liabilities by financial classification:

| **Group** | **31 December 2023** | | **31 December 2022** | |
|---|---|---|---|---|
| | **Cash and financial assets and liabilities at amortised cost** | **Total** | **Cash and financial assets and liabilities at amortised cost** | **Total** |
| **Financial assets** | **£** | **£** | **£** | **£** |
| Cash in hand | 56,553 | 56,553 | 55,676 | 55,676 |
| Loans and advances to credit institutions | 11,617,844 | 11,617,844 | 16,338,123 | 16,338,123 |
| Debt securities | 14,902,208 | 14,902,208 | 17,421,415 | 17,421,415 |
| Loans and advances to customers | 101,564,207 | 101,564,207 | 102,574,523 | 102,574,523 |
| Total financial assets | 128,140,812 | 128,140,812 | 136,389,737 | 136,389,737 |
| Non-financial assets | | 1,561,781 | | 1,616,944 |
| **Total assets** | | 129,702,593 | | 138,006,681 |
| | | | | |
| **Financial liabilities** | | | | |
| Shares | 112,788,736 | 112,788,736 | 121,761,352 | 121,761,352 |
| Amounts owed to credit institutions | 507,018 | 507,018 | 504,701 | 504,701 |
| Amounts owed to other customers | 3,039,159 | 3,039,159 | 2,881,776 | 2,881,776 |
| Total financial liabilities | 116,334,913 | 116,334,913 | 125,147,829 | 125,147,829 |
| Non-financial liabilities | | 383,620 | | 307,594 |
| General reserves | | 12,984,060 | | 12,551,258 |
| **Total liabilities** | | 129,702,593 | | 138,006,681 |

| **Society** | **31 December 2023** | | **31 December 2022** | |
|---|---|---|---|---|
| | **Cash and financial assets and liabilities at amortised cost** | **Total** | **Cash and financial assets and liabilities at amortised cost** | **Total** |
| **Financial assets** | **£** | **£** | **£** | **£** |
| Cash in hand | 56,553 | 56,553 | 55,676 | 55,676 |
| Loans and advances to credit institutions | 11,560,246 | 11,560,246 | 16,286,544 | 16,286,544 |
| Debt securities | 14,902,208 | 14,902,208 | 17,421,415 | 17,421,415 |
| Loans and advances to customers | 101,564,207 | 101,564,207 | 102,574,523 | 102,574,523 |
| Total financial assets | 128,083,214 | 128,083,214 | 136,338,158 | 136,338,158 |
| Non-financial assets | | 1,560,992 | | 1,616,711 |
| **Total assets** | | 129,644,206 | | 137,954,869 |
| | | | | |
| **Financial liabilities** | | | | |
| Shares | 112,788,736 | 112,788,736 | 121,761,352 | 121,761,352 |
| Amounts owed to credit institutions | 507,018 | 507,018 | 504,701 | 504,701 |
| Amounts owed to other customers | 3,039,159 | 3,039,159 | 2,881,776 | 2,881,776 |
| Total financial liabilities | 116,334,913 | 116,334,913 | 125,147,829 | 125,147,829 |
| Non-financial liabilities | | 375,152 | | 294,714 |
| General reserves | | 12,934,141 | | 12,512,326 |
| **Total liabilities** | | 129,644,206 | | 137,954,869 |

## 29. Financial instruments, continued

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes (or potential changes) in market interest rates and divergence of interest rates for different Statement of Financial Position elements (basis risk).

We have adopted the 'administered' approach to interest rates as defined by the Prudential Regulation Authority (PRA), whereby over 90% of rates on assets and liabilities are administered and can be adjusted at any point in time. We have an extension to this limit, as agreed with the PRA, to allow upto 20% of rates on assets and liabilities to be on non-administered rates. As a result, the exposure 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, is minimal. We manage this exposure by matching the maturity dates of assets and liabilities through natural hedges, allowing this risk to be minimised.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivities of financial assets and financial liabilities to various standard and non-standard interest rate scenarios.

Standard scenarios that are considered on a quarterly basis include a 2% parallel fall or rise in the bank base rate. If there was a 2% parallel upwards shift in interest rates the favourable impact on reserves would be £114,000 (2022: £143,000).

### Credit risk

Credit risk, as noted in the Directors' Report on page 7, is the risk that a mortgage member or counterparty will cause a financial loss to us by failing to discharge an obligation. We have policies in place to manage credit risk arising from a mortgage member or counterparty, with clearly defined risk appetite statements and appropriate credit limits. The risk appetite statements are supported by a number of qualitative and quantitative measures that are monitored by the Board on a monthly basis. Further challenge and oversight are provided by the ARCC as part of its quarterly meetings.

The maximum credit risk exposure is detailed in the table below:

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| Cash in hand | 56,553 | 55,676 | 56,553 | 55,676 |
| Loans and advances to credit institutions | 11,617,844 | 16,338,123 | 11,560,246 | 16,286,544 |
| Debt securities | 14,902,208 | 17,421,415 | 14,902,208 | 17,421,415 |
| Loans and advances to customers | 101,564,207 | 102,574,523 | 101,564,207 | 102,574,523 |
| Total statement of financial position exposure | 128,140,812 | 136,389,737 | 128,083,214 | 136,338,158 |
| Off balance sheet exposure – mortgage commitments | 2,479,437 | 7,070,580 | 2,479,437 | 7,070,580 |
| | 130,620,249 | 143,460,317 | 130,562,651 | 143,408,738 |

***Credit quality analysis of counterparties***

The Board is responsible for approving treasury counterparties for investment purposes. Limits are placed on the amount of risk accepted in relation to a single counterparty or group of counterparties, and to industry sectors. This is monitored daily by the Finance Team and reviewed monthly by ALCO.

The following table provides details on the exposure to counterparties, being all liquid assets with financial institutions, excluding cash in hand, by their Fitch rating, where appropriate:

| | Group 2023 £ | Group 2022 £ | Society 2023 £ | Society 2022 £ |
|---|---|---|---|---|
| UK Government securities | 10,847,374 | 12,885,154 | 10,847,374 | 12,885,154 |
| Financial institutions | | | | |
| A+ to A- | 12,132,080 | 15,344,991 | 12,074,482 | 15,293,412 |
| Unrated | 3,540,598 | 5,529,393 | 3,540,598 | 5,529,393 |
| Total exposure to counterparties | 26,520,052 | 33,759,538 | 26,462,454 | 33,707,959 |

At 31 December 2023 all exposures to financial institutions were within the UK (2022: all exposures were within the UK).

***Credit quality analysis of loans and advances to customers***

The Board is responsible for approving the Responsible Lending Policy which includes our credit risk appetite. The lending portfolio is monitored daily by the Mortgage Team and reviewed monthly by the Retail Credit Risk Committee (RCRC) to ensure it remains in line with the stated risk appetite, including adherence to lending principles, policies and limits.

To manage good customer outcomes and responsible lending, we ensure at the outset that mortgage members can meet their repayments. This is achieved by obtaining specific information from the mortgage member concerning income and expenditure, but also with reference to external credit reference agency data. The maximum credit risk exposure is disclosed in the tables above.

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property, as set out in the table on the next page. These are residential or buy to let loans, with only 0.22% of the mortgage book secured on commercial property.

**NOTES TO THE ACCOUNTS, continued**

**29. Financial instruments, continued**

**Credit risk**

***Credit quality analysis of loans and advances to customers, continued***

Approximately half our mortgage members are based in Cumbria, being 45.33% (2022: 47.65%) of the mortgage book totals. Mortgage members in Scotland represent 10.34% (2022: 9.29%) and the remaining 44.33% (2022: 43.06%) is spread across the rest of England and Wales.

The table below sets out information about the credit quality of loans and advances to customers by payment due status net of provisions:

| | Group and Society | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| **Arrears analysis** | £ | % | £ | % |
| ***Not impaired:*** | | | | |
| Neither past due or impaired | 98,649,781 | 97.13 | 101,307,790 | 98.76 |
| Past due up to 3 months but not impaired | 1,878,114 | 1.85 | 897,910 | 0.88 |
| Past due over 3 months but not impaired | 702,365 | 0.69 | 154,286 | 0.15 |
| ***Impaired:*** | | | | |
| Not past due | - | - | - | - |
| Past due up to 3 months | 253,464 | 0.25 | 214,537 | 0.21 |
| Past due 3 to 6 months | 80,483 | 0.08 | - | - |
| Past due 6 to 12 months | - | - | - | - |
| Past due over 12 months | - | - | - | - |
| | 101,564,207 | 100.00 | 102,574,523 | 100.00 |

| | Indexed | Unindexed | Indexed | Unindexed |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| ***Value of collateral held:*** | | | | |
| Neither past due or impaired | 277,982,407 | 239,626,216 | 289,258,057 | 238,516,037 |
| Past due but not impaired | 6,817,104 | 5,663,000 | 4,139,477 | 3,308,000 |
| Impaired | 576,849 | 506,000 | 434,975 | 373,000 |
| | 285,376,360 | 245,795,216 | 293,832,509 | 242,197,037 |

Note 1.8(a), on page 26, sets out our approach to the impairment of financial assets. We use HPI indexing to update the property values of its residential and buy to let portfolios on a quarterly basis. Collateral values are adjusted by HPI to derive the indexed valuation at 31 December. This is a UK HPI and takes into account regional data from the 12 standard planning regions of the UK. The collateral consists of UK property and land. Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 80% of the value of the total security at the point of origination.

The status 'past due up to three months but not impaired' and 'past due over three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount. Possession balances represent the loans where we have taken action to realise the underlying security. Various forbearance options are available to support mortgage members who may find themselves in financial difficulty.

Note 1.8(b), on page 26, sets out our approach to forbearance strategies. Scheme reviews for mortgages are undertaken if a change of scheme is appropriate, this could be due to a mortgage member not switching schemes on the maturity of their fixed or discounted term. All mortgage members are contacted on maturity of their discount or fixed rate scheme. Capitalisation occurs when arrears are incorporated into the capital balance outstanding for the purpose of restructuring the loan.

All forbearance arrangements are formally discussed with the mortgage member and reviewed by the Executive, prior to acceptance of the forbearance arrangement. By offering mortgage members in financial difficulty the option of forbearance we potentially expose ourselves to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the mortgage member into a detrimental position at the end of the forbearance period.

The level and different types of forbearance activity is reported to the RCRC on a monthly basis. In addition, all forbearance arrangements are reviewed and discussed with the mortgage member on a regular basis to assess the ongoing potential risk and ongoing suitability of the arrangement for them.

The table below details the number of forbearance cases within the 'not impaired' category:

| | 2023 | 2022 |
|---|---|---|
| Type of Forbearance: | No. | No. |
| Interest only concession at year end | - | 2 |
| Reduced payment concessions at year end | 1 | 2 |
| **Total** | 1 | 4 |

Total loans in forbearance represent £556,935 (2022: £490,093).

**NOTES TO THE ACCOUNTS, continued**

**29. Financial instruments, continued**

**Liquidity risk**

Liquidity risk, as noted in the Directors' Report on page 7, is the risk that we will encounter difficulty in meeting the obligations associated with our financial liabilities that are settled by delivering cash or another financial asset.

We monitor liquidity requirements on a daily basis in line with specific policies in this area, approved by the Board.

The liquidity risk appetite is supported by qualitative and quantitative measures that are monitored by the Board on a monthly basis.

Our policy is to maintain sufficient funds in a liquid form at all times to ensure that we can cover all fluctuations in funding, retain public confidence in our solvency and to enable us to meet our financial obligations

The tables below analyse the remaining contractual maturity of our financial liabilities, at undiscounted amounts.

The analysis of the contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued, for the average period until maturity on the amounts outstanding at the statement of financial position date.

| 31 December 2023 | On demand | Not more than 3 months | More than 3 months, but no more than 1 year | More than 1 year but not more than 5 years | More than five years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | £ | £ | £ | £ | £ | £ |
| Shares | 67,975,226 | 37,163,351 | 4,591,291 | 3,058,868 | - | 112,788,736 |
| Amounts owed to other customers | 2,875,973 | 163,186 | - | - | - | 3,039,159 |
| Amounts owed to credit institutions | - | 507,018 | - | - | - | 507,018 |
| **Total financial liabilities** | 70,851,199 | 37,833,853 | 4,591,291 | 3,058,868 | - | 116,335,211 |

| 31 December 2022 | On demand | Not more than 3 months | More than 3 months, but no more than 1 year | More than 1 year but not more than 5 years | More than five years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | £ | £ | £ | £ | £ | £ |
| Shares | 86,811,668 | 28,345,667 | 3,026,858 | 3,577,159 | - | 121,761,352 |
| Amounts owed to other customers | 2,881,776 | - | - | - | - | 2,881,776 |
| Amounts owed to credit institutions | - | 506,464 | - | - | - | 506,464 |
| **Total financial liabilities** | 89,693,444 | 28,852,131 | 3,026,858 | 3,577,159 | - | 125,149,592 |

**Capital**

Our policy is to maintain a strong capital base to allow our members, creditors and the wider market to be confident that we can sustain current and future development. The Individual Capital Adequacy Assessment Process (ICAAP) is used to support our management of capital and is formally completed at least annually. Monthly reporting of key capital ratios is given to the Board to demonstrate that we have sufficient capital to withstand risks arising and to meet our Total Capital Requirements (as set by the PRA). We also have a standing Board agenda item to consider whether any decisions we have taken could impact our future capital position.

There were no reported breaches of capital requirements during the year and there have been no material changes to our management of capital during the year.

Under Basel IV Pillar 3, we are required to publish further information regarding our capital structure and exposures. Our Pillar 3 disclosures can be obtained from our website, www.penrithbs.co.uk.

**Contingent liabilities**

We have reviewed our mortgage back book to identify all properties with external cladding which may require remediation activity moving forward. There are three (2022: four) properties in mortgage where cladding has been identified. The total outstanding loan balance on these properties is £238,639 at 31 December 2023 (2022: £323,978).

At this time there is not sufficient certainty as to where the responsibility lies for the remediation costs on these properties, as neither the Government nor the house builders have announced their final position. We have therefore not specifically provided for these loans at 31 December 2023, but will continue to monitor the situation closely.

**ANNUAL BUSINESS STATEMENT**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

**1. Statutory percentages**

| | 2023 | Statutory Limit |
|---|---|---|
| Lending Limit | 1.11% | 25.00% |
| Funding Limit | 3.05% | 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 plus provisions for bad and doubtful debts and the aggregate of liquid assets and tangible and intangible fixed assets as shown in the accounts.

Y = the principal of, and interest accrued on, loans owed 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: the principal value of, and interest accrued on, shares; and the principal of, and interest accrued on, sums deposited.

Y = the principal value of, and interest accrued on, shares 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.

**Other percentages**

| | 2023 % | 2022 % |
|---|---|---|
| As percentage of shares and borrowings: | | |
| Gross capital | 11.16 | 10.03 |
| Free capital* | 10.76 | 9.64 |
| Liquid assets | 22.84 | 27.02 |
| As a percentage of mean total assets: | | |
| Profit after tax | 0.32 | 0.34 |
| Management expenses | 2.02 | 1.77 |

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

“Shares and borrowings” represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.

“Gross capital” represents the general reserves.

“Free capital” represents the aggregate of gross capital and collective impairment for losses on loans and advances less tangible and intangible fixed assets.

“Liquid assets” represent the total cash in hand, treasury bills, 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 31 December 2022 and 31 December 2023.

**ANNUAL BUSINESS STATEMENT**
**FOR THE YEAR ENDED 31 DECEMBER 2023, continued**

**2. Information relating to the Directors**

| Name | Date of Appointment | Business Occupation | Other Directorships |
|---|---|---|---|
| Rod Ashley | 23/04/2020 | Chief Executive | Alba Bank Ltd (resigned 26 January 2024) |
| Richard Drinkwater | 01/07/2017 | Business Entrepreneur | Amber Securities Ltd<br>Stamford Lodge Ltd |
| Janice Lincoln | 01/10/2014 | Retired Finance Director | |
| Will Lindsay, Chair | 01/06/2015 | Retired Banker | |
| Nikki Marsh | 01/03/2023 | Non-Executive Director | Nest Corporation |
| Fiona Smith | 01/09/2023 | Non-Executive Director | |
| Zack Hocking, Chief Executive | 04/12/2023 | Chief Executive | Abercomby Financial Services Ltd |
| Elspeth James | 01/01/2013 | Finance Director | Cumbria Mortgage Centre Ltd<br>Eden Housing Association |

Documents may be served on the above named Directors c/o Mazars LLP at the following address:
One St Peter's Square, Manchester, M2 3DE

**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 6 and 9 months prior written notice respectively. These specific contracts were entered into on 4 December 2023 and 1 September 2012 respectively.