



Penrith

building society

Listening and Supporting, Since 1877



2018

Our year in review

Annual Review and
Summary Financial Statement

WIN

**£50 into your
PBS Account**

See page 12 for details

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Society



Message from our Chairman, Rob Cairns



Welcome

A warm welcome to our Annual Review of 2018. Last year was very much a year of consolidation in which we made many improvements and invested in your Society. Your Executive Team and staff performed admirably and this is best demonstrated by the significant increase in our profit figure. This has of course, been added to our capital to make your Society an even stronger financial institution.

Brexit has created much uncertainty throughout the year, particularly in the housing market. Estate agents have reported their lowest stock levels ever and this has resulted in a fall in demand for mortgages. The Society has therefore done extremely well to maintain its mortgage book at almost the same level as last year.

I am pleased to announce that, for the first time since I joined the Society in 2013, we have had no changes in the membership of our Board during the year and I would like to thank my Board colleagues for their hard work, excellent advice and dedication to the Society.

I very much hope that you will be able to attend our Annual General Meeting on Thursday 28 March 2019 which again is being held at the most marvellous venue of Annie Mawson's Sunbeams Music Trust, an organisation who we have developed a special link with over the past year. There will be the usual Penrith hospitality and I look forward to seeing you there!

May I again thank you for your continuing support of the Society which is appreciated so much by us all.

Yours sincerely,

Robert J Cairns (Chairman)
28 February 2019

Message from our Chief Executive, Tim Bowen



Dear Member,

Penrith Building Society truly is a great business and it is hard to believe that a year has already passed since I wrote to our members with my reflections on 2017 and plans for the coming year. 2018 was the Society's year of change and investment where we focused on ensuring that our Corporate Plan objectives were achieved. This required the need for change and increased investment to ensure that we continued to lay further foundations that will lead to a successful and sustainable future.

I am pleased to be able to report that 2018 exceeded expectations in terms of the change that we implemented within the Society and the investments we made. These investments included; bringing new talent into the Society, updating our brand and infrastructure and continuing to invest and develop in becoming increasingly more operationally resilient.

As stated at the beginning of 2018, in order for this to happen, the Society's financial performance would be flat on previous years in relation to our Balance Sheet, mortgage assets and profitability.

It is pleasing to report a Balance Sheet that achieved parity with how we began the year and we have seen a year on year growth in our profit.

The Society's mortgage assets did see a small contraction in 2018. This can be attributed to the following factors. Firstly, enhancing the way we view the business to ensure we do not exclusively focus on adding loans to the balance sheet, but also look at how we can build even stronger relationships and retain our current members. As a result of this, the redesign and implementation of our products, pricing and distribution strategy has given further clarity and confidence on the level of potential and opportunity that exists for the Society.

Secondly, increasing competition in the mortgage market and consumer bias towards fixed rate products due to political and economic uncertainty. However, whilst we are limited with regards to the level of fixed rate mortgage business we can distribute, by positioning the Society into areas of the market that we can both be competitive in and want to compete in, we remain assured that we can achieve our growth objectives.

Additionally, the appointment of a full time Business Development Manager in early 2019 will further ensure the achievement of said objectives.

Added to this, I am also able to report a stable year in our membership base which continues to show a real vote of confidence in the Society. Profitability has improved even with the additional investment in the business from a people and technology perspective.



With regard to market conditions, the Board are aware that UK house prices have reduced in recent months as the market takes stock and considers the various impacts associated with the political developments around Brexit. Confidence appears to be dwindling and as a result the Society will continue to focus on the quality of its mortgage lending, ensuring that the excellent quality and performance of its mortgage book continues.

When reflecting on the savings market, the Society predicted a higher level of competition in 2018 that never really came to be. The Society does, however, expect the savings market to become increasingly competitive in 2019 as other financial institutions begin to plan for substantial increases in retail funding. This arises from the requirement to repay funds drawn from both the Bank of England's Term Funding Scheme and the Funding for Lending Scheme, neither of which the Society participated in.

Competition in both the mortgage and savings market is a good thing for all consumers and should be encouraged, however, economically, this can impact the Net Interest Margin (NIM) of all institutions within the Financial Services Industry and this was seen across the sector in 2018. The Society, however, by predicting this and positioning ourselves well in the market in 2018, has seen our NIM follow an upward trend rather than the compression seen across the sector as a whole.

It is important to state that the Society does have adequate plans in place to operate in a tougher market, and where required, to review our strategic objectives within the Corporate Plan.

The Society has an extremely experienced, capable and talented Board and Executive Team that will continue to monitor any adverse indicators relating to this and many other factors in ensuring the Society remains resilient and strong against potential economic shocks.

Additionally, regardless of the political and economic uncertainty that currently exists, the Board are strongly committed to the Society having a successful and sustainable future as an independent, vibrant Building Society mutually owned by you, our loyal members.

Moving away from the financial and economic areas of the Society, our social purpose as a mutually owned organisation is something that continues to drive the culture within the Society and is at the heart of everything that we do. Last year we supported many local charities and causes in Penrith and the Eden Valley. We once again continued to support the financial education of the younger generation of Penrith in conjunction with **Queen Elizabeth Grammar School** and **Ullswater Community College**. Financial education is an area the Society will focus on even more over the next three years. Our affinity accounts supported **Pride in Penrith Lottery, Eden Valley Hospice & Jigsaw, Penrith RUFC Juniors** and the **Penrith & District Red Squirrel Group**. We also hope to launch another affinity account with **Annie Mawson's Sunbeams Music Trust** and in addition, the Society is proud to announce that in 2019, we will be Sunbeams Music Trust's partner in the Local Business Charity Awards.

It would be remiss of me not to thank our wonderful members of staff. I want to thank each of you for your hard work and commitment over this past year and I am looking forward to continuing to achieve great things as a team over the coming years.

Timothy J Bowen (Chief Executive)
28 February 2019

Staff news

New faces for 2018



Clare Harrison – Head of Member Services

Clare joined us in 2018 to head up our Branch Team. After leaving Queen Elizabeth Grammar School she worked in retail and high street banking, roles well suited to her enjoyment of all things customer service. Clare's main focus has been on the Branch and customer service. She is proving invaluable, bringing new eyes and fresh ideas. She is a busy mum, balancing full time work with being a parent to a lively ten year old! During her rare spare time she enjoys keeping fit, and likes to grow her own vegetables.



Tom Watson – Mortgage Administrator

Tom is one of our ex-Ullswater Community College work experience students, having originally spent a week with us in 2009. On leaving school he qualified as a Teaching Assistant and worked locally, however – luckily for us - he decided that he would like to pursue a career in the finance sector and so joined us in 2018. Tom plays an important part in our mortgage team and keeps everyone smiling! In his spare time, he plays football and enjoys socialising and spending time with friends and family.



Max Reside Robb – Risk & Compliance Manager

Max moved to Penrith in 2017 with his wife Laura, who is local to the area. He joined us in 2018 as part of our expanding risk and compliance department, an area vital to the smooth and continued operation of the Society. Born and raised in Watford he attended the University of East Anglia and studied History. His previous roles have included conference producer, sports writer and game tester before he and his wife decided to relocate back to Penrith. Max has proved invaluable, helping implement new systems within risk and compliance and also sitting on our sales and marketing committee, using his experience to boost our social media presence. Outside of work he enjoys walking in the Lakes and watching sports – although he has been known to complain that its cold 'up North'!



Lucy Hodgson – Customer Services Representative

Lucy came to the Society in July 2018 from Ullswater Community College to do some work experience and we are delighted to have her back! Lucy is working for us on Saturday mornings whilst she completes her education.



Exam Success!

Freya Nash Ceen

This year has been another successful one for Freya, passing three more exams. This leaves her with only the Advanced Level case study in July. Once passed, Freya will become a fully qualified Chartered Accountant. Freya has been very successful in her previous exams; last year she achieved 92% in her Audit and Assurance paper, which won her an award for the joint highest mark in the North of England. Freya is looking forward to completing the rest of the qualification and having more free time to spend rock climbing and fell walking.



AGM

On the 18th April 2018 the Society held its 139th Annual General Meeting (AGM). Our venue was The Sunbeams Music Trust. It was a fantastic venue and Annie Mawson and her team looked after us and our attending members extremely well, making us feel very welcome. The conference hall looked amazing and with picture postcard views of the Lake District we felt very much at home. What a great venue!

We were pleased to welcome members and guests to share the business side of our AGM, along with refreshments and an opportunity to meet our staff and Directors. We also heard about the inspirational work that Sunbeams do; providing therapeutic services through the power of music. Our thanks go to Annie and her team for sharing with us and our members.

The AGM is a great way for our members to have a say and ask questions. Please come along and join us for our 2019 AGM which we will again be holding at The Sunbeams Music Centre on 28 March 2019.



Would you like to be a Director of Penrith Building Society?

The Society is always interested in hearing from individuals who would be interested in joining our Board as a Non-Executive Director.

Non-Executive Directors of the Society attend Board and some sub-committee meetings. There is also a commitment to support and represent the Society at community events locally and nationally. An understanding of the financial services sector is preferable, as you would be expected to play a full part in strategic discussions about the direction of the Society in today's rapidly changing and highly competitive market.

The Society is regulated by the Prudential Regulatory Authority and Financial Conduct Authority, who impose high standards regarding Board membership through their Senior Managers and Certification Regime and would be involved in the appointment of any Non-Executive Director to the Board. At a minimum you would need to hold a professional qualification and at this time we are particularly interested in individuals with a background in technology.

If you meet the above criteria and are interested, you are invited to email your credentials and a CV to our Nominations Committee via Executives@penrithbs.co.uk. Details on the profiles of our current Directors are on our website at www.penrithbs.co.uk.

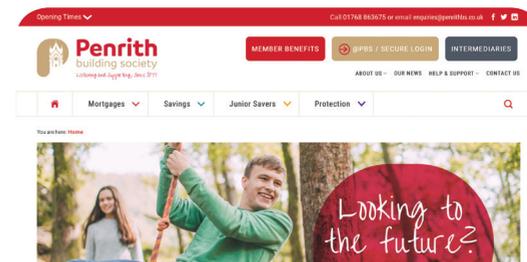
vita.

Staying true to our values, we continue to strive to offer straightforward, relevant products and services to our members. We are pleased to update you that over the course of the last few months, Vita have begun to provide independent expert advice to our members. They are helping our members to protect the things that matter most in life, such as their family, their business, their home and their income; achieved by arranging Income Protection, Critical Illness Cover and Life Insurance solutions.

Having carried out extensive due diligence, the Society selected Vita as the most trusted and most credible partner, able to provide unrivalled advice from Protection Advisers that genuinely care about getting the right solution for customers. They achieve this by recommending (where appropriate) the best policies, from the best insurers, tailored to fit individual circumstances.

Vita are independent and proud to offer a totally impartial service. As experts, they'll ensure members get the best deal regardless of medical history, high risk occupations or any hazardous hobbies. Furthermore, they don't charge any fees and match our customer-first culture.

Importantly, the feedback provided by Vita's customers demonstrates that we're doing right by our members and providing a first-class service along the way. Vita boast a 99% positive feedback rating on the independent customer review website, feefo.



A 'new' Penrith Building Society Brand

On 2 January 2018, Tim Bowen was appointed the Society's Chief Executive Officer. This was an opportune time to review our values, mission statement and brand, not only to acknowledge the change in leadership, but to ensure that they accurately reflected the Society.



As a mutual organisation we are highly driven by our purpose. This meant that it was relatively easy to articulate our core values and vision. But did we really portray some of these in our imagery, or on our website? The answer was a mixed yes and no! We were absolutely committed to not losing the heritage of the organisation or the recognition of our roots in Penrith, particularly our local landmark the Musgrave Monument.

We were keen to work with a local organisation to assist us with our brand review and we were very pleased to engage the services of Dalston based, Colourmedia. The team at Colourmedia were exceptional and worked with us to understand the Society. Throughout the entire rebranding exercise, both staff and members were consulted – making it a wholly inclusive review. We launched the new brand imagery and website on 17 December 2018 and feedback has been really positive particularly around how helpful and easy to use the new website is. We will continue to ensure that we provide long-term benefit for our members, whilst remaining true to our values.

By Michelle Stevens

RIO Retirement Interest Only policy

Over the course of the last couple of years, the Society had identified the issues being encountered by older borrowers and very much welcomed the Financial Conduct Authority's changes in terms of how loans to this group can now be arranged. Prior to the change in March 2018, we found ourselves being approached by mature borrowers, who were being regularly contacted by their existing lenders due to the impending expiration of their mortgage term. These borrowers were often distraught, fearing that they might lose their home as they were not in a position to repay the mortgage debt in full, but they had more than adequate means to maintain the monthly interest only payment. Based upon this experience, the Society felt compelled to support these borrowers and we drove forward our Retirement Interest Only policy.

Since launch, we have received a high level of enquiries for this type of lending, meaning that we have been able to assist older borrowers either purchase a new home or remortgage to remain in their homes. Here at the Penrith, we deliberately differ a little from the market as we have taken the decision at this time, to allow mortgages to be arranged on a retirement interest only basis on any residential product within our range. As a mutual organisation with a strong moral purpose, we felt it only right and fair to provide these borrowers with the same access to our product range as any other borrower. Additionally, where our borrowers have a need for some taxation and benefits advice, we have arranged access to a local specialist in this field to ensure that the mortgage loan is in the individuals' best interests.

Mortgages Market Study

In May, the Financial Conduct Authority released its interim report into the mortgage market. Reassuringly, it concluded that the mortgage market is working well for many people, with high levels of consumer engagement, we felt this part of the report truly reflected how we look after our borrowing members. However, the report

also identified that elsewhere, a number of borrowers, despite keeping up with their mortgage repayments, were unable to secure a new deal from their lender. The report noted that often these borrowers held their mortgage with an inactive lender and had arranged their mortgage many years ago, when the controls around getting a mortgage were more relaxed. This means that for these borrowers, moving away from their current lender could prove difficult, as their circumstances are likely to make it tricky to

Building Society Market Share Increases

At the time of writing, 2018 was shaping up to be the 'Year of the Building Society' in terms of lending volumes. At the end of November 2018, our trade organisation the BSA, reported that building societies accounted for one third (33%) of the growth in the mortgage market in Q3 2018 with net lending of £3.9 billion, up 10% on Q3 2017.

get a new mortgage. The Society is currently working with the trade association, UK Finance, to see if we can assist any of these borrowers, who have become known as 'mortgage prisoners'. As you would expect, we reach out to our members when their mortgage deal comes to an end and, our borrowing members can contact us at any time, to discuss reviewing their mortgage arrangements.

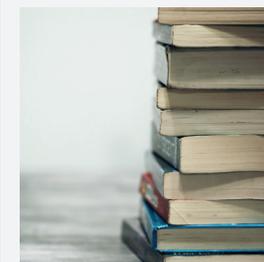
Our Lending yearbook

During 2018 we helped many borrowers purchase, remortgage or even build their own homes. We thought we would share some of our more unusual scenarios with you...



unusual homes

We agreed several unusual construction types, including a self-build property subject to an agricultural restriction, and a standard residential property with an annexe which was to be used as a holiday let via airbnb.



Off to uni

We completed a mortgage for a borrower about to embark upon her degree in medicine. With the support of her parents, as guarantors, she now owns her first home. Convenient for Uni and a base for the long period of study ahead.



Buy-to-let

Remortgaging a buy-to-let property sounds straightforward enough, but when you are paid in another currency it can complicate matters. A range of foreign currencies are acceptable to us - all in a day's work for us here!



Best practice

We all know that situations change. When a single parent approached us to help her buy out her ex-partner, we were pleased to help. Using her salary and foster income, she could borrow enough to 'move on'.



Moving on

Community round up for 2018

During 2018 we continued to support various local and national charities. We would like to take this opportunity to thank our members and non-members who always happily support our various fundraising activities. We also want to say how proud we are of our staff and congratulate them for their efforts and passion for good causes.

Catch up with our latest thoughts and news on  



Cash 4 kids Mission Christmas

Throughout November and December, the branch became a collection point for **CFM's annual Cash for Kids Mission Christmas** appeal. We were delighted to be selected for the first time and had an amazing response from members and non-members along with Society staff. Our staff all donated their Secret Santa gifts to each other in the form of toys to the collection. This was so successful we had to arrange an extra collection because of the amount donated.



Alzheimer's Christmas cards

We raised money for **Alzheimer's Research UK** through the sale of Christmas cards in the branch and all the staff wearing their festive finery on the run up to Christmas. We raised £357 for this charity which does such wonderful work in funding research into a disease that effects so many people.

Volunteering

We don't just send money, we also give our time as volunteers. During 2018 Heather, our Head of Finance, began the rewarding experience of volunteering with our local **Eden Riding for the Disabled Group**. This is an extremely hard working group, giving many disabled children and adults the opportunity to learn to ride, to develop skills and to enable the sense of achievement that riding can bring. Very inspirational.



Macmillan coffee morning

The Society's staff bakers did us proud once more for our annual **Macmillan Coffee Morning** bake sale. The homemade cakes and preserves always attract interest from members and non-members alike which helped us to raise £148 in just one day. A few staff members may have gained a few extra pounds in weight that day too, but all in aid of a good cause!



Penrith on a Plate

This year for Penrith on a Plate we decided to support **Penrith Beekeepers Association**. One of their members was with us on the day letting people sample some produce and providing a fascinating insight into the world of bees. As part of the fundraising we held our customary bake sale and held a 'design your own Mr Potato Head' competition for children although some of the staff got very enthusiastic and joined in as well!

Lazonby First Responders



Do you know where and how to use your nearest AED/Defibrillator machine? Here at Penrith Building Society we are pleased to say we do. In November **Lazonby First Responders** came to give us some invaluable training should we find ourselves in an emergency situation, whether at work or at home. We can thoroughly recommend that you support your local First Responders, see if they hold training courses, or check out the **British Heart Foundation's 'Heart Start'** initiative.

Penrith A.F.C. Ladies

This year we were proud to show our support for our local ladies football team **Penrith A.F.C.**, by sponsoring their kit with our lovely new logo. This is particularly close to our heart as our very own Hannah Coulthard is one of the players. We think they look great!

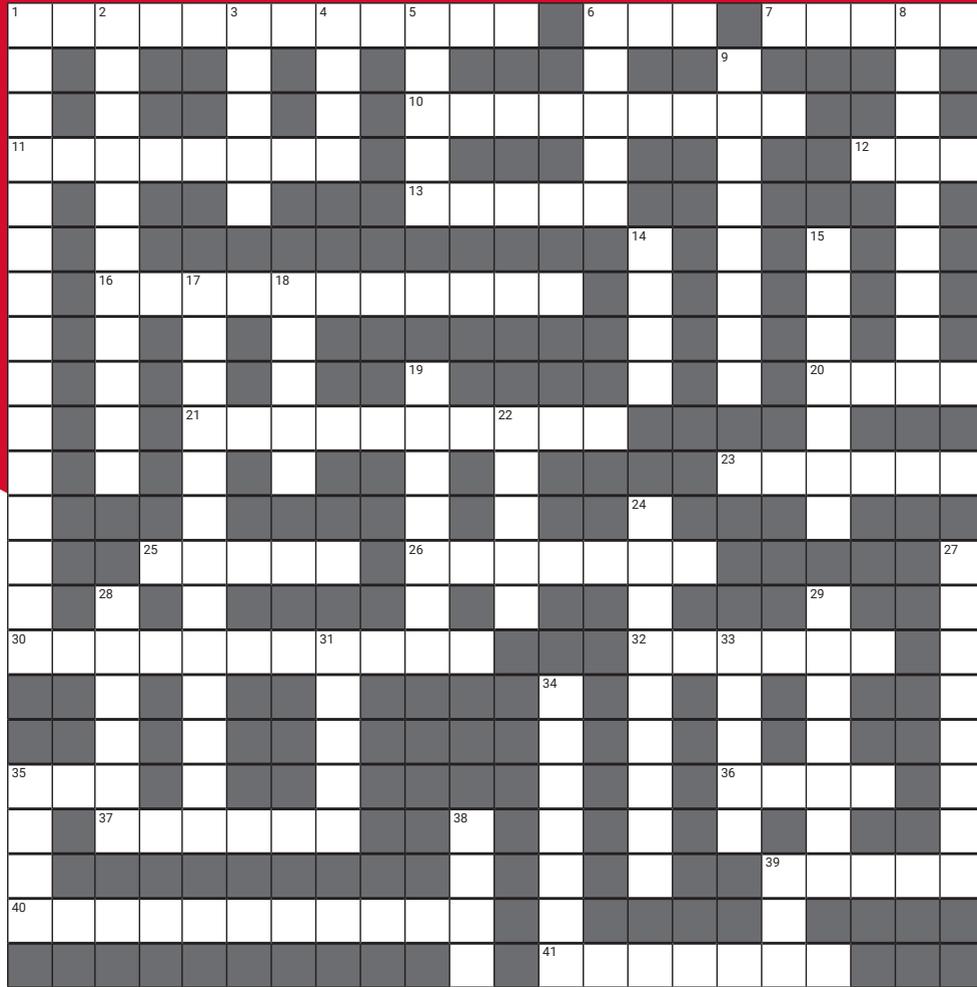


A huge well done to all our Affinity account savers!

This year you raised a total of £2764 for **Pride in Penrith Lottery** and **Eden Valley Hospice & Jigsaw**. Our Junior Affinity Savers raised £310 for the **Penrith Red Squirrel Group** and **Penrith Rugby Club Juniors**. Affinity Accounts are a great way to save whilst helping raise money for charity. Call into branch or have a look on our website to see how you can help.

The Crossword Competition 2019

For your chance to win £50 paid into your Penrith Building Society account, simply complete the crossword below and return these two pages to us. We will select one lucky winner from all the correct entries. Good luck!



Keeping you up to date about products and services

The Society would occasionally like to provide you with details of products, services and other promotions which may be of interest to you. If you are happy for us to contact you in this way please tick the box below. The Society has published on its website, www.penrithbs.co.uk a new Privacy Notice to make it easier for you to understand how we use and protect your information, in line with the General Data Protection Regulation. Please note that consent can be withdrawn at any time, by contacting the Society at enquiries@penrithbs.co.uk, by phoning us on 01768 863675, or telling us in person in branch.

I agree to my information being used for marketing purposes if this box is ticked

The crossword clues

Across

- 1, 2 down: One of our unusual construction types (12-11)
 6 This will be our 140th (3)
 7 The month of our AGM (5)
 10 Our Mortgage Administrator (3-6)
 11 This is what you earn on your savings (8)
 12 Out with the ____, in with the new (3)
 13 British Heart Foundation's 'Heart ____' initiative (5)
 16 CFM's annual mission (4-3-4)
 20 Heather helps disabled people to do this (4)
 21 Who we supported during 'Penrith on a Plate' (10)
 23 This type of saver raised £310 (6)
 25 Our values as an acronym (5)
 26 The first letter of a name (7)
 30 One of our values (11)
 32 You become one as one of our borrowers or savers (6)
 35 Our Prudential Regulator (initials) (3)
 36 Prepare by correcting (4)
 37 The most recent (6)
 39 Send money in payment (5)
 40 What has Max used his experience to boost (6-5)
 41 Where our First Responders were from (7)

Down

- 1 How you can save and raise money (8-7)
 2 See 1 across
 3 Below (5)
 4 Portable shelter made of canvas (4)
 5 We monitor and compare these regularly (5)
 6 Expect, anticipate (5)
 8 Surname of our Penrith AFC player (9)
 9 Name of Penrith's famous clock tower, Musgrave ____ (8)
 14 Helping our members to protect what matters most in life (4)
 15 What did Colourmedia help us to do? (7)
 17 AGM venue ____ Music ____ (8-5)
 18 Bond or mortgage (5)
 19 Our home town (7)
 22 One way we can keep in touch with you (5)
 24 Who our coffee morning raised funds for (9)
 27 Another one of our values (8)
 28 The type of organisation we are (6)
 29 This was newly launched on 17 December 2018 (7)
 31 Opposite of left (5)
 33 This apparently makes the world go around (5)
 34 Wealth in the form of money or assets (7)
 35 Our money boxes are the shape of these animals (4)
 38 Sum of money that is borrowed (4)
 39 Our Chairman's first name (3)

NAME:

ADDRESS:

EMAIL:

Terms and conditions: Please hand in or post your entry to Penrith Building Society, 7 King Street, Penrith, Cumbria CA11 7AR. Entry is for members only. Only one entry per person. Closing date is 30 April 2019. A draw will be held from the correct entries. £50 prize to be paid to a new or existing account with the Society.

We are always interested to hear your opinions and we would love you to answer the following:

- Do you feel like the Society has a recognisable brand? Y N
- Do you regard the Society as traditional, modern or both? Traditional Modern Both
- Do you feel like the Society is easily accessible to you as a member? Y N
- Do you find our staff knowledgeable and friendly? Y N
- Are you aware of our online presence i.e. Website/Twitter/Facebook? Y N

The Society's vision is to be a thriving, sustainable and relevant building society, that is committed to what it does, has straightforward great value products and delivers long-term value for members and the community.

Our values, which support the vision, are summarised as follows:

- Straightforward* We will be easy to transact with and will always look for ways to make things more straightforward for our members.
- Mutual* Our members are at the heart of everything we do. We will continue to enhance the benefits of mutuality and will never lose sight of our purpose.
- Aspiring* We will be there to support our members and our staff to achieve what they aspire to, for themselves and their families throughout their lifetime.
- Relevant* We will always look for ways to ensure we stay relevant whilst remaining true to our roots.
- Trustworthy* We are transparent, honest and fair in our dealings with our members, so they can have the utmost trust and confidence in us as an organisation.

In working towards the achievement of our vision, our long-term strategy is to grow in a controlled manner.

We will continue to identify areas of the mortgage market that we can both be competitive in and wish to compete in, continuing to leverage our larger intermediary relationships. The Board and Executive Team are committed to continuing as an independent, profitable and operationally resilient mutual whilst fulfilling the social aspect of our purpose.

Maximising the value of the Society's rebrand by engaging with and supporting the financial education of our membership and the community we serve will be a future priority. Considered investment will be made in improving our people, processes, systems and making us a reliable Society for all. Identifying the right partners to collaborate with will also be key to the Society's success. Looking forward this will allow the Society to be able to generate stronger returns, withstand financial stress and operate credibly and competitively in the financial services environment.

Key Performance Indicators

The Society uses a number of key performance indicators to measure and monitor performance.

A summary of these measures over the last five years has been explained further on the following pages.

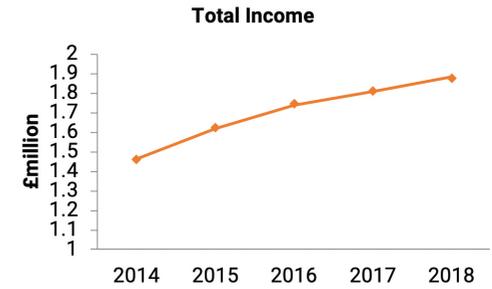


Income and Expenditure

The Society made a profit for the year after taxation of £161,183 (2017: £135,956).

Total income is £1.88 million compared to £1.81 million in 2017. The net interest margin widened following a change in rates across the Society's products on 1 September 2018. This helped income targets to be met against a challenging mortgage environment.

The Society continues to keep fees for mortgage products low and pays fees on certain products on behalf of borrowers. Introducer fees are paid to intermediaries through which the Society continues to source a significant amount of new lending.



Management Expenses

Management expenses including depreciation is £1.69 million (2017: £1.57 million), an increase of 7.33%. The cost income ratio is now 89.75% (2017: 87.19%). Management expenses expressed as a ratio of mean total assets are 1.57% (2017: 1.48%).

The most significant investment was made in people and technology to support the future sustainability of the Society and to improve the experience of members as they interact with the Society. Investment was also made in the distribution channels for the Society, where new intermediary relationships are being developed and a full time Business Development Manager has been appointed. This investment in the business model will continue in 2019.

The performance of the mortgage book continues to be good in the low interest rate environment, with arrears being managed through arrangements being put in place with the affected borrowers.

The level of individual loan loss provisions is reduced following the sale of two properties in possession and a general low level of more serious arrears and is now only £76,112 (2017: £278,407). The collective loan loss provision level has increased to £96,873 (2017: £71,833) following a decision to apply a 5% reduction haircut to the House Price Index used to estimate current value of properties. The reduction is in light of a general downturn in property prices due to current political uncertainties.

Costs associated with the Financial Services Compensation Scheme Levy decreased this year resulting in a credit being recognised at year end.

Total Assets

The Society made a conscious decision to maintain its total assets at a level consistent with the prior year in light of the changes in the Society and uncertainty in the market overall. This has been achieved with total assets now at £107.60 million (2017: £107.45 million).



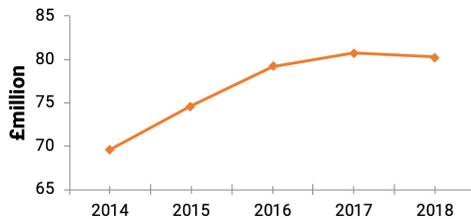
At 31 December 2018 there are no mortgage cases (2017: none) where the repayment of principal and interest is twelve or more months in arrears and one case (2017: three) with forbearance measures in place.

This confirms a continuing trend in low numbers of arrears cases over the last five years in the current low interest rate environment. The Society has one property in possession at the end of 2018 (2017: three) and holds an individual provision to cover the potential shortfall.

The Society takes all reasonable steps to minimise loss and to ensure that the provisions of the Responsible Lending Policy are monitored through individual underwriting so that due account may be taken of prevailing economic conditions.

In particular, the Society is vigilant to the financial stresses which may arise for borrowers if interest rates start to increase. We offer constructive assistance and forbearance to borrowers in financial difficulty and maintain a personal approach, which our borrowers prefer, allowing us to develop a better understanding of their needs and individual circumstances.

Loans and advances



Loans and advances

Changes were made to the mortgage distribution model this year, consolidating the intermediary partners the Society works with.

The Society is restricted as to the levels of fixed rate mortgage business it can write annually. As a result, it faced difficulties in competing with the market on the back of a rising interest rate environment and a move by borrowers to fixed rate deals where possible. We maintain a strong level of variable rate mortgages and are able to support those who are unable to go to mainstream lenders for their mortgage needs due to more complex financial positions which we can individually underwrite.

Our gross lending total fell to £15.42 million (2017: £17.34 million), but strategies put in place, including the appointment of the Business Development Manager, will see this improving again in 2019. We completed 158 advances, including 21 further advances.

Our strategy to retain existing borrowers has continued to prove effective, with a retention rate of 69% for those at the end of mortgage schemes. However, the net mortgage assets have contracted due to lower levels of advances and the book now stands at £80.32 million (2017: £80.73 million).

Shares and borrowings

Shares and borrowings have reduced to a total of £96.23 million at the year end (2017: £96.30 million).

The outflow was driven by the maturity of a Regular Savings product, with customers taking the funds elsewhere as we had no notice or higher rate product available.

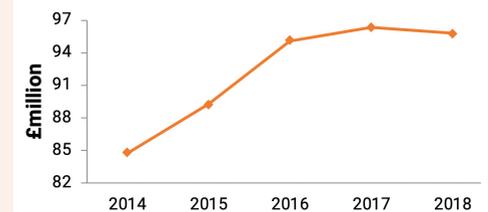
The Society monitors our savings rates compared to the market on a regular basis.

Following the base rate rise in August 2018, we maintained or increased rates on our savings accounts across the range. As a result, we remain on par with, or above, the average rates for the building society sector.

The focus continues to be on attracting good quality residential mortgage assets to replace liquid assets (being cash and treasury investments) to improve the margin. Liquid assets were £26.16 million in 2018 (2017: £25.59 million), being 27.17% (2017: 26.58%) of total shares and borrowings.



Shares and borrowings



Capital

At 31 December 2018, the Society's capital is £11.13 million (2017: £10.96 million). A satisfactory level of capital is maintained to ensure the Society is protected against any adverse changes in economic conditions in general or in circumstances particular to the Society.

The free capital ratio (the aggregate of general reserve and collective impairment for losses on loans and advances less tangible and intangible assets) is 11.42% of total shares and amounts owed to other customers (2017: 11.21%). Gross capital amounted to 11.56% of total shares and amounts owed to other customers (2017: 11.39%).

Risk assessment is carried out on an ongoing basis. To meet regulatory requirements, an assessment of the Society's capital policies and procedures (the Internal Capital Adequacy Assessment Process) is carried out by the Executive and approved by the Board annually.

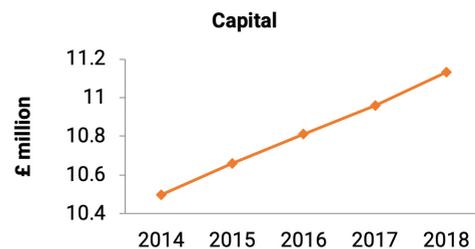
The table here summarises the Core Tier 1 Ratio, being Core Tier 1 Capital (reserves excluding mortgage impairments) as a percentage of risk weighted assets and the Leverage Ratio, being Tier 1 Capital as a percentage of total assets plus mortgage impairments plus a proportion of mortgage pipeline commitments.

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

Principal Risks and Uncertainties

The main risks to which the Society is exposed are Credit Risk, Interest Rate Risk, Liquidity Risk, Financial Risk, Concentration Risk, Conduct Risk, Operational Risk and Reputational Risk. These are described in more detail within the full Annual Report and Accounts.

In addition to these risks, the Society is at risk from the uncertainties surrounding Brexit, which could impact the markets in which we operate. In particular, changes to interest rates, a fall in house prices and a weakening



| | 2018 £ | 2017 £ |
|-----------------------------------|-------------------|-------------------|
| Tier 1 capital | 11,125,113 | 10,963,930 |
| Total capital | 11,125,113 | 10,963,930 |
| Risk weighted assets: | | |
| Liquid assets | 5,181,275 | 5,214,460 |
| Loans and advances to customers | 29,729,561 | 30,214,778 |
| Other assets | 1,173,330 | 1,627,305 |
| Operational risk | 1,724,690 | 1,609,817 |
| Total risk weighted assets | 37,808,856 | 38,666,360 |
| Capital ratios: | | |
| Core tier 1 | 29.42% | 28.36% |
| Leverage | 10.33% | 10.20% |

of the UK economy could influence borrowers' abilities to repay mortgages and levels of new business for both mortgages and savings.

As a regulated financial institution, we have undertaken stress testing on our Corporate Plan forecasts. The most recent stress tests included a 40%+ reduction in the House Price Index, an increase in unemployment and both increases and decreases in interest rates, all factors which have been highlighted around Brexit. This showed the Society is resilient to the impact this would have on our results and that the business is sustainable.

The Society maintains a policy of low exposure to risk so as to maintain member confidence and to allow the achievement of its corporate objectives. There is a formal structure for risk management in place which includes full control procedures as well as the establishment of risk limits, mandates and reporting lines.

Staff

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

The Board encourages the personal development and training of both management and staff in order to ensure that employees have sufficient expertise, qualifications and relevant skills to provide the standard of service required. Wherever appropriate, staff and management attend suitable training courses and seminars to support their personal development.

Directors

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

NON-EXECUTIVE DIRECTORS

- Robert J Cairns, *Chairman*
- Alan G Waterfield, *Vice Chairman*
- William RC Lindsay, *Senior Independent Director*
- Janice Lincoln
- Richard L Drinkwater
- Richard J Vecqueray

EXECUTIVE DIRECTORS

- Timothy J Bowen, *Chief Executive*
- Elspeth L James, *Finance Director*

The Directors retiring by rotation in accordance with the Rules and offering themselves for re-election are Will Lindsay, having served on the Board for a 3-year period and Elspeth James, having served on the Board for a 7-year period.

During the 12 months ended 31 December 2018, Tim Bowen had been a Non-Executive Director of Mutual Vision Technologies Limited, which provides IT services to the Society. There were no other associated bodies in which the Society or its Directors had an interest.

Land and Buildings

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

Donations

During the year charitable donations totalling £8,338 (2017: £8,552) were made. No contributions were made for political purposes.

Going Concern

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

Post Balance Sheet Events

There are no post balance sheet events to report.

Approved and signed on behalf of the Board
Timothy J Bowen (*Chief Executive*) and **Robert J Cairns** (*Chairman*)
28 February 2019

SUMMARY FINANCIAL STATEMENT

This financial statement is a summary of information in the audited annual accounts, the Directors' report and annual business statement, all of which will be available to members and depositors free of charge on demand in the Society's Branch or on the website, www.penrithbs.co.uk, from 1 March 2019.

SUMMARY DIRECTORS' REPORT

This comprises the message from our Chief Executive on pages 3 and 4 and the Business Review on pages 14 to 19.

SUMMARY STATEMENT For the year ended 31 December 2018

| RESULTS FOR THE YEAR | 2018 £ | 2017 £ |
|--------------------------------------|--------------------|--------------------|
| Net Interest Receivable | 1,872,071 | 1,785,228 |
| Other Income and Charges | 11,072 | 20,817 |
| Administrative Expenses | (1,690,057) | (1,574,694) |
| Provisions | 14,032 | (70,468) |
| Profit for the Year before Taxation | 207,118 | 160,883 |
| Taxation | (45,935) | (24,927) |
| Profit for the Year | 161,183 | 135,956 |
| FINANCIAL POSITION AT END OF YEAR | 2018 £ | 2017 £ |
| ASSETS | | |
| Liquid Assets | 26,159,324 | 25,591,974 |
| Mortgages | 80,323,340 | 80,731,212 |
| Fixed and Other Assets | 1,116,721 | 1,127,853 |
| Total Assets | 107,599,385 | 107,451,039 |
| LIABILITIES | | |
| Shares | 93,886,050 | 94,550,617 |
| Amounts Owed to Credit Institutions | 500,247 | - |
| Amounts Owed to Other Customers | 1,877,698 | 1,749,119 |
| Other Liabilities | 210,277 | 187,373 |
| Reserves | 11,125,113 | 10,963,930 |
| Total Liabilities | 107,599,385 | 107,451,039 |

Approved by the Board of Directors and signed on its behalf by:
Robert J Cairns (Chairman), **Janice Lincoln** (Director)
 and **Timothy J Bowen** (Chief Executive)
 28 February 2019

SUMMARY OF KEY FINANCIAL RATIOS

| | 2018 | 2017 |
|---|--------|--------|
| Gross capital as a percentage of shares and borrowings (Note 1) | 11.56% | 11.39% |
| Liquid assets as a percentage of shares and borrowings (Note 2) | 27.17% | 26.58% |
| Profit for the year as a percentage of mean total assets (Note 3) | 0.15% | 0.13% |
| Management expenses as a percentage of mean total assets (Note 4) | 1.57% | 1.48% |

NOTES TO THE SUMMARY FINANCIAL STATEMENT

- The gross capital ratio measures the proportion which the Society's capital bears to the Society's shares and borrowings. The Society's gross capital consists of reserves, which are the Society's profits accumulated over many years.
Capital provides a financial cushion against difficulties which might arise in the Society's business and therefore protects investors.
- The liquid assets ratio measures the proportion which the liquid assets held in the form of cash, short term deposits and government securities bears to the Society's shares and borrowings. Liquid assets are utilised by the Society in its cash management enabling the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.
- The ratio of profit for the year as a percentage of mean total assets measures the proportion which the profit after taxation for the year bears to the average of the total assets at the beginning and end of the financial year. The ratio is similar to a company's return on assets. Profit is transferred to reserves, thus forming the capital which is essential in order to protect investors.
- The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses as reported in this document (which includes depreciation) bear to the mean total assets in accordance with the Accounts Regulations.

DIRECTORS' REMUNERATION REPORT

The Society's Remuneration Policy is to reward Directors through salary and fees according to their skills, expertise, experience and overall contribution, taking into account 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 set out the standards and policies the Society is required to meet when setting pay for Directors. The Society does not have bonus or share option schemes and therefore no element of variable remuneration. In addition, due to its size, the Society does 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.

Executive Directors

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

Executive Directors' remuneration comprises basic salary and pension benefits. Their salaries are considered by the Remuneration Committee which meets at least twice a year. Salary levels are set having regard to job content and responsibilities, the performance of the individual and salaries in similar organisations. The Society does not have a defined benefit final salary pension scheme. The Society makes contributions to the private pension arrangements of the Executive Directors. The Chief Executive's and Finance Director's contracts of employment require a 12 month and 6 month notice period respectively.

Non-Executive Directors

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

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

| Fees for services as Non-Executive Directors | 2018 | 2017 |
|---|---------------|---------------|
| | £ | £ |
| Robert J Cairns | 18,822 | 18,270 |
| Alan G Waterfield | 15,162 | 14,938 |
| William R C Lindsay | 15,162 | 14,938 |
| Janice Lincoln | 15,670 | 15,438 |
| Richard L Drinkwater (Appointed 1/7/2017) | 13,071 | 6,439 |
| Richard J Vecqueray (Appointed 27/4/2017) | 13,071 | 9,658 |
| Total for Non-Executive Directors | 90,958 | 79,681 |

| For services as Executive Directors: | | 2018 | 2017 |
|---|-----------------------|----------------|----------------|
| | | £ | £ |
| | Salary | 100,000 | 53,333 |
| Timothy J Bowen (Appointed 27/4/2017) | Pension Contributions | 10,000 | 5,333 |
| | | 110,000 | 58,666 |
| | Salary | - | 111,432 |
| Amy S Fazal* (Retired 31/12/2017) | Pension Contributions | - | 11,143 |
| | | - | 122,575 |
| | Salary | 64,427 | 56,773 |
| Elsbeth L James** | Pension Contributions | 6,271 | 5,979 |
| | | 70,698 | 62,752 |
| Total for Executive Directors | | 180,698 | 243,993 |

Total for Directors Emoluments 271,656 323,674

*Amy S Fazal sacrificed salary of £96,953 in lieu of additional pension contributions throughout 2017.

**Elsbeth James was on maternity leave for part of 2017 and returned to work on a four day week contract.

Approved and signed on behalf of the Remuneration Committee by:
Alan G Waterfield (Chairman)
28 February 2019

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

Opinion

We have examined the Summary Financial Statement of Penrith Building Society ('the Society') for the year ended 31 December 2018 on pages 20 to 21.

On the basis of the work performed, as described below, in our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis of opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the Summary Financial Statement to the corresponding items within the full Annual Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018, including consideration of whether, in our opinion, the information in the Summary Financial Statement has been summarised in a manner which is not consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the Summary Financial Statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full Annual Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018.

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

Our report on the Society's full Annual Accounts describes the basis of our opinions on those Annual Accounts, the Annual Business Statement and Directors' Report.

Directors' responsibilities

The directors are responsible for preparing the Summary Financial Statement within the Annual Review, in accordance with applicable United Kingdom law.

Auditor's responsibilities

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the Annual Review with the full Annual Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

The purpose of our work and to whom we owe our responsibilities

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



David Allen
for and on behalf of **KPMG LLP, Statutory Auditor**
Chartered Accountants
Sovereign Square, Sovereign Street, Leeds, LS1 4DA
28 February 2019

E: enquiries@penrithbs.co.uk W: www.penrithbs.co.uk





Date for your diary...

This year the AGM will take place at **6pm, Thursday 28 March 2019** at **The Sunbeams Music Centre, Penrith, CA11 0DT.**

For every vote cast for this years AGM, we will be making a donation to The Sunbeams Music Trust.

Make your vote count. To enter the draw for the chance to win £100 Marks & Spencer vouchers, simply register your vote for the AGM. You can do this online, by post or at our Branch. Full prize terms & conditions can be found at www.penrithbs.co.uk

Directors

Timothy J Bowen
Robert J Cairns (Chairman)
Richard L Drinkwater
Elspeth L James
Janice Lincoln
William RC Lindsay
Richard J Vecqueray
Alan G Waterfield

Solicitors: Gaynham King & Mellor, 2 Mason Court, Gillan Way, Penrith, CA11 9GR

Auditor: KPMG LLP, 1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA

Bankers: NatWest Bank Plc, 24 Devonshire Street, Penrith, CA11 7ST

Chief Executive: Timothy J Bowen

Finance Director: Elspeth L James

Secretary: Susan J Askew



Penrith Building Society
7 King Street
Penrith, Cumbria
CA11 7AR

E: enquiries@penrithbs.co.uk
W: www.penrithbs.co.uk



Penrith
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