



# Penrith

building society

*Listening and Supporting, Since 1877*



## **2020** **Our year in review**

Annual Review and  
Summary Financial Statement

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Details inside cover

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Building Society



## Virtual AGM

Due to the uncertainty around restrictions that may be in place on public gatherings at the time of the AGM, the Board has taken the decision that, in order to protect both staff and members the AGM will not be open for members to physically attend. As a result, we will be holding a virtual Annual General Meeting on **21 April 2021** and any members wishing to attend should register their intention either by email to [agmregister@penrithbs.co.uk](mailto:agmregister@penrithbs.co.uk) by post to the Society's Head Office, or by telephone on 01768863675. Details of how to join the virtual Annual General Meeting will be provided to all that register, nearer the time.



### Make your vote count.

To enter the draw for the chance to win £50 Marks and Spencer vouchers, simply register your vote for the AGM. You can do this online, by post or at our Branch.

Full prize terms and conditions can be found at [www.penrithbs.co.uk](http://www.penrithbs.co.uk)



### Message from our Chairman, Rob Cairns

## welcome

I am delighted to welcome you to our Annual Review which covers the previous unexpected and surprising year. You might remember that over 2019 we produced an excellent set of results, which included many records for the Society, and we were planning to have an even better year in 2020. However, then the pandemic came along, hitting our plans somewhat. But we showed true agility and resilience, as well as having a lot of innovative thoughts and actions, which enabled us to continue to offer a service to our members throughout the lockdown. We have also produced an excellent set of results for 2020 despite all the new challenges that faced us.

Two new Non-Executive Directors joined our Board this year, Rod Ashley and Kevin Parr, who have both settled into their new duties extremely well, despite the social distancing, and are already making important contributions to Board discussions.

I very much missed meeting with our members who regularly attend our Annual General Meeting each year and I am afraid, with the current lockdown measures, we have had to plan a 'virtual' AGM again in 2021. I do, however, hope to make an onscreen appearance to welcome you to the Meeting.

I would like to give my sincere thanks to our Executive Team for their superb leadership over the year and to our dedicated and hard working staff for going the extra mile. I am extremely proud of you all. I would also like to thank you, our loyal members, for all the support and understanding you have given to the Society over what has been a very difficult year. This has been most appreciated by us all at the Society.

Yours sincerely,

**Rob Cairns** (Chairman)  
10 March 2021



Report from our  
Chief Executive,  
**Tim Bowen**

FOR THE YEAR ENDED  
31 DECEMBER 2020



## Dear Member,

**The Society has achieved a lot in what has certainly been the most challenging year since I took over as Chief Executive.**

**In addition, I would reflect on 2020 as my proudest year working with an amazing team who have again, been supported by a group of loyal members. It was without doubt a year that I am certain nobody could have ever practically predicted when reflecting on the Covid-19 pandemic that we are continuing to live through.**

It does remain my privilege however, to be able to report that whilst it was not the year that the Board, our team, or I expected, 2020 will remain a year in which the Society demonstrated resilience, strong financial results and ensured that we maintained a supportive and safe environment for our staff and members. These successes were set against what I would view as one of the most challenging and prolonged set of circumstances businesses have had to face in the post war period. Our member loyalty and staff commitment were a huge factor, and I must thank you all for this.

The Board said goodbye to retiring Non-Executive Directors, Alan Waterfield and Richard Vecqueray in 2020 and we thanked them for their contributions to the Society's progress in recent years. We welcomed as their replacements Kevin Parr and Rod Ashley, who have both brought a vast amount of knowledge and experience to the Society which has been especially valuable in facing the challenges that have arisen due to the pandemic.

From the outset of the pandemic, our operational model changed significantly, with the majority of our staff working remotely. Reducing the risk of Covid-19 transmission, ensuring staff and member safety, and maintaining the services our members have had access to has been, and continues to be a priority for us. We have achieved this by providing our colleagues that have remained in the branch and office with masks, visors, temperature checks, hand sanitiser and screened barriers. Although we had to compromise on our branch opening hours to ensure both staff and member safety, we have kept our branch open, which ensured our members who rely on cash had continued access throughout the year.

Our team have also continued to process mortgage applications and telephone enquiries throughout the period. We have also been able to help a significant number of our borrowing members who have had concerns regarding their mortgage payments throughout the pandemic, listening, understanding, and meeting their individual needs.

Penrith Building Society remains a great business and will always continue to stay true to its purpose, evermore in times like we have and continue to find ourselves in. After an excellent year of delivery against our strategic objectives in 2019, this year promised a lot in terms of our growth aspirations. The arrival of the pandemic meant that we had to take immediate stock of the challenges and ensure that we made the decisions that kept our staff and members safe, as well as ensuring the Society could successfully navigate the associated risks that Covid-19 brought.

I am very proud to report that the Society was able to successfully deal with these challenges and, in most areas, exceeded our own expectations when considering the high degree of uncertainty that we faced. This resulted in continued high levels of service and delivery and our excellent team of staff, in every area of the business, really did step up to the mark in what was an extremely uncertain period to deliver a robust set of results.

These results saw profit increase year on year to £242,057 and total assets grow by 7.49% to £121.9 million, predominantly driven by a planned increase in our liquid assets at the start of the pandemic. In addition, the Society saw its net interest margin for 2020 increase by eight basis points to 1.89%, which is testament to the reaction to the risks associated with the pandemic.

### Mortgage performance

Mortgage lending remains critical to our long-term success. Our lending performance was significantly impacted initially by the first lockdown. Once the mortgage market reopened fully mid-way through the year, we saw a huge increase in levels of activity in the marketplace. The Society adopted a cautious and prudent re-entry into the mortgage market. This was done primarily to minimise risk due to the unknown longer-term impacts that the pandemic would have on the economy. As a result, the Society's mortgage assets saw growth of 1.11% in 2020. Whilst this growth was lower than we expected, it was a direct result of the market conditions because of the pandemic and the cautious re-entry into the mortgage market.

### Savings Growth

As a result of the pandemic, there was a definite flight to the Society from our savings members, due to trust as well as the rate of return compared to the marketplace. Consequently, it is pleasing to report that savings balances increased year on year by £8.2 million to £110.1 million. We remain committed to our mutual ethos to be fair in our pricing of products in ensuring our members receive a competitive rate of return.



### Member engagement

I am also pleased to report a stable year in our membership base which continues to show a real vote of confidence in the Society. Whilst we are always acutely aware of the loyalty of our members, it has never been clearer to all that are associated with the Society, and I am proud that we have been able to give fair rates and returns to both our borrowing and saving members throughout the pandemic, when comparing to other areas of the marketplace.

We remain completely committed to the community that we serve in Penrith and the Eden Valley as well as our many members that live in all corners of the United Kingdom. Meeting the unique needs of borrowers in our heartland and beyond as well as supporting those members that are underserved by the mainstream lenders continues to stand us in good stead. Our individual approach to underwriting also allows us to support the borrowing needs of our members both existing and new and we remain proud of our offering.

## Supporting our Community

Our social purpose, as a mutually owned organisation, continues to be our reason for being and is at the heart of everything we do. In 2020, the hands-on support that we have given in the past was impacted heavily due to Covid-19. We hope to re-start some of the bigger events and volunteering when the Government Guidelines support those activities. We were still able to support the financial education of the younger generation of Penrith in conjunction with Queen Elizabeth Grammar School and Ullswater Community College, through virtual rather than face to face activities, and we will continue to remain committed to this. Our affinity accounts supported Pride in Penrith Lottery, Eden Valley Hospice & Jigsaw, Annie Mawson's Sunbeams Music Trust, Penrith RUFC Juniors and Penrith & District Red Squirrel Group. Additionally, in December, the Society gave donations to our four local primary schools and the Salvation Army. These donations were led exclusively by our staff with the purpose of helping families who were in need over the winter period and beyond.

## Outlook

The outlook for the UK economy remains unusually uncertain and will depend on the duration of the pandemic, the measures taken to protect public health and finally, the manner in which households, businesses and the financial markets respond to these developments. As a result, there is very little expectation that interest rates will rise. It is therefore reasonable to suggest that it may be a tough twelve months for the economy during our next financial year. Whilst our progress in 2020 was heavily influenced by the pandemic we remain optimistic and prepared for all eventualities as we look to the future.

The Board and I 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. The Society has an experienced, capable, and talented team that will continue to monitor any adverse indicators relating to impacts of Covid-19, as well as the wider factors, to ensure that the Society remains resilient and strong against potential economic shocks. We maintain strong financial foundations and remain committed to our strategic objectives and direction and are confident in achieving them.

As I say every year, our Society exists because of the commitment and dedication of our staff, who we will continue to invest in, as well as the ongoing loyalty and support of our members. I would like to thank you all for your support.

**Tim Bowen** (Chief Executive)  
10 March 2021

# Supporting those seeking to buy a home during 2020

Like every aspect of society, during 2020 the mortgage market was impacted by the outbreak of the Covid-19 pandemic. At the outset, borrowers and lenders alike were understandably cautious about the future of house prices, the economy, job security and many other factors that are important to consider when financing a new home.

One segment of the market that was particularly badly affected were those looking to purchase a home with a small deposit. A small deposit can represent a greater risk to a lender – in the event of a downturn in house prices, homeowners can quickly find themselves with a mortgage debt that is greater than the value of their home.

To guard against this risk, the majority of lenders removed all higher loan to value (LTV) mortgages from sale. This meant that a huge number of buyers were forced to curtail their plans to move home.

The Society set about thinking of ways that we could still try and serve this element of the mortgage market, whilst ensuring that we continued to lend responsibly, considering the global situation and outlook.

As a regional building society, seeking to service its community, we felt it important that we continue to look after our direct mortgage applicants, ensuring that we remained supportive where applicants had only a small deposit to contribute towards their purchase. We achieved this by providing exclusive access to products offering a higher 'loan to value', for mortgage borrowers applying directly through the Society's mortgage advisors.

To further assist those with low deposits, we created a mortgage product designed to help keyworkers looking to buy property with only a 10% deposit. We felt it was essential that we try and aid the great number of people whose jobs have continued regardless of tier restrictions or lockdowns, and in many circumstances whose roles have in fact become more challenging during this period.

To ensure we reached as many people as possible our definition of 'keyworker' encompassed a range of sectors and industries. From nurses, to teachers, to bus drivers and food retailers, we provided many of those who had looked after us through the difficult months of 2020 with a solution to their mortgage needs.

The keyworker product was well-received by mortgage brokers who praised the Society for offering an innovative solution and seeking to help those who other lenders had been unable to find a way to assist.

As an extra thank you, to our new borrowers, the Society sent a 'new home' hamper including a number of everyday essentials that no new home should be without.

## Supporting those in financial difficulty

Finding yourself in financial distress and unable to meet your obligations is a frightening experience. Couple this with the effects of a global pandemic and the short to medium term view could be seen as simply overwhelming. To support those in financial difficulty as a result of Covid-19, in March of 2020 the Chancellor of the Exchequer announced measures designed to mitigate the financial impact of the crisis.

The Society has always taken a sympathetic view on members who, often for reasons outside of their control, have fallen on hard times and find themselves unable to pay their mortgage. This approach formed the foundation of our procedures for handling mortgage payment deferral requests. We wanted to work with and support our members, to ensure we were offering appropriate solutions to those who needed help the most. To enhance the support offered and to ensure members were fully informed, we produced information sheets to guide and address frequently asked questions.

If you are concerned about your financial obligations and you are a borrowing member, please do get in touch with us.

# Staff news



**Claire Renwick**  
Senior Mortgage Administrator

Claire joined us in November as our Senior Mortgage Administrator. She has extensive experience having worked within Retail Banking and the Financial Services sector for the past 13 years in varying roles. Claire started her career as a Customer Service Assistant before moving on to be a Personal Banking Manager for a high street Bank, before moving into the financial advice sector. Outside of work Claire enjoys pilates and spending time with her family.

## Wellbeing at work

2020 saw a big change in the way the Society worked due to the pandemic, resulting in many changes for our staff.

We needed to make our working environment as safe as possible whilst ensuring we were able to continue to provide a reliable service for our members. This led to staff working from home wherever possible, and Branch staff working under restricted conditions.

Following the success of achieving our Bronze Award in 2019, during 2020 the Society began working towards its Silver Better Health At Work Award which proved a great way to support our staff working under new and challenging conditions.

As part of the award we completed various activities and challenges throughout the pandemic, all socially distanced and Covid-19 compliant of course! Our biggest activity was our team wellbeing challenge which saw the four members of the Executive go head-to-head as our team captains. The challenge itself was designed to cover aspects of physical activity, mindfulness and healthy eating with points awarded to each team member for every activity completed. We had a huge range of activities and everyone really got into the spirit of things. From getting out into our beautiful local area, to baking and a variety of other crafts, with regular zoom quizzes also thrown in, we kept our minds and bodies happy and healthy. The winning team was captained by Elspeth, with all the teams making a great effort.



The Better Health at Work Award  
Bronze Award

# Community round up for 2020



## Teaching young Minds

Penrith Building Society has been actively involved in promoting financial education in local schools and this has continued during the pandemic albeit in a more virtual sense. We have provided some of our local schools with the resources to be able to teach the Building Societies Association / Young Money financial education sessions themselves.



## Salvation Army foodbank

We have also donated to the local **Salvation Army foodbank** here in Penrith to support those in need in our community.



## Showing our appreciation

During the summer we took some essentials and treats to some of **our local emergency services** to show our appreciation of the work they were carrying out to keep us all safe and secure.



## well done to all our Affinity Account savers!

We continue to support our affinity partners with the annual dividend payments totalling £4,268 in 2020. The partners we currently support are **Eden Valley Hospice & Jigsaw, Pride in Penrith Lottery** and **Annie Mawson's Sunbeams Music Trust**. We also support **Penrith & District Red Squirrel Group** and **Penrith RUFC Juniors** through our junior affinity accounts. Thanks to those members who save into an affinity account we have been able to continue to support these local organisations.



**At the start of 2020 we had no idea how much the world we knew was about to change. Whilst it has been challenging – keeping staff and members safe, it has also brought opportunities for the Society to review its business model.**

How we interact with our members has needed to adapt, as the ability to engage safely face to face has significantly reduced. We were agile in identifying alternative ways to communicate with both borrowers and savers and we will build on the small steps taken in 2020 to embrace technology and alternative communication channels as we move into 2021. As part of this we will consider our own environmental footprint and how we can do more to support the climate change agenda.

As a business we still use written letters as our main form of communication. Part of this is driven by the regulatory requirements to ensure our members are made aware of any changes to their accounts and that we have written evidence to support transactions or applications made to the Society. It is also in part driven by a preference within our member demographic towards paper-based correspondence.



We have been encouraged during the pandemic by the number of members looking to move away from paper to electronic communication, which is now over 10% of our membership base, but feel this could be greater still. We have no

intention of stopping the use of paper altogether, as we have many members for whom a letter remains the most appropriate form of contact, but we will continue to encourage members to opt for a non-postal form of communication where they can.

In 2021 we will have online savings accounts for the first time, where no passbook will be issued. Members will be able to transact electronically, with any deposits being made by bank transfers and withdrawals being to a nominated current account with another bank or building society, rather than in the form of a cheque. We will expand this to further savings accounts in the range and will notify members of when this option is available for their account type.

We have introduced the ability for existing and potential members to download savings account application forms to complete electronically and then email or print and send into us for processing. This saves time in branch for both members and staff and has streamlined our savings application process as a result. This will be further enhanced when linked to our online savings accounts in 2021.

A real success in the pandemic has been the number of members registering their bank or building society current account details with us to allow us to transfer funds to that account, rather than coming to branch to get a cheque to bank elsewhere. This has reduced the time it takes for the funds to be accessed and has removed paperwork for our staff.

For our borrowers, we had already taken steps forward to interact electronically, with information to support applications being scanned or photographed and e-mailed to us. Interviews

are now all phone based and we intend to offer video calls in the future. As with savings, all our mortgage application forms can be downloaded and completed electronically to submit to us.

Most of our mortgage broker relationships use our online portal to send in application details and solicitor/ valuer communications are almost all electronic in nature now.

Good quality scanned images or photos are becoming more of the norm and we will further streamline our mortgage application process as we move through 2021, encouraging non-paper-based evidence where we can.

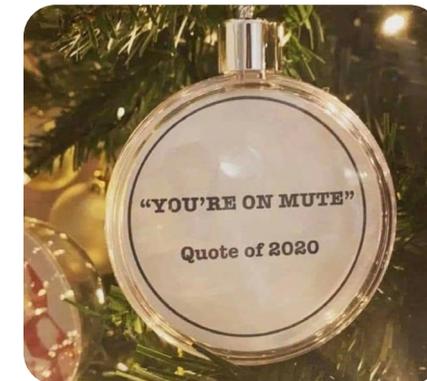
We store all of our new mortgage files electronically, which allows our staff, whether they are working in the office or at home, to access the information they need quickly and easily to support our borrowing members and make underwriting decisions efficiently.

Our AGM in 2020 was held via video conferencing during the first lockdown. Members were invited to attend via a link and encouraged to submit questions ahead of the meeting to allow responses to be included to the live stream. The link also allowed members the ability to vote on the resolutions being put forward, where they had not done so in advance. The feedback from those who attended was positive and as a result we are using the same format for the 2021 AGM. Details of how to register are included on page 2.



We appreciate that technology is not something all our members are comfortable with, particularly when it comes to security of your money with the Society. We work with local and national businesses who are specialists in technology and importantly the area of cyber security. The ability to remain operationally resilient to these threats and protect our members' money is at the forefront of any planning we undertake in moving to a digital footprint and we are continuously re-evaluating and testing our technology environment to ensure we are safe and secure to allow us to reassure our members that moving away from paper based transactions is appropriate.

The most used phrase in the Society in 2020 was 'You're on mute', which has showed us how far we have already come as a business in adapting to the changes put upon us by the pandemic. We are making great strides forward, which we hope you as members will see much more of in 2021 and beyond.



## Have your say on change

We would like you come with us on this new journey as we take lessons from the changes necessitated by the last year and embrace positively to sustain our footprint on the planet for many years to come.

We value your input as members and would like you to have your say on how the Society should interact with you in the future.

We have included a short survey with the AGM documents, which you can either complete the paper copy and

- send to us by post to the Society's Head Office, 7 King Street, Penrith, CA11 7AR,
- scan or photograph and email to us on [info@penrithbs.co.uk](mailto:info@penrithbs.co.uk)

Or complete the survey online as part of the online AGM voting process, which also gives you the chance to win £50 Marks and Spencer vouchers.

Full prize terms and conditions can be found at [www.penrithbs.co.uk](http://www.penrithbs.co.uk)

# Meet the Directors



**Rob Cairns**  
Chairman

Rob joined the Board in May 2013 having retired from Furness Building Society where he was Chief Executive for 14 years. Prior to this, he was the Deputy Chief Executive at Cumberland Building Society. He is a graduate of the University of Sussex, holding a degree in psychology. Following his retirement, he has remained actively involved in the Cumbrian business community. As well as being a Deputy Lieutenant of Cumbria, he is a sports fan, particularly when it comes to football and cricket and is presently Secretary of Cumbria County Cricket Club. He has two grown-up daughters and a number of grandchildren.



**Tim Bowen**  
Chief Executive

Tim was born in Penzance and has spent the majority of his career, before joining the Society, in various leadership roles within the banking industry. Tim joined the Society initially in October 2016 as Retail & Operations Director and became a member of the Board of Directors in April 2017, taking over as Chief Executive at the start of 2018. He is married with a young daughter and enjoys playing golf in any spare time he gets. He also has a passion for travelling and sport, in particular rugby union.



**Richard Drinkwater**  
Non-Executive Director

Richard joined the Board in July 2017. He is now an entrepreneur in the property sector. Since 2003 he has been involved in a number of successful business start-ups in the Software, Green Energy, Leisure and Hotel sectors and he continues to provide Senior Executive Coaching across the Financial Services Sector. Prior to this Richard spent 17 years with the Royal Sun Alliance Insurance Group as Director of Marketing for the Worldwide Group and, up until the merger, worked for the Sun Alliance Group in the Life, Pensions and Investment business. Richard has an MBA in Marketing & Finance from Sussex University. He is a keen runner and an avid supporter of rugby.



**Janice Lincoln**  
Non-Executive Director and Chair of Audit, Risk & Compliance Committee

Janice was born in Darlington and spent all of her 38 year career at Darlington Building Society becoming Finance Director in 2010. Having worked in retail banking all of her life she has a vast knowledge of all aspects of building societies with financial and strategic focus. Since her retirement in 2015 she concentrates on her passion for gardening and travelling the world. She is also a Trustee and Chair of Finance & Strategy for Darlington Mind and a trustee at Darlington Credit Union, ensuring she gives something back to the community that has served her well during her life.



**William Lindsay**  
Non-Executive Director

Will joined the Board in 2015 having had a long and successful career in banking. His knowledge extends across all aspects of retail banking, including private and business banking. Before retiring from Clydesdale Bank he was Regional Director for London and South region and on his way south, spent seven years in Cumbria as Regional Manager. He is a Fellow of the Chartered Institute of Bankers in Scotland. He enjoys all sports and spending time with his family.



**Rod Ashley**  
Non-Executive Director

Rod joined the Society Board in April 2020 and is an experienced Bank Chief Executive and Board Member operating at senior management and leadership level since 2000. In his most recent role, he is leading a team setting up a new challenger bank and he was previously the Chief Executive at Airdrie Savings Bank. A graduate of the University of Glasgow, Rod is also a Fellow of the Chartered Banker Institute. He is well known in the industry, having sat on various regulator panels, and is currently on the advisory board of the Adam Smith Business School in Glasgow. Outside of work Rod's interests include playing tennis and his lifelong interest in all things theatrical.



**Elsbeth James**  
Finance Director

Elsbeth was born in Carlisle and studied at Edinburgh University where she qualified with a mathematics and statistics degree. Elspeth then gained over 17 years' accounting experience with KPMG and Johnston Carmichael where she worked with retail banking clients and other building societies both in the UK and Australia. Elspeth became the Finance Director of Penrith Building Society at the start of 2013. She and her partner live in Penrith with their daughter and two Airedale Terriers. In her spare time Elspeth enjoys running and pilates.



**Kevin Parr**  
Non-Executive Director

Kevin joined the board in April 2020. He retired from the Cumberland Building Society in 2018 where he spent 24 years on the board, 15 years as chief executive. Kevin is an accountant and has extensive financial services and treasury experience. Prior to joining the Cumberland Building Society he was head of finance and information technology at the London branch of a French merchant bank. Kevin lives in Cumbria and his interests include sailing and hillwalking.

The Society has faced one of its most challenging periods in 2020, as a result of the Covid-19 pandemic that arose in March 2020 and continues at this time. As expected, the financial performance of the Society has been impacted as a result of the pandemic, however results for the year ended 31 December 2020 represent another year of strong balance sheet growth, matched with a growth in profitability, which indicate the Society has faced the challenges from the pandemic well and is ensuring that it remains safe for its members as the situation continues. The Society has strong levels of capital and liquidity and in the event of financial instability arising the Society could continue to operate successfully building on the lessons learnt and position reached in 2020.

Last year the Society noted within its strategy the risk it faced from the uncertainties surrounding Brexit. As the Society's business operates within the UK, there has been very little direct impact in 2020 and as we moved to the end of the transition period on 31 December 2020. As noted above, we are confident any future financial instability in the UK market, from either Brexit or Covid-19 should see the Society continue to trade without issue.

We have taken the time in updating our Corporate Plan during 2020 to reflect on the purpose, values and overall objectives of the Society.

Our purpose has been redefined to confirm 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 refreshed and summarised as follows:

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



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

### The Board and Executive:

- **Remain confident** that we have and will continue to successfully identify areas of the mortgage market that we can continue to be competitive in, wish to compete in and continue to develop and leverage our intermediary relationships.
- **Are committed** to continuing as an independent, profitable and operationally resilient mutual, whilst continuing to fulfil the social aspect of our purpose.
- **Will maximise the value** of the Society's brand, by engaging with and supporting the financial education of our membership and the community we serve.
- **Continue to invest** in improving our people, processes, systems and controls.
- **Will focus** continually on promoting and building on our internal culture as well as the wellbeing of our staff.
- **Continue to identify** the right strategic partners, to maximise value in all areas of the business.

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

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

## Key Performance Indicators

The Board uses a number of key performance indicators to measure and monitor the performance and position of the Society on an ongoing basis. A summary of these measures over the last five years has been explained further below.



## Income and Expenditure

The Society made a profit for the year after taxation of £242,057 (2019: £169,674).

Total income is £2.25m, compared to £2.02m in 2019. The net interest margin widened following the repricing of certain savings products in September to better reflect the market conditions and competition.



The Society continues to monitor fees for mortgage products, keeping these as low as possible 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 including depreciation are £1.85m (2019: £1.80m), an increase of 2.62%. The cost income ratio is now 82.03% (2019: 89.34%).

Management expenses expressed as a ratio of mean total assets are 1.57% (2019: 1.63%).

The most significant investment continued to be made in our people and technology to support the future sustainability of the Society and, to improve the experience of members as they interact with the Society.

The focus of 2020 has been on operational resilience of the Society and ensuring that we were able to service our members at all times during the pandemic. This meant that additional costs of printing and postage, plus changes to the branch and head office layout to accommodate health and safety requirements for members and staff were an unplanned but necessary cost. The safe and secure transition of around 60% of our staff base to home working also saw increased costs to ensure that their work environment supported physical and mental health requirements and again was an important part of our resilience plan for the pandemic.

## Total assets



The loyalty of savings members drove asset growth in 2020, with total asset growth being 7.49% (2019: 5.38%). The planned mix of mortgage to liquid assets was not achieved however, as a result of the challenges faced in the mortgage market as outlined below.

The positive reduction and replacement of liquid assets (being cash and treasury investments) with mortgage assets seen in 2019 to improve the margin took a backward step as savings members sought to place surplus funds with the Society for safety and we took a conscious decision to ensure a strong liquidity position as we faced the pandemic. Liquid assets rose to £29.02m at the end of 2020 (2019: £21.54m), being 26.37% (2019: 21.14%) of total shares and borrowings.

## Shares and borrowings (£m)



## Loans and advances

After a strong start to 2020, the economic conditions saw the mortgage market slow significantly during 2020. Increased activity in Q4 2020, on the back of the stamp duty holiday, which has been a relief to many prospective borrowers, allowed a small positive growth in mortgage assets year on year, taking total mortgage balances to £91.76m (2020: £90.75m).

Our mortgage broker relationships allowed us to attract some good business in our more specialised areas of the market throughout the pandemic and we successfully launched a KeyWorker scheme in Q4 2020 which has given a strong mortgage pipeline as we move into 2021. The Society continues to utilise its subsidiary to provide mortgage advice directly to our borrowers and these cases represented just over 25% of our total advances in 2020. We completed 126 (2019: 202) advances in 2020, of which 10 (2019: 17) were further advances.



Our product range was broadly unchanged in 2020, although we placed temporary restrictions on our maximum loan to value to manage the quality and quantity of business we were attracting to ensure we could provide the level of service our members expected, alongside handling of the mortgage payment deferral requests.

The Society saw over 10% of its mortgage borrowers take a payment deferral at some point in 2020. Most

of these borrowers have returned to normal payments and where this has not been possible, arrangements have been put in place to help those still facing financial difficulties. We are not yet seeing the full impact of the pandemic on our arrears levels, as mortgage payment deferrals continue and we are aware more borrowers may be affected by unemployment and similar factors going forward. As a result, affected borrowers and the number of cases above three months in arrears remains at a minimum and at a level consistent with 2019.

We recognise as unemployment continues to rise, our arrears levels are also likely to follow this path and the level of loan loss provisions has increased to £225,000 (2019: £128,878). Within this the collective loan loss provision continues to be calculated using a risk weighted approach and has increased to £135,000 (2019: £106,828) as a result of the application of a greater reduction (increased from 5% to 10%) to the House Price Index used to estimate current value of properties in this calculation, reflecting the concerns around temporarily inflated house prices surrounding the stamp duty holiday and pent up market demand.

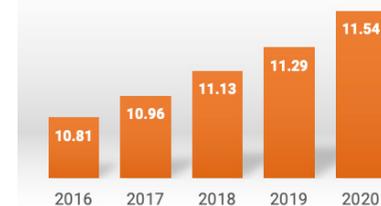
At 31 December 2020 there was one mortgage case (2019: one) where the repayment of principal and interest was twelve or more months in arrears and eight cases (2019: five) with forbearance measures in place. The Society has no properties in possession at the end of 2020 (2019: none).

The Society takes all reasonable steps to minimise loss and to ensure that the stipulations of our 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.

## Capital (£m)



	2020 £	2019 £
Tier 1 capital	11.54	11.29
Total capital	11.54	11.29
<b>Risk weighted assets:</b>		
Liquid assets	6.39	3.66
Loans and advances	36.37	33.52
Other assets	1.15	1.10
Operational risk	2.04	1.90
<b>Total risk weighted assets</b>	<b>45.95</b>	<b>40.18</b>
<b>Capital ratios:</b>		
Core tier 1	25.11%	28.11%
Leverage	10.01%	10.38%

## Capital

At 31 December 2020, the Society's capital is £11.54m (2019: £11.29m).

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) has decreased year on year at 10.81% of total shares and borrowings (2019: 11.43%).

Additionally, the gross capital ratio (being general reserves) amounted to 10.48% of total shares and borrowings (2019: 11.09%).

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

To meet regulatory requirements, a risk 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 at least annually.

The table on page 17 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](http://www.penrithbs.co.uk)

## Principal Risks and Uncertainties

The Society has 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 which includes full control procedures as well as the establishment of risk limits, mandates and reporting lines.

The main risks to which the Society is exposed are Credit, Interest Rate, Liquidity, Funding, Reputational, Operational, Conduct, Concentration, Fraud and Financial Crime, Climate Change, Cyber Security and Personnel. These are described in more detail within the full Annual Report and Accounts.

In addition to these, the Society has faced the strategic risk challenge that Covid-19 has imposed. The ability to interact face to face with our members has been severely restricted by the pandemic, however we have successfully introduced alternative channels to engage where this has been required - for mortgages, non-face to face phone interviews and for savings, the use of electronic bank transfers to nominated bank accounts. Some of this is likely to become a permanent change for the Society moving into 2021 and how we embrace this, but ensure the potential risk is mitigated, is a key area of focus for the business.

The rise in unemployment is a concern for the Society as the Government support packages of mortgage payment deferral and furlough come to an end. Whilst no material mortgage losses have yet occurred, it is likely that higher arrears and losses will arise in the coming months. The Society's year end mortgage loan loss provisioning and Corporate Plan forecasts have allowed for additional losses occurring. Operationally, over half of our personnel have

now been working at home for around nine months and this is likely to continue for some time to come. Those that have remained in our head office have also been working in an unusual and segregated environment for a number of months now and maintaining the cohesive team has been challenging. Our people are key to the Society and their continued mental and physical health through the pandemic has been a priority for the Board. Every effort has been made to ensure their work environment, wherever that may be, functions as smoothly as possible, is resilient to threats of cyber risk and allows members to be serviced to the highest possible standards at all times.

Controls have been strengthened across all areas of the business to withstand the operational stresses and independent assurance has been given to confirm the changes made are appropriate and effective.

As a result of the economic downturn globally, there is also a potential risk of the Bank Rate moving negative. The Society has reviewed the impact of this against financial and liquidity risks, including running stress testing to try and understand the potential impact. We have also ensured we are operationally ready to respond to this scenario if it were to arise.

## Land and Buildings

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

## Donations

During the year charitable donations totalling £7,004 (2019: £6,642) were made. No contributions were made for political purposes.

## Directors

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

### DIRECTORS

- **Rob Cairns**, *Chairman*
- **Rod Ashley** (*Appointed 23 April 2020*)
- **Richard Drinkwater**, *Senior Independent Director*
- **Janice Lincoln**
- **Will Lindsay**
- **Kevin Parr** (*Appointed 23 April 2020*)
- **Alan Waterfield** (*Retired 22 April 2020*)
- **Richard Vecqueray** (*Retired 22 April 2020*)

### EXECUTIVE DIRECTORS

- **Tim Bowen**, *Chief Executive*
- **Elsbeth James**, *Finance Director*

All Directors retire on an annual basis and offer themselves for re-election.

None of the Directors had any beneficial interest in any connected undertaking of the Society at any time during the year and at the year-end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986. There are no Directors' indemnities.

During the 12 months ended 31 December 2020, Tim Bowen had been a Non-Executive Director of Mutual Vision Technologies Limited, which provides IT services to the Society, however he retired from this role on 26 September 2020. There were no other associated bodies in which the Society or its Directors had an interest.

## Staff

The Directors are pleased to record their appreciation to management and staff for their hard work and loyal service rendered during what has been a particularly challenging year for the Society.

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.

## Going Concern

Forecasts of the Society's 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 the Society's capital, financial and liquidity positions over that period have been considered and stressed as appropriate. Within the stress scenarios were sensitivities relating to Covid-19, which included the potential for a negative Bank Rate, increased unemployment levels in the UK and decreases in the House Pricing Indices.

The Covid-19 assessments, which focused on the Society's liquidity, capital and operational resilience, included the following considerations:

- The Society's capital position was reviewed against the ICAAP stress scenarios, incorporating Covid-19 economic forecasts. This considered unemployment levels and house price indexation as two key areas which are being impacted by the pandemic.
- The Society's liquidity position was reviewed on a similar basis, against the Individual Liquidity Adequacy Assessment Process (ILAAP) stress scenarios and experience of retail funding and mortgage activity arising as the pandemic continues, based on lockdown behaviours primarily.
- The operational resilience of the Society was reviewed and tested, with the key requirement to maintain an essential branch service for the local community, with significant numbers of staff working at home and no loss of service to members as a result of the changes made.

These forecasts and other reviews have satisfied the Directors that the Society has adequate resources to continue in business for the foreseeable future. For this reason and after the consideration of the impact of Covid-19, it is appropriate for the accounts to continue to be prepared on the going concern basis.

## Post Balance Sheet Events

The Directors do not consider that any event since the year-end has had a material effect on the financial position of the Society as disclosed in the Annual Report and Accounts

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**Approved and signed on behalf of the Board**  
**Tim Bowen** (*Chief Executive*) and **Rob Cairns** (*Chairman*)  
**10 March 2021**

# SUMMARY FINANCIAL STATEMENT

The summary financial statements on pages 20 to 22, the message from our Chief Executive on pages 4 to 6 and the Business Review on pages 14 to 19, are a summary of the information in the audited Annual Accounts, Directors Report and Annual Business Statement, all of which will be available in the Society's Branch or on the website, [www.penrithbs.co.uk](http://www.penrithbs.co.uk), from 26 March 2021.

The Group comprises Penrith Building Society and its subsidiary, Cumbria Mortgage Centre Limited. The principal activity of the subsidiary is the provision of mortgage advice. As the activity of the subsidiary is aligned with that of the Society, references and results reported throughout the Summary Financial Statements to Society include the consolidated performance and position of the subsidiary, unless specifically noted otherwise.

## GROUP SUMMARY FINANCIAL STATEMENT

For the year ended 31 December 2020

<b>RESULTS FOR THE YEAR</b>	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Net Interest Receivable	2,199,699	1,974,653
Other Income and Charges	54,497	42,340
Administrative Expenses	(1,849,125)	(1,801,994)
Provisions	<u>(100,272)</u>	<u>(5,131)</u>
Profit for the Year before Taxation	304,799	209,868
Taxation	<u>(62,742)</u>	<u>(40,194)</u>
<b>Profit for the Year</b>	<b><u>242,057</u></b>	<b><u>169,674</u></b>

## FINANCIAL POSITION AT END OF YEAR

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
<b>ASSETS</b>		
Liquid Assets	29,023,402	21,537,852
Mortgages	91,755,550	90,746,117
Fixed and Other Assets	<u>1,102,780</u>	<u>1,100,831</u>
<b>Total Assets</b>	<b><u>121,881,732</u></b>	<b><u>113,384,800</u></b>
<b>LIABILITIES</b>		
Shares	107,733,076	99,374,466
Amounts Owed to Credit Institutions	-	502,301
Amounts Owed to Other Customers	2,342,466	1,996,792
Other Liabilities	269,346	216,454
Reserves	<u>11,536,844</u>	<u>11,294,787</u>
<b>Total Liabilities</b>	<b><u>121,881,732</u></b>	<b><u>113,384,800</u></b>

Approved by the Board of Directors on 10 March 2021  
and signed on its behalf by:

**Rob Cairns** (Chairman), **Janice Lincoln** (Director)  
and **Tim Bowen** (Director, Chief Executive)

## SUMMARY OF KEY FINANCIAL RATIOS

	<b>2020</b>	<b>2019</b>
Gross capital as a percentage of shares and borrowings (Note 1)	10.48%	11.09%
Liquid assets as a percentage of shares and borrowings (Note 2)	26.37%	21.14%
Profit for the year as a percentage of mean total assets (Note 3)	0.20%	0.15%
Management expenses as a percentage of mean total assets (Note 4)	1.57%	1.63%

## NOTES TO THE SUMMARY FINANCIAL STATEMENT

1. The gross capital ratio measures the proportion which the Society's capital bears to the Society's shares and borrowings. The Society's gross capital consists of reserves, which are the Society's profits accumulated over many years.

Capital provides a financial cushion against difficulties which might arise in the Society's business and therefore protects investors.

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

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

4. The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses as reported in this document (which 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 sets 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.

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

## 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, discretionary bonus and pension benefits, the latter is based on a fixed percentage of salary.

Their remuneration level and structure is 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 for the Society 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 staff and is as a result of the appraisal process completed each year when achievement of objectives, aligned to the strategic goals of the Society, are reviewed.

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 contributions are currently at a level in line with that available to staff.

The Chief Executive's and Finance Director's contracts of employment require a 12 month and 9 month notice period respectively.



<b>Fees for services as Non-Executive Directors</b>	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Rob Cairns	19,583	19,199
Rod Ashley (appointed 23 April 2020)	10,881	-
Richard Drinkwater	15,776	13,333
Janice Lincoln	16,303	15,983
Will Lindsay	15,776	15,466
Kevin Parr (appointed 23 April 2020)	10,881	-
Richard Vecqueray (retired 22 April 2020)	4,533	13,333
Alan Waterfield (retired 22 April 2020)	5,259	15,466
<b>Total for Non-Executive Directors</b>	<b>98,992</b>	<b>92,780</b>

<b>For services as Executive Directors:</b>	<b>2020</b>	<b>2019</b>	
	<b>£</b>	<b>(restated) £</b>	
	Salary	108,234	101,500
	Bonus	5,516	3,060
Tim Bowen	Pension Contributions	6,687	10,150
		<b>120,437</b>	<b>114,710</b>
	Salary	69,830	65,975
	Bonus	3,550	1,990
Elsbeth James*	Pension Contributions	4,320	6,598
		<b>77,700</b>	<b>74,563</b>
<b>Total for Executive Directors</b>		<b>198,137</b>	<b>189,273</b>

**Total for Directors Emoluments 297,129 282,053**

\*Elsbeth James works on a four-day contract

The 2019 Executive Directors' emoluments have been restated to reflect a discretionary bonus in respect of the 2019 year-end, that was approved by the Remuneration Committee after the approval of the 2019 Annual Report and Accounts.

**Approved and signed on behalf of the Remuneration Committee by: Will Lindsay (Non-Executive Director)**  
**10 March 2021**

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

We have examined the Summary Financial Statement of Penrith Building Building Society set out on pages 20 to 22.

### Respective responsibilities of Directors and auditor

The Directors are responsible for preparing the Summary Financial Statement in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on 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.

### Basis of opinion

Our examination of the Summary Financial Statement consisted primarily of:

- Agreeing the amounts included in the Summary Financial Statement to the corresponding items within the full Annual Accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2020;
- 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 information has been omitted which although not specifically prescribed by section 76 of the Building Societies Act 1986 and regulations made under it, in our opinion, is necessary to ensure consistency with the full Annual Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2020.

We also read the other information contained in the full Annual Accounts 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.

### Opinion on summary financial statement

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of Penrith Building Society for the year ended 31 December 2020 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

### Use of the statement

This statement is made solely to the society's members and depositors as a body in accordance with section 76(5) of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members and depositors those matters we are required by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members and depositors as a body for our audit work, for this statement, or for the opinions we have formed.

**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  
10 March 2021

**mazars**

where else can I get financial guidance?

The FCA has issued information for consumers.  
Further guidance on mortgage payment deferrals can be found here:

- [fca.org.uk/consumers/mortgages-coronavirus-consumers](https://www.fca.org.uk/consumers/mortgages-coronavirus-consumers)
- [moneyadviceservice.org.uk/en/articles/coronavirus-what-it-means-for-you](https://www.moneyadviceservice.org.uk/en/articles/coronavirus-what-it-means-for-you)
- [fca.org.uk/consumers/dealing-financial-difficulties-coronavirus](https://www.fca.org.uk/consumers/dealing-financial-difficulties-coronavirus)

Useful organisations include:

- \* The Money Advice Service – [moneyadviceservice.org.uk](https://www.moneyadviceservice.org.uk)
- \* National Debtline – [nationaldebtline.org](https://www.nationaldebtline.org)
- \* Stepchange – [stepchange.org](https://www.stepchange.org)

Proud to be supporting the people of Penrith and beyond since 1877

**Directors**

Rod Ashley  
Tim Bowen  
Rob Cairns (*Chairman*)  
Richard Drinkwater  
Elspeth James  
Janice Lincoln  
Will Lindsay  
Kevin Parr

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

**Auditor:** Mazars LLP, One St Peter's Square,  
Manchester, M2 3DE

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

**Chief Executive:** Tim Bowen

**Finance Director:** Elspeth James

**Secretary:** Sue Askew



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Penrith, Cumbria  
CA11 7AR

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W: [www.penrithbs.co.uk](http://www.penrithbs.co.uk)



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